

## 10.0 ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)

### **JB LAU & ASSOCIATES** CHARTERED ACCOUNTANTS

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**DATE:** 24 June 2002

**The Board of Directors**  
**Eng Kah Corporation Berhad**  
Suite 12-A Level 12  
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55 Jalan Sultan Ahmad Shah  
10050 Penang

Ladies / Gentlemen,

### 1. INTRODUCTION

This report has been prepared by JB Lau & Associates, an approved company auditor, for inclusion in the Prospectus to be dated 28 June 2002 in connection with the Public Issue of 6,018,000 new ordinary shares of RM1.00 each and the Offer for Sale of 1,377,000 ordinary shares of RM1.00 each in Eng Kah Corporation Berhad (hereinafter referred to as "Eng Kah Corporation" or "Company") at an Issue/Offer price of RM1.80 per ordinary share of RM1.00 each and the listing 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. FLOTATION SCHEME

In conjunction with the listing of and quotation for the entire enlarged issued and paid-up share capital of Eng Kah Corporation on the Second Board of the KLSE, the Company undertook the following flotation scheme which was approved by the Foreign Investment Committee on 9 August 2000 and 27 March 2002, the Ministry of International Trade and Industry on 21 November 2000 and 24 May 2002 and the Securities Commission on 26 February 2001 and 4 March 2002 :

- (i) Acquisition of the entire share capital of Eng Kah Enterprise Sdn. Bhd. ("EKE") comprising 2,399,997 ordinary shares of RM1.00 each for a total consideration of RM26,774,982 to be satisfied by the issue of 25,745,175 new Eng Kah Corporation ordinary shares of RM1.00 each at an issue price of approximately RM1.04 per ordinary share,
- (ii) Acquisition of 45% share capital of Eng Kah Enterprise (KL) Sdn. Bhd. ("EKL") comprising 450,000 ordinary shares of RM1.00 each for a total consideration of RM1,962,897 to be satisfied by the issue of 1,887,401 new Eng Kah Corporation ordinary shares of RM1.00 each at an issue price of approximately RM1.04 per ordinary share,
- (iii) Acquisition of 55% share capital of EKL comprising 550,000 ordinary shares of RM1.00 each for a total cash consideration of RM2,399,097,

**10.0 ACCOUNTANTS' REPORT (Cont'd)**

- (iv) Acquisition of the entire share capital of Eng Kah (H.K.) Limited ("EHK") comprising 1,000 ordinary shares of HK\$1 each for a total cash consideration of RM1,
- (v) A Rights Issue of 6,349,422 ordinary shares of RM1.00 each by Eng Kah Corporation at an issue price of RM1.04 per share on the basis of approximately 22.978 new ordinary shares for every 100 ordinary shares held after the above mentioned acquisitions,
- (vi) A Public Issue of 6,018,000 new ordinary shares of RM1.00 each at an issue price of RM1.80 per ordinary share and
- (vii) An Offer for Sale by certain shareholders of 1,377,000 new ordinary shares of RM1.00 each at an offer price of RM1.80 per ordinary share.

**3. GENERAL INFORMATION****3.1 Background**

Eng Kah Corporation Berhad was incorporated on 19 June 1997 as a public limited company.

The principal activity of the Company consists of investment holdings.

**3.2 Share Capital**

At the date of incorporation, the authorised share capital of the Company was RM100,000 comprising 100,000 ordinary shares of RM1.00 each and its issued and paid-up share capital was RM2.00 comprising 2 ordinary shares of RM1.00 each.

Its authorised share capital was increased to RM50,000,000 on 30 April 2002 by the creation of an additional 49,900,000 ordinary shares of RM1.00 each.

The changes in the Company's issued and fully paid-up share capital are summarised below :

<u>Date of allotment</u>	<u>Consideration</u>	<u>Number of ordinary shares of RM1.00 each allotted</u>	<u>Total issued and paid-up share capital</u>
19 June 1997	Subscribers' shares	2	2
30 April 2002	Allotment in consideration for the acquisition of 100% equity interest in EKE	25,745,175	25,745,177

**10.0 ACCOUNTANTS' REPORT (Cont'd)**

<u>Date of allotment</u>	<u>Consideration</u>	<u>Number of ordinary shares of RM1.00 each allotted</u>	<u>Total issued and paid-up share capital</u>
30 April 2002	Allotment in consideration for the acquisition of 45% equity interest in EKL	1,887,401	27,632,578
19 June 2002	Rights issue on the basis of approximately 22.978 new ordinary shares for every 100 ordinary shares held at an issue price of RM1.04 each	6,349,422	33,982,000

**3.3 Subsidiary Companies**

The details of the subsidiary companies of Eng Kah Corporation are as follows :

<u>Name of company</u>	<u>Date / Place of incorporation</u>	<u>Issued and paid-up share capital as at 31 December 2001</u>	<u>Equity interest</u>	<u>Principal activities</u>
EKE	14 August 1985 Malaysia	RM2,399,997	100%	Manufacturing of personal household and perfumeries products
EKL	28 November 1994 Malaysia	RM1,000,000	100%	Manufacturing of household products and toiletries
EHK	29 November 1999 Hong Kong	HK\$1,000	100%	Dormant

**3.4 Basis of Accounting and Accounting Policies**

This report is based on the audited financial statements which have been prepared in accordance with applicable approved accounting standards issued by the Malaysian Accounting Standards Board and is presented on a basis consistent with the accounting policies normally adopted by Eng Kah Corporation and its subsidiary companies, namely EKE, EKL and EHK ("Eng Kah Group" or "Group").

**10.0 ACCOUNTANTS' REPORT (Cont'd)****3.5 Financial Statements and Auditors**

We have been the auditors of Eng Kah Corporation, EKE and EKL since their dates of incorporation. EHK is audited by another firm of auditors, Messrs S.P. P'ng & Company, based in Hong Kong.

The financial statements of all the companies within the Group for all the financial years under review have been reported without any audit qualification and modification.

**4. DIVIDENDS**

No dividend has been paid or declared by Eng Kah Corporation and EHK for the financial years/periods under review.

EKE and EKL have declared and paid the following tax exempt dividends during the relevant years/period under review as follows :

<u>Year ended 31 December</u>	<u>Issued and paid-up capital</u> RM	<u>Dividend rate (All tax exempt)</u> %	<u>Type of dividend</u>	<u>Amount of dividend paid</u> RM
<b>EKE</b>				
1997	2,399,997	85	Interim	2,039,997
1999	2,399,997	17	Interim	407,999
2000	2,399,997	125	Interim	2,999,996
2000	2,399,997	50	Final	1,199,999
<b>EKL</b>				
2000	1,000,000	77	Interim	770,000
2000	1,000,000	50	Final	500,000

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## 10.0 ACCOUNTANTS' REPORT (Cont'd)

## 5. SUMMARISED INCOME STATEMENTS

## 5.1 PROFORMA GROUP INCOME STATEMENTS

The summarized proforma consolidated results of Eng Kah Group for the past five (5) financial years ended 31 December 2001 have been prepared based on the audited financial statements of the companies in the Eng Kah Group for illustrative purposes after making such adjustments that we considered necessary and assuming that the Eng Kah Group had been in existence throughout the years under review.

	----- Year ended 31 December -----				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
REVENUE	31,099	29,626	34,696	42,180	48,023
EARNINGS BEFORE INTEREST, TAXATION, DEPRECIATION AND AMORTISATION ("EBITDA")	7,716	6,294	8,240	9,773	11,471
AMORTISATION	-	-	-	-	-
DEPRECIATION	(1,140)	(1,237)	(1,281)	(1,413)	(1,550)
INTEREST EXPENSE	(1,154)	(1,746)	(1,061)	(748)	(787)
PROFIT BEFORE TAXATION	5,422	3,311	5,898	7,612	9,134
TAXATION	(1,407)	(672)	(151)	(1,075)	(2,680)
PROFIT AFTER TAXATION	4,015	2,639	5,747	6,537	6,454
MINORITY INTERESTS	-	-	-	-	-
PROFIT AFTER TAXATION AND MINORITY INTEREST	4,015	2,639	5,747	6,537	6,454
NO. OF ORDINARY SHARES IN ISSUE ('000)	27,633	27,633	27,633	27,633	27,633
GROSS EARNINGS PER SHARE (SEN)	19.62	11.98	21.34	27.55	33.05
NET EARNINGS PER SHARE (SEN)	14.53	9.55	20.80	23.66	23.36

10.0 ACCOUNTANTS' REPORT (Cont'd)

NOTES :

(i) The Proforma Group Income Statements for the financial years ended 31 December 1997 to 31 December 1999 comprise of EKE and its subsidiary company EKL. For the financial years from 31 December 2000 to 31 December 2001, the Proforma Group Income Statements comprise of the Eng Kah Group

(ii) The Proforma Group Income Statements have been prepared based on accounting policies consistent with those currently adopted in the preparation of the audited financial statements of the Eng Kah Group.

(iii) All significant inter-company transactions have been eliminated from the Group results.

(iv) Revenue increased by 24% to RM31.10 million for the financial year ended 31 December 1997 over the previous financial year due to increased orders from existing customers and a new account from a multi-national company.

Revenue decreased by 5% to RM29.63 million for the financial year ended 31 December 1998 over the previous financial year due to the full impact of the Asian financial crisis.

Revenue increased by 17% to RM34.70 million for the financial year ended 31 December 1999 over the previous financial year due to the recovery of the Malaysian economy and EKE was awarded Good Manufacturing Practice ("GMP") status which allowed EKE to produce products which make claim like "ability to cure pimples or dandruff". As a result of this new status, existing and new customers began to increase their orders.

Revenue increased by 22% to RM42.18 million for the financial year ended 31 December 2000 over the previous financial year due to the introduction of a new product and the increase in orders from existing customers.

Revenue increased by 14% to RM48.02 million for the financial year ended 31 December 2001 over the previous financial year due to the increase in orders from existing customers.

(v) Profit before taxation increased by 11% to RM5.42 million for the financial year ended 31 December 1997 over the previous financial year due to the increased revenue.

Profit before taxation decreased by 39% to RM3.31 million for the financial year ended 31 December 1998 over the previous financial year as a result of full impact of the Asian financial crisis. As a result, the Group's cost of sales increased, as a portion of its raw materials were purchased in USD. Coupled with this, the Group incurred higher interest expense due to the tightening of credit which led to higher interest regime.

Profit before taxation increased by 78% to RM5.90 million for the financial year ended 31 December 1999 over the previous financial year due to the increase in revenue as a result of the recovering economy and lower interest expense.

**10.0 ACCOUNTANTS' REPORT (Cont'd)**

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Profit before taxation increased by 29% to RM7.61 million for the financial year ended 31 December 2000 over the previous financial year due to the increase in revenue for the year and lower interest expense.

Profit before taxation increased by 20% to RM9.13 million for the financial year ended 31 December 2001 over the previous financial year due to the increase in revenue and increased sales of higher margin products.

- (vi) The low taxation charge for the financial years under review except for the financial years ended 31 December 1999 and 31 December 2001 was due to the claim and availability of reinvestment allowance under the Income Tax Act, 1967.

For the year ended 31 December 1999 the taxation expense represents deferred taxation. There was no current taxation charge for that year as it was a tax free year.

The disproportionate taxation charge for the financial year ended 31 December 2001 represents a rate higher than the statutory income tax rate due to certain expenses being disallowed as deduction for tax purposes.

- (vii) There were no extraordinary items for the years under review.
- (viii) The gross earnings per share is calculated based on the profit before taxation and on the number of ordinary shares issued for the acquisition of EKE and its subsidiary company, EKL.
- (ix) The net earning per share is calculated based on the profit after taxation and minority interest and on the number of ordinary shares issued for the acquisition of EKE and its subsidiary company, EKL.

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**10.0 ACCOUNTANTS' REPORT (Cont'd)**

- 5.2 We set out below the audited results of the companies in the Eng Kah Group for the relevant periods/years under review :-

**ENG KAH CORPORATION**

	19.6.1997	Year ended 31 December			
	To 31.12.1997	1998	1999	2000	2001
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>REVENUE</b>	-	-	-	-	-
<b>LOSS BEFORE INTEREST, TAXATION, DEPRECIATION AND AMORTISATION ("LBITDA")</b>	-	-	-	(11)	(2)
<b>AMORTISATION</b>	-	-	-	-	-
<b>DEPRECIATION</b>	-	-	-	-	-
<b>INTEREST EXPENSE</b>	-	-	-	-	-
<b>LOSS BEFORE TAXATION</b>	-	-	-	(11)	(2)
<b>TAXATION</b>	-	-	-	-	-
<b>LOSS AFTER TAXATION</b>	-	-	-	(11)	(2)
<b>NO. OF ORDINARY SHARES IN ISSUE</b>	2	2	2	2	2
<b>GROSS LOSS PER SHARE (RM'000)</b>	-	-	-	(5.50)	(1.00)
<b>NET LOSS PER SHARE (RM'000)</b>	-	-	-	(5.50)	(1.00)

Preliminary expenses and pre-operating expenses was fully written off to the income statement during the financial year ended 31 December 2000. Previously such expenses incurred up to the date of commencement of operations were carried forward in the balance sheet at cost, to be written off upon commencement of operations. The change in accounting policy had been effected as the directors were of the opinion that these expenses were of no real value and therefore should not be deferred.



## 10.0 ACCOUNTANTS' REPORT (Cont'd)

## EKE

	Year ended 31 December				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
REVENUE	24,058	22,884	26,173	31,657	36,090
EBITDA	6,680	5,071	6,483	8,510	8,754
AMORTISATION	-	-	-	-	-
DEPRECIATION	(1,042)	(1,074)	(1,062)	(1,169)	(1,309)
INTEREST EXPENSE	(945)	(1,342)	(815)	(484)	(557)
PROFIT BEFORE TAXATION	4,693	2,655	4,606	6,857	6,888
TAXATION	(1,356)	(566)	(9)	(880)	(2,080)
PROFIT AFTER TAXATION	3,337	2,089	4,597	5,977	4,808
NO. OF ORDINARY SHARES IN ISSUE ('000)	2,400	2,400	2,400	2,400	2,400
GROSS EARNINGS PER SHARE (RM)	1.96	1.11	1.92	2.86	2.87
NET EARNINGS PER SHARE (RM)	1.39	0.87	1.92	2.49	2.00

## NOTES :

- (i) Revenue increased by 21% to RM24.06 million for the financial year ended 31 December 1997 over the previous financial year due to increased orders from existing customers and a new account from a multi-national company.

Revenue decreased by 5% to RM22.88 million for the financial year ended 31 December 1998 over the previous financial year due to the full impact of the Asian financial crisis.

Revenue increased by 14% to RM26.17 million for the financial year ended 31 December 1999 over the previous financial year due to the recovery of the Malaysian economy and the Company was awarded GMP status which allowed it to produce products which make claim like "ability to cure pimples or dandruff". As a result of this new status, existing and new customers began to increase their orders.

**10.0 ACCOUNTANTS' REPORT (Cont'd)**

Revenue increased by 21% to RM31.66 million and 14% to RM36.09 million for the financial years ended 31 December 2000 and 31 December 2001 respectively over the previous financial year due to an increase in orders from existing customers.

- (ii) Profit before taxation increased by 13% to RM4.69 million for the financial year ended 31 December 1997 over the previous financial year due to the increased revenue.

Profit before taxation decreased by 43% to RM2.66 million for the financial year ended 31 December 1998 over the previous financial year as a result of full impact of the Asian financial crisis. As a result, the Company's cost of sales increased, as approximately 30% of its raw materials are purchased in USD. Coupled with this, the Company incurred higher interest expense due to the tightening of credit which led to higher interest regime.

Profit before taxation increased by 73% to RM4.61 million for the financial year ended 31 December 1999 over the previous financial year due to the increase in revenue as a result of the recovering economy and lower interest expense.

Profit before taxation increased by 49% to RM6.86 million for the financial year ended 31 December 2000 over the previous financial year due to the increase in revenue for the year, dividend income from EKL and lower interest expense.

Profit before taxation increased marginally by 0.5% to RM6.89 million for the financial year ended 31 December 2001 over the previous financial year despite the increase in revenue due to as there was no dividend income from EKL during the year.

- (iii) The audited taxation figures have been adjusted to account for over/under provision for taxation to the relevant financial year in which it relates in order to be more reflective of the tax position of the respective financial years. The net effect of these adjustments to the audited results is as follows:

## Reconciliation of taxation

	Year ended 31 December -----				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
Per audited financial statements	(1,288)	(658)	56	(880)	(2,080)
Adjustments	(68)	92	(65)	-	-
As restated	<u>(1,356)</u>	<u>(566)</u>	<u>(9)</u>	<u>(880)</u>	<u>(2,080)</u>

The low taxation charge for the financial years under review except for the financial years ended 31 December 1999 and 31 December 2001 was due to the claim and availability of reinvestment allowance under the Income Tax Act, 1967.

For the year ended 31 December 1999 the taxation expense represents deferred taxation. There was no current taxation charge for that year as it was a tax free year.

**10.0 ACCOUNTANTS' REPORT (Cont'd)**

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The disproportionate taxation charge for the financial year ended 31 December 2001 represents a rate higher than the statutory income tax rate due to certain expenses being disallowed as deduction for tax purposes.

- (iv) There were no extraordinary items for the years under review
- (v) The gross earnings per share is calculated based on the profit before taxation and on the number of ordinary shares in issue at the end of each of the above financial years.
- (vi) The net earnings per share is calculated based on the profit after taxation and on the number of ordinary shares in issue at the end of each of the above financial years.
- (vii) There has been no change in the company's accounting policies which might materially affect its income and financial position for the years under review.

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## 10.0 ACCOUNTANTS' REPORT (Cont'd)

## EKL

	----- Year ended 31 December -----				
	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000	<u>2001</u> RM'000
REVENUE	7,495	6,909	8,523	10,555	12,147
EBITDA	1,037	1,242	1,798	2,066	2,742
AMORTISATION	-	-	-	-	-
DEPRECIATION	(98)	(162)	(219)	(244)	(241)
INTEREST EXPENSE	(210)	(424)	(287)	(337)	(243)
PROFIT BEFORE TAXATION	729	656	1,292	1,485	2,258
TAXATION	(51)	(106)	(142)	(179)	(600)
PROFIT AFTER TAXATION	678	550	1,150	1,306	1,658
NO. OF ORDINARY SHARES IN ISSUE('000)	300	300	1,000	1,000	1,000
GROSS EARNINGS PER SHARE (RM)	2.43	2.19	1.29	1.49	2.26
NET EARNINGS PER SHARE (RM)	2.26	1.83	1.15	1.31	1.66

## NOTES :

- (i) Revenue increased by a smaller margin of 13% to RM7.50 million for the financial year ended 31 December 1997 over the previous financial year due to the slower demand from customers in the second half of the financial year due to the onslaught of the Asian financial crisis.

Revenue decreased by 8% to RM6.91 million for the financial year ended 31 December 1998 over the previous financial year due to the full impact of the Asian financial crisis.

Revenue increased by 23% to RM8.52 million for the financial year ended 31 December 1999 over the previous financial year due to the recovery of the Malaysian economy and new multi-national company accounts been secured.

**10.0 ACCOUNTANTS' REPORT (Cont'd)**

Revenue increased by 24% to RM10.56 million for the financial year ended 31 December 2000 over the previous financial year due to the introduction of a new product and the increase in orders from existing customers.

Revenue increased by 15% to RM12.14 million for the financial year ended 31 December 2001 over the previous financial year due to the increase in orders from existing customers.

- (ii) Profit before taxation increased slightly by 4% to RM0.73 million for the financial year ended 31 December 1997 over the previous financial year due to the smaller increase in revenue.

Profit before taxation decreased by 10% to RM0.66 million for the financial year ended 31 December 1998 over the previous financial year due to the decrease in revenue and higher interest expense.

Profit before taxation increased by 97% to RM1.29 million for the financial year ended 31 December 1999 over the previous financial year due to the increase in revenue as the result of the recovering economy and the increase in profit margin for certain products.

Profit before taxation increased by 15% to RM1.49 million for the financial year ended 31 December 2000 over the previous financial year due to the increase in revenue for the year and the increase in profit margin for certain products.

Profit before taxation increased by 52% to RM2.26 million for the financial year ended 31 December 2001 over the previous financial year due to the increase in revenue and increased sales of higher margin products.

- (iii) The audited taxation figures have been adjusted to account for over/under provision for taxation to the relevant financial years in which it relates in order to be more reflective of the tax position of the respective financial years. The net effect of these adjustments to the audited results is as follows:

## Reconciliation of taxation

	----- Year ended 31 December -----				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
Per audited financial statements	(58)	(96)	(142)	(179)	(600)
Adjustments	7	(10)	-	-	-
As restated	<u>(51)</u>	<u>(106)</u>	<u>(142)</u>	<u>(179)</u>	<u>(600)</u>

The low taxation charge for the financial years ended 31 December 1998, 2000 and 2001 was due to the claim and availability of reinvestment allowance under the Income Tax Act, 1967.

For the year ended 31 December 1999 the taxation expense represents deferred taxation. There was no current taxation charge for that year as it was a tax free year.

**10.0 ACCOUNTANTS' REPORT (Cont'd)**

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- (iv) There were no extraordinary items for the years under review
- (v) The gross earnings per share is calculated based on the profit before taxation and on the number of ordinary shares in issue at the end of each of the above financial years.
- (vi) The net earnings per share is calculated based on the profit after taxation and on the number of ordinary shares in issue at the end of each of the above financial years.
- (vii) There has been no change in the company's accounting policies which might materially affect its income and financial position for the years under review.
- (viii) The gross and net earnings per share is calculated based on the profit before taxation and profit after taxation respectively and on the number of ordinary shares in issue at the end of each of the above financial years.

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## 10.0 ACCOUNTANTS' REPORT (Cont'd)

EHK

IN RINGGIT MALAYSIA

	29.11.1999 To <u>31.12.1999</u> RM'000	--- Year ended 31 December ---- <u>2000</u> RM'000	<u>2001</u> RM'000
REVENUE	-	-	-
LBITDA	-	(23)	(9)
AMORTISATION	-	-	-
DEPRECIATION	-	-	-
INTEREST EXPENSE	-	-	-
LOSS BEFORE TAXATION	-	(23)	(9)
TAXATION	-	-	-
LOSS AFTER TAXATION	-	(23)	(9)
NO. OF ORDINARY SHARES IN ISSUE	1,000	1,000	1,000
GROSS LOSS PER SHARE (RM)	-	(23.00)	(9.00)
NET LOSS PER SHARE (RM)	-	(23.00)	(9.00)
Foreign exchange rate used per 1 HK\$ :	-	0.49	0.49

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## 10.0 ACCOUNTANTS' REPORT (Cont'd)

EHK

IN HONG KONG DOLLAR

	29.11.1999 To <u>31.12.1999</u> HK\$'000	---- Year ended 31 December ---- <u>2000</u> HK\$'000	<u>2001</u> HK\$'000
REVENUE	-	-	-
LBITDA	-	(46)	(20)
AMORTISATION	-	-	-
DEPRECIATION	-	-	-
INTEREST EXPENSE	-	-	-
LOSS BEFORE TAXATION	-	(46)	(20)
TAXATION	-	-	-
LOSS AFTER TAXATION	-	(46)	(20)
NO. OF ORDINARY SHARES IN ISSUE	1,000	1,000	1,000
GROSS LOSS PER SHARE (HK\$)	-	(46.00)	(20.00)
NET LOSS PER SHARE (HK\$)	-	(46.00)	(20.00)

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**10.0 ACCOUNTANTS' REPORT (Cont'd)****NOTES :**

The audited income statements have been adjusted to write off the preliminary and pre-operating expenses to the income statement for the financial year ended 31 December 2000. Previously such expenses incurred up to the date of commencement of operations were carried forward in the balance sheet at cost, to be written off upon commencement of operations. The change in accounting policy has been effected as the directors are of the opinion that these expenses are of no real value and therefore should be written off.

## Reconciliation of LBITDA

	<b>29.11.1999 To 31.12.1999 RM'000</b>	<b>--- Year ended 31 December ---- 2000 RM'000</b>	<b>2001 RM'000</b>
Per audited financial statements	-	-	(32)
Adjustments	-	(23)	23
As restated	-	(23)	(9)

	<b>29.11.1999 To 31.12.1999 HK\$'000</b>	<b>--- Year ended 31 December ---- 2000 HK\$'000</b>	<b>2001 HK\$'000</b>
Per audited financial statements	-	-	(66)
Adjustments	-	(46)	46
As restated	-	(46)	(20)

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**10.0 ACCOUNTANTS' REPORT (Cont'd)****6. SUMMARISED BALANCE SHEETS****6.1 PROFORMA CONSOLIDATED BALANCE SHEETS**

As the acquisition of subsidiary companies was only completed after 31 December 2001, it is therefore impracticable to present consolidated balance sheets of the Eng Kah Group throughout the years under review and they were not significantly affected by transactions and balances between the companies in the Eng Kah Group except to the extent as stated in the notes below. Accordingly, proforma consolidated balance sheets of the Eng Kah Group have only been presented in respect of 31 December 2001 based on the latest audited statement of assets and liabilities as at 31 December 2001 as shown in Section 7 of this Report. In addition, balances due from/to companies within the Eng Kah Group are disclosed in Section 6.2 of this Report.

**6.2** The summarised audited balance sheets of Eng Kah Corporation and its subsidiary companies based on their respective audited financial statements as at the end of the financial periods/years under review are as follows :

**ENG KAH CORPORATION**

	----- As at 31 December -----				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>CURRENT ASSETS</b>	#	#	#	#	#
<b>CURRENT LIABILITIES</b>					
Sundry creditors and accruals	(5)	(7)	(8)	(11)	(13)
<b>NET CURRENT LIABILITIES</b>	(5)	(7)	(8)	(11)	(13)
<b>EXPENDITURE CARRIED FORWARD</b>	5	7	8	-	-
	#	#	#	(11)	(13)
<b>FINANCED BY :</b>					
<b>SHARE CAPITAL</b>	#	#	#	#	#
<b>ACCUMULATED LOSSES</b>	-	-	-	(11)	(13)
	#	#	#	(11)	(13)
<b>NET TANGIBLE LIABILITIES PER SHARE (RM'000)</b>	(2.50)	(3.50)	(4.00)	(5.50)	(6.50)

# Represents RM2.00

## 10.0 ACCOUNTANTS' REPORT (Cont'd)

EKE

	As at 31 December				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
PROPERTY, PLANT AND EQUIPMENT	11,980	12,229	11,512	18,183	18,480
INVESTMENT IN SUBSIDIARY COMPANIES	165	165	165	165	165
CURRENT ASSETS	20,123	18,230	21,799	21,368	25,373
CURRENT LIABILITIES	(16,691)	(12,497)	(11,042)	(13,092)	(12,927)
NET CURRENT ASSETS	3,432	5,733	10,757	8,276	12,446
	15,577	18,127	22,434	26,624	31,091
FINANCED BY :					
SHARE CAPITAL	2,400	2,400	2,400	2,400	2,400
ASSET REVALUATION RESERVE	3,025	3,025	3,025	3,025	3,025
RETAINED PROFITS	8,301	10,390	14,579	16,355	21,163
SHAREHOLDERS' FUNDS	13,726	15,815	20,004	21,780	26,588
DEFERRED TAXATION	610	620	629	829	1,109
LONG TERM LIABILITIES	1,241	1,692	1,801	4,015	3,394
	15,577	18,127	22,434	26,624	31,091
NET TANGIBLE ASSETS PER SHARE (RM)	5.72	6.59	8.34	9.08	11.08

The balances due from the related companies of EKE after the acquisitions are as follows :

Due from :

EKL	197	501	1,326	476	243
EHK	-	-	11	19	29

**10.0 ACCOUNTANTS' REPORT (Cont'd)**

The audited balance sheets for the years under review have been adjusted for the over/under provision for taxation to the relevant years and the reclassification of certain items.

**Reconciliation**

	----- As at 31 December -----				
	<u>1997</u> RM'000	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000	<u>2001</u> RM'000
<b><u>Current assets</u></b>					
Per audited financial statements	20,123	18,230	21,799	21,535	25,373
Reclassification	-	-	-	(167)	-
As restated	<u>20,123</u>	<u>18,230</u>	<u>21,799</u>	<u>21,368</u>	<u>25,373</u>
<b><u>Current liabilities</u></b>					
Per audited financial statements	16,664	12,562	11,042	13,259	12,927
Adjustments/Reclassification	27	(65)	-	(167)	-
As restated	<u>16,691</u>	<u>12,497</u>	<u>11,042</u>	<u>13,092</u>	<u>12,927</u>
<b><u>Retained profits</u></b>					
Per audited financial statements	8,328	10,325	14,579	16,355	21,163
Adjustments	(27)	65	-	-	-
As restated	<u>8,301</u>	<u>10,390</u>	<u>14,579</u>	<u>16,355</u>	<u>21,163</u>

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## 10.0 ACCOUNTANTS' REPORT (Cont'd)

EKL

	----- As at 31 December -----				
	1997 RM'000	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000
PROPERTY, PLANT AND EQUIPMENT	3,719	5,505	5,771	5,625	5,634
CURRENT ASSETS	3,829	4,975	4,383	4,829	6,225
CURRENT LIABILITIES	(3,659)	(6,439)	(5,305)	(4,803)	(5,125)
NET CURRENT ASSETS/ (LIABILITIES)	170	(1,464)	(922)	26	1,100
	<u>3,889</u>	<u>4,041</u>	<u>4,849</u>	<u>5,651</u>	<u>6,734</u>
FINANCED BY :					
SHARE CAPITAL	300	300	1,000	1,000	1,000
RETAINED PROFITS	1,485	2,035	2,485	2,521	4,179
SHAREHOLDERS' FUNDS	<u>1,785</u>	<u>2,335</u>	<u>3,485</u>	<u>3,521</u>	<u>5,179</u>
DEFERRED TAXATION	35	105	247	247	291
LONG TERM LIABILITIES	<u>2,069</u>	<u>1,601</u>	<u>1,117</u>	<u>1,883</u>	<u>1,264</u>
	<u>3,889</u>	<u>4,041</u>	<u>4,849</u>	<u>5,651</u>	<u>6,734</u>
NET TANGIBLE ASSETS PER SHARE (RM)	<u>5.95</u>	<u>7.78</u>	<u>3.49</u>	<u>3.52</u>	<u>5.18</u>

The balances due to a related company of EKL after the acquisitions are as follows :

Due to :

EKE	197	501	1,326	476	243
-----	-----	-----	-------	-----	-----

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**10.0 ACCOUNTANTS' REPORT (Cont'd)**

The audited balance sheets for the years under review have been adjusted for the over/under provision for taxation to the relevant years.

**Reconciliation**

**Current liabilities**

Per audited financial statements	3,669	6,439	5,305	4,803	5,125
Adjustments	(10)	-	-	-	-
As restated	<u>3,659</u>	<u>6,439</u>	<u>5,305</u>	<u>4,803</u>	<u>5,125</u>

**Retained profits**

Per audited financial statements	1,475	2,035	2,485	2,521	4,179
Adjustments	10	-	-	-	-
As restated	<u>1,485</u>	<u>2,035</u>	<u>2,485</u>	<u>2,521</u>	<u>4,179</u>

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**10.0 ACCOUNTANTS' REPORT (Cont'd)**

EHK

**IN RINGGIT MALAYSIA**

	----- As at 31 December -----		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
	RM'000	RM'000	RM'000
<b>CURRENT LIABILITIES</b>	(14)	(22)	(31)
<b>EXPENDITURE CARRIED FORWARD</b>	15	-	-
	<u>1</u>	<u>(22)</u>	<u>(31)</u>
<b>FINANCED BY :</b>			
<b>SHARE CAPITAL</b>	1	1	1
<b>ACCUMULATED LOSSES</b>	-	(23)	(32)
<b>SHAREHOLDERS' FUNDS</b>	<u>1</u>	<u>(22)</u>	<u>(31)</u>
<b>NET TANGIBLE LIABILITIES PER SHARE (RM)</b>	<u>(14.00)</u>	<u>(22.00)</u>	<u>(31.00)</u>
Foreign exchange rate used per 1 HK\$ :	0.49	0.49	0.49

**IN HONG KONG DOLLAR**

	----- As at 31 December -----		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
	HK\$'000	HK\$'000	HK\$'000
<b>CURRENT LIABILITIES</b>	(29)	(45)	(65)
<b>EXPENDITURE CARRIED FORWARD</b>	30	-	-
	<u>1</u>	<u>(45)</u>	<u>(65)</u>
<b>FINANCED BY :</b>			
<b>SHARE CAPITAL</b>	1	1	1
<b>ACCUMULATED LOSSES</b>	-	(46)	(66)
<b>SHAREHOLDERS' FUNDS</b>	<u>1</u>	<u>(45)</u>	<u>(65)</u>
<b>NET TANGIBLE LIABILITIES PER SHARE (HK\$)</b>	<u>(29.00)</u>	<u>(45.00)</u>	<u>(65.00)</u>

**10.0 ACCOUNTANTS' REPORT (Cont'd)**

The balances due to a related company of EHK after the acquisitions are as follows :

Due to :

EKE (RM'000)	-	-	11	19	29
EKE (HK\$'000)	-	-	22	39	60

The audited balance sheets have been adjusted to write off the preliminary and pre-operating expenses to the income statement for the financial year ended 31 December 2000. Previously such expenses incurred up to the date of commencement of operations were carried forward in the balance sheet at cost, to be written off upon commencement of operations. The change in accounting policy has been effected as the directors are of the opinion that these expenses are of no real value and therefore should be written off.

**Reconciliation**

	— As at 31 December —		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
	RM'000	RM'000	RM'000
<u>Expenditure carried forward</u>			
Per audited financial statements	15	23	-
Adjustments	-	(23)	-
As restated	15	-	-
<u>Accumulated losses</u>			
Per audited financial statements	-	-	(32)
Adjustments	-	(23)	-
As restated	-	(23)	(32)
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<u>Expenditure carried forward</u>			
Per audited financial statements	30	46	-
Adjustments	-	(46)	-
As restated	30	-	-
<u>Accumulated losses</u>			
Per audited financial statements	-	-	(66)
Adjustments	-	(46)	-
As restated	-	(46)	(66)



## 10.0 ACCOUNTANTS' REPORT (Cont'd)

## 7. DETAILED STATEMENT OF ASSETS AND LIABILITIES

The statement as assets and liabilities of Eng Kah Corporation and the Proforma Eng Kah Group are provided for illustrative purposes only and are prepared based on the audited financial statements of the companies in the Eng Kah Group as at 31 December 2001 and on the assumption that the flotation scheme as mentioned in Section 2 was effected on 31 December 2001.

	NOTE	AUDITED	PROFORMA GROUP		
		Eng Kah Corporation as at 31.12.2001 RM'000	After the Acquisitions RM'000	After the Acquisitions and Rights Issue RM'000	After the Acquisitions, Rights and Public Issues RM'000
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>8.3</b>	-	24,115	24,115	26,615
<b>NEGATIVE GOODWILL</b>	<b>8.4</b>	-	(2,832)	(2,832)	(2,832)
<b>CURRENT ASSETS</b>					
Inventories	8.5	-	9,600	9,600	9,600
Trade debtors		-	14,471	14,471	14,471
Other debtors, deposits and prepayments		-	958	958	958
Tax recoverable		-	121	121	121
Fixed deposits with licensed banks	8.6	-	2,472	2,472	2,472
Cash and bank balances	8.7	*	3,430	10,033	11,286
		*	31,052	37,655	38,908
<b>CURRENT LIABILITIES</b>					
Trade creditors		-	7,969	7,969	7,969
Other creditors and accruals		13	1,943	1,943	1,943
Bank borrowings	8.8	-	5,993	5,993	4,401
Provision for taxation		-	447	447	447
Proposed dividend		-	1,200	1,200	1,200
		13	17,552	17,552	15,960
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		(13)	13,500	20,103	22,948
		(13)	34,783	41,386	46,731
<b>FINANCED BY :</b>					
<b>SHARE CAPITAL</b>	<b>8.9</b>	*	27,633	33,982	40,000
<b>SHARE PREMIUM</b>	<b>8.10</b>	-	1,105	1,359	4,874
<b>ACCUMULATED LOSSES</b>		(13)	(13)	(13)	(13)
<b>SHAREHOLDERS' FUNDS</b>		(13)	28,725	35,328	44,861
<b>DEFERRED TAXATION</b>	<b>8.11</b>	-	1,400	1,400	1,400
<b>LONG TERM LIABILITIES</b>	<b>8.12</b>	-	4,658	4,658	470
		(13)	34,783	41,386	46,731
<b>NET TANGIBLE (LIABILITIES)/ASSETS PER SHARE (RM)</b>		(6,500.00)	1.14	1.12	1.19

\* Represents RM2

**10.0 ACCOUNTANTS' REPORT (Cont'd)**

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**8. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES**

**8.1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards issued by the Malaysian Accounting Standards Board.

**8.2 SIGNIFICANT ACCOUNTING POLICIES**

**(a) Accounting Convention**

The financial statements of the Group and of the Company are prepared under the historical cost convention modified by the revaluation of certain land and building as disclosed under property, plant and equipment in this summary of significant accounting policies.

**(b) Basis of Consolidation**

The financial statements of the Group include the audited financial statements of the Company and all its subsidiary companies made up to the end of the financial year. Subsidiary companies are consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, the results of the subsidiary companies acquired or disposed of are included from the date of acquisition up to the date of disposal. At the date of acquisition, the fair values of the subsidiary companies' net assets are determined and these values are reflected in the consolidated financial statements. The excess of the cost of acquisition over the fair value of the Group's share of the subsidiary companies' identifiable net assets at the date of acquisition is reflected as goodwill on consolidation.

Inter-company balances and transactions are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Where necessary, adjustments are made to the financial statements of the subsidiary companies to ensure consistency of accounting policies with those of the Group.

Minority interest is measured at the minorities' share of the acquisition fair values of the identifiable assets and liabilities of the acquiree. Separate disclosure is made of minority interest.

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

Property, plant and equipment are initially stated at cost. Certain land and buildings are subsequently shown at valuation based on valuations by external independent valuers, less subsequent amortisation/ depreciation. All other property, plant and equipment are stated at cost less accumulated depreciation.

**10.0 ACCOUNTANTS' REPORT (Cont'd)**

Surpluses arising on revaluation are credited to asset revaluation reserve. Any deficit arising from revaluation is charged against the revaluation reserve to the extent of a previous surplus held in the asset revaluation reserve for the same asset. In all other cases, a decrease in carrying amount is charged to the income statement.

Property, plant and equipment are depreciated over their estimated useful lives on the straight line method at the following annual rates:

Short leasehold land	amortised over its lease period of 54 years
Long leasehold land	amortised over its lease period of 99 years
Long leasehold apartment	amortised over its lease period of 87 years
Factory buildings	2%
Equipment, furniture and fixtures	10%
Motor vehicles	20%

Freehold land is not amortised as it has an infinite life.

Long leasehold land is in respect of land with remaining lease period in excess of 50 years whilst short leasehold land refers to land with remaining lease period of less than 50 years.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit/(loss). On disposal of revalued assets, amounts in the asset revaluation reserve relating to those assets are transferred to retained earnings.

**(d) Investment in Subsidiary Companies**

Investment in subsidiary companies which is eliminated on consolidation is stated at cost in the Company's financial statements.

Provision for diminution in value of investment is made when the directors are of the opinion that the diminution in value is permanent in nature.

**(e) Goodwill On Consolidation**

Goodwill on consolidation represents the excess of the cost of acquisition of subsidiary companies over the fair value of the Group's share of their identifiable net assets at the date of acquisition and is amortised using the straight line method over a period of twenty years.

**10.0 ACCOUNTANTS' REPORT (Cont'd)**

Negative goodwill on consolidation represents the excess of the fair value of the Group's share of identifiable net assets acquired over the cost of acquisition. Negative goodwill on consolidation is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill on consolidation relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognized in the income statement when the future losses and expenses are recognized. Any remaining negative goodwill on consolidation, not exceeding the fair values of the non-monetary assets acquired, is recognized in the income statement over a period of ten years; negative goodwill on consolidation in excess of the fair values of those assets is recognized in the income statement immediately.

**(f) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost in the case of work-in-progress and finished goods includes direct materials, direct labour and attributable overheads. Cost is determined on the weighted average basis.

**(g) Debtors**

Known bad debts are written off and specific provision is made for any debts considered to be doubtful of collection.

**(h) Revenue Recognition**

Revenue from sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

**(i) Foreign Currency Translation**

Foreign currency assets and liabilities are translated into Ringgit Malaysia at the rates of exchange ruling on the balance sheet date. Transactions during the year in foreign currencies have been converted into Ringgit Malaysia at rates ruling on the transaction dates. Gains and losses on exchange are included in the income statement.

The financial statements of the foreign subsidiary company are translated into Ringgit Malaysia at the approximate rate of exchange ruling at the balance sheet date for balance sheet items and at the approximate average rate of exchange ruling on transaction dates for income and expenses. Exchange differences due to such currency translations are taken directly to currency translation reserve.

The closing rates of exchange used in the preparation of the financial statements are as follows :

	RM
French Franc	0.514
Singapore Dollar	2.105
Sterling Pound	5.476
Thai Bhat	0.086
US Dollar	3.820
Hong Kong Dollar	0.486

**10.0 ACCOUNTANTS' REPORT (Cont'd)**

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**(j) Deferred Taxation**

Provision is made by the liability method for taxation deferred in respect of all timing differences except where it is thought reasonably probable that the tax effects of such deferrals will continue in the foreseeable future.

Timing differences that give rise to deferred tax benefits are recognised only when there is a reasonable expectation of realisation.

When there is intention to dispose of revalued assets, the deferred tax relating to such assets is recognised through a transfer from the related revaluation surplus. No provision nor disclosure is made of this tax effect where the Group intends to hold such assets for the foreseeable future.

**(k) Cash and Cash Equivalents**

Cash comprises cash in hand and balances with banks (including bank overdrafts) while cash equivalents comprise 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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## 10.0 ACCOUNTANTS' REPORT (Cont'd)

## 8.3. PROPERTY, PLANT AND EQUIPMENT

----- PROFORMA GROUP -----			
----- At valuation/cost -----			
	<u>After the Acquisitions and Rights Issue</u> RM'000	<u>Additions</u> RM'000	<u>After the Acquisitions, Rights and Public Issues</u> RM'000
<b><u>At valuation</u></b>			
Short leasehold land	1,324	-	1,324
Factory building	5,976	-	5,976
<b><u>At cost</u></b>			
Freehold land	2,498	-	2,498
Long leasehold land	1,924	-	1,924
Factory building	5,971	-	5,971
Long leasehold apartment	73	-	73
Equipment, furniture and fixtures	14,311	2,500	16,811
Motor vehicles	1,623	-	1,623
	<u>33,700</u>	<u>2,500</u>	<u>36,200</u>
----- Accumulated depreciation -----			
	<u>After the Acquisitions and Rights Issue</u> RM'000		<u>After the Acquisitions, Rights and Public Issues</u> RM'000
<b><u>At valuation</u></b>			
Short leasehold land	172		172
Factory building	837		837
<b><u>At cost</u></b>			
Freehold land	-		-
Long leasehold land	86		86
Factory building	227		227
Long leasehold apartment	6		6
Equipment, furniture and fixtures	7,511		7,511
Motor vehicles	746		746
	<u>9,585</u>		<u>9,585</u>
----- Net book value -----			
	<u>After the Acquisitions and Rights Issue</u> RM'000		<u>After the Acquisitions, Rights and Public Issues</u> RM'000
<b><u>At valuation</u></b>			
Leasehold land	1,152		1,152
Factory building	5,139		5,139
<b><u>At cost</u></b>			
Freehold land	2,498		2,498
Long leasehold land	1,838		1,838
Factory building	5,744		5,744
Long leasehold apartment	67		67
Equipment, furniture and fixtures	6,800		9,300
Motor vehicles	877		877
	<u>24,115</u>		<u>26,615</u>

**10.0 ACCOUNTANTS' REPORT (Cont'd)**

Included in the property, plant and equipment of the Group is the net book value of vehicles amounting to **RM877,310** being acquired under hire purchase loans.

The short leasehold land, long leasehold land, freehold land and factory buildings of the Group with net book values of **RM16,372,168** are pledged to secure bank borrowings.

The short leasehold land and factory building shown at valuation were revalued by the directors on 31 December 1994 based on valuations carried out by independent firms of professional valuers on the open market value basis.

The tax effects in connection with the surplus arising from the above revaluation are not disclosed as there is no foreseeable intention to dispose of these properties.

The historical cost of properties at valuation are as follows:

	Short leasehold <u>land</u> RM'000	Factory <u>building</u> RM'000
Cost	454	3,483
Accumulated depreciation	(91)	(695)
Net book value	<u>363</u>	<u>2,788</u>

**8.4 NEGATIVE GOODWILL**

	<b>PROFORMA GROUP RM'000</b>
Arising from the acquisition of subsidiary companies	<u>2,832</u>

**8.5 INVENTORIES**

	<b>PROFORMA GROUP RM'000</b>
Raw materials	8,472
Work-in-progress	525
Finished goods	527
Goods in transit	76
	<u>9,600</u>

**10.0 ACCOUNTANTS' REPORT (Cont'd)****8.6 FIXED DEPOSITS WITH A LICENSED BANK****PROFORMA GROUP**

Included herein are fixed deposits of RM0.47 million pledged to a licensed bank for banking facilities granted to the Group.

**8.7 CASH AND BANK BALANCES**

	<b><u>PROFORMA GROUP</u></b> RM'000
Balance as at 31 December 2001 as per audited financial statements	*
Arising from the Acquisition of subsidiary companies	3,430
Proceeds from Rights Issue	6,603
	<hr/>
After acquisitions and Rights Issue	10,033
Proceeds from Public Issue	10,833
Purchase of machinery	(2,500)
Repayment of bank borrowing	(5,780)
Payment of listing expenses	(1,300)
	<hr/>
After Acquisitions, Rights and Public Issues	<u>11,286</u>

\* Represents RM2

**8.8 BANK BORROWINGS**

	<b>———— PROFORMA GROUP ————</b>		
	<b><u>After the Acquisitions And Rights Issue</u></b> RM'000	<b><u>Repayment</u></b> RM'000	<b><u>After the Acquisitions Rights and Public Issues</u></b> RM'000
Bank overdrafts	337	-	337
Bankers acceptances	3,907	-	3,907
Term loans (Note 8.12)	1,749	(1,592)	157
	<hr/>	<hr/>	<hr/>
	<u>5,993</u>	<u>(1,592)</u>	<u>4,401</u>

The bank borrowings of the Group are secured by way of fixed and floating charges over the Group's landed properties, all present and future assets of the Group and the joint and several guarantee of certain directors of the Company and a third party.



**10.0 ACCOUNTANTS' REPORT (Cont'd)**

Interest on bankers acceptances is charged at the lenders' prevailing bankers acceptance discount rate. The other bank borrowings bear interest at rates ranging from 7.65% to 10.30% per annum.

Term loan bear interest at rates ranging from 7.65% to 8.80% per annum.

RM1.59 million of the proceeds from the rights and public issues is utilised to reduce the short term portion of term loan included in bank borrowings.

**8.9 SHARE CAPITAL**

	<u>COMPANY</u> RM'000	<u>PROFORMA</u> <u>GROUP</u> RM'000
Authorised :		
Ordinary shares of RM1.00 each	<u>100</u>	<u>50,000</u>
Issued and fully paid :		
Ordinary shares of RM1.00 each		
As at 31 December 2001	#	#
Issued as consideration for the acquisition of :		
- 100% equity of EKE	-	25,745
- 45% equity of EKL	-	1,888
	-	-
Rights issue	-	6,349
Public issue	-	6,018
	<u>#</u>	<u>40,000</u>

# Represents RM2

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**10.0 ACCOUNTANTS' REPORT (Cont'd)****8.10 SHARE PREMIUM****PROFORMA  
GROUP  
RM'000**

Share premium from :

Issue of shares for 100% of EKE at a  
premium of approximately  
RM0.04 per share**1,030**Issue of shares for 45% of EKL at a  
premium of approximately  
RM0.04 per share**75**

After the Acquisitions

**1,105**Rights issue of 6,349,422 ordinary shares  
of RM1 each at a premium of RM0.04 per share**254**

After the Acquisitions and Rights Issue

**1,359**Public issue of 6,018,000 ordinary shares  
of RM1 each at a premium of RM0.80 per share**4,815**

Less : Estimated listing expenses

**6,174  
(1,300)**

After the Acquisitions, Rights and Public Issues

**4,874****8.11 DEFERRED TAXATION****PROFORMA  
GROUP  
RM'000**Arising from the acquisition of  
subsidiary companies**1,400**

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## 10.0 ACCOUNTANTS' REPORT (Cont'd)

## 8.12 LONG TERM LIABILITIES

## ----- PROFORMA GROUP -----

	<u>After the Acquisitions And Rights Issue</u> RM'000	<u>Repayment</u> RM'000	<u>After the Acquisitions Rights and Public Issues</u> RM'000
<b>Term loans</b>			
Total amount repayable	5,937	(5,780)	157
Repayable within the next twelve months included under bank borrowings (Note 8.8)	(1,749)	1,592	(157)
	<u>4,188</u>	<u>(4,188)</u>	<u>-</u>
<b>Hire purchase creditors</b>			
Total amount payable	725	-	725
Interest in suspense	(130)	-	(130)
Net amount payable	595	-	595
Payable within the next twelve months included under other creditors and accruals	(125)	-	(125)
	<u>470</u>	<u>-</u>	<u>470</u>
	<u>4,658</u>	<u>(4,188)</u>	<u>470</u>

RM4.19 million of the proceeds from the rights and public issues is utilised to reduce the long term portion of term loan included in long term liabilities.

## 8.13 RELATED PARTY TRANSACTION

**PROFORMA  
GROUP  
RM'000**

Sales to a sole proprietorship business  
in which a person connected to a  
director is the owner

-Syarikat Usahaniaga Ana

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**10.0 ACCOUNTANTS' REPORT (Cont'd)**

**8.14 CAPITAL COMMITMENTS**

	<b>PROFORMA GROUP RM'000</b>
Authorised and contracted	
Analysed as follows :	
- Property, plant and equipment	<u>269</u>

**8.15 NUMBER OF EMPLOYEES**

**PROFORMA GROUP**

The number of employees excluding directors at balance sheet date is 234.

**8.16 PROFORMA NET TANGIBLE ASSETS PER ORDINARY SHARE**

Based on the proforma statement of assets and liabilities of the Proforma Eng Kah Group as at 31 December 2001, the proforma net tangible assets per share after Acquisitions, Rights Issue and Public Issue is calculated as follows :

Proforma net tangible assets (RM'000)	<u>47,693</u>
Total number of ordinary shares in issue ('000)	<u>40,000</u>
Proforma net tangible assets per ordinary share of RM1.00 each (RM)	<u>1.19</u>

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**10.0 ACCOUNTANTS' REPORT (Cont'd)****9. PROFORMA CONSOLIDATED CASH FLOW STATEMENT**

The consolidated cash flow statement of Eng Kah Corporation and the Proforma Eng Kah Group are provided for illustrative purposes only and are prepared based on the audited financial statements of the companies in the Eng Kah Group as at 31 December 2001 and on the assumption that the flotation scheme as mentioned in Section 2 was effected on 31 December 2001.

	AUDITED      ----- PROFORMA GROUP -----			
	Eng Kah Corporation as at <u>31.12.2001</u> RM'000	After the <u>Acquisitions</u> RM'000	After the Acquisitions and Rights Issue RM'000	After the Acquisitions, Rights and Public Issues RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before taxation	(2)	9,134	9,134	9,134
Pre-acquisition profit of subsidiary companies	-	(9,136)	(9,136)	(9,136)
Operating loss before working capital changes	(2)	(2)	(2)	(2)
Creditors	2	2	2	2
Net cash from operating activities	-	-	-	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
** Acquisition of subsidiary companies, net of cash acquired	-	5,093	5,093	5,093
Purchase of property, plant and equipment	-	-	-	(2,500)
Net cash from investing activities	-	5,093	5,093	2,593
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Payment of listing expenses	-	-	-	(1,300)
Proceeds from public issue at premium	-	-	-	10,833
Proceeds from rights issue at a premium	-	-	6,603	6,603
Repayment of term loans	-	-	-	(5,780)
Net cash from financing activities	-	-	6,603	10,356
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	-	5,093	11,696	12,949
<b>CASH AND CASH EQUIVALENTS AT BEGINNING</b>	*	*	*	*
<b>CASH AND CASH EQUIVALENTS AT END</b>	*	5,093	11,696	12,949

**10.0 ACCOUNTANTS' REPORT (Cont'd)**

	AUDITED	----- PROFORMA GROUP -----		
	Eng Kah Corporation as at <u>31.12.2001</u> RM'000	After the <u>Acquisitions</u> RM'000	After the Acquisitions and Rights <u>Issue</u> RM'000	After the Acquisitions, Rights and Public <u>Issues</u> RM'000
<b>Represented by :</b>				
Fixed deposits	-	2,000	2,000	2,000
Cash and bank balances	*	3,430	10,033	11,286
Bank overdrafts	-	(337)	(337)	(337)
	*	<u>5,093</u>	<u>11,696</u>	<u>12,949</u>

\* Represents RM2

**\*\* Acquisition of subsidiary companies, net of cash acquired**

Property, plant and equipment	-	24,115	24,115	24,115
Inventories	-	9,600	9,600	9,600
Debtors	-	15,533	15,533	15,533
Creditors	-	(11,081)	(11,081)	(11,081)
Fixed deposits	-	2,472	2,472	2,472
Cash and bank balances	-	3,430	3,430	3,430
Bank borrowings	-	(10,652)	(10,652)	(10,652)
Provision for taxation	-	(447)	(447)	(447)
Deferred taxation	-	(1,400)	(1,400)	(1,400)
Share of net assets acquired	-	31,570	31,570	31,570
Negative goodwill on consolidation	-	(2,832)	(2,832)	(2,832)
Total purchase consideration	-	28,738	28,738	28,738
Less : Consideration satisfied by shares	-	(28,738)	(28,738)	(28,738)
Less : Cash and cash equivalents acquired	-	5,093	5,093	5,093
Cash flow on acquisition of subsidiary companies	-	<u>5,093</u>	<u>5,093</u>	<u>5,093</u>

**10. EVENTS SUBSEQUENT TO BALANCE SHEET DATE OF 31 DECEMBER 2001**

Based on the audited financial statements for the year ended 31 December 2001 and other than the completion of the Acquisitions of subsidiary companies by Eng Kah Corporation and the Rights Issue as referred to in Section 2(i) to (v), no events have arisen subsequent to the balance sheet date which requires disclosure in this Report.

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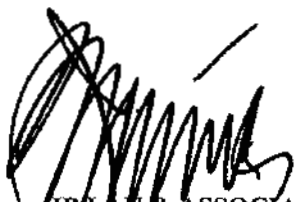
**10.0 ACCOUNTANTS' REPORT (Cont'd)**

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**11. FINANCIAL STATEMENTS**

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

Yours faithfully,



**JB LAU & ASSOCIATES**  
**NO. AF : 0042**  
**CHARTERED ACCOUNTANTS**



**JOHN LAU TIANG HUA**  
**NO. 1107/03/04 (J)**

## 11.0 VALUATION CERTIFICATE

(Prepared for inclusion in this Prospectus)

DIRECTORS:  
ARTHUR LIM KOOI HEOK MIS (M)  
LIM-CHOO LAI KUEN MIS (M)

### Arthur Lim Valuers Sdn. Bhd.

(Real Estate Valuers Agents Managers Consultants)  
(Company No.: 253401-P)  
(Registration No. VE (1) 0055)

Penthouse Floor  
Roof Top Unit,  
Bangunan Mayban Trust  
No. 3, Lebuh Penang  
10200 Pulau Pinang.  
Tel: 04-2611605 Fax: 604-2611606

Date : 20 December 2001.

The Board of Directors  
Eng Kah Corporation Berhad  
Suite 12-A Level 12 Menara Northam  
No. 55, Jalan Sultan Ahmad Shah  
10050 Pulau Pinang.

Dear Sirs

### **VALUATION OF PROPERTY ASSET BELONGING TO ENG KAH CORPORATION BERHAD ("ENG KAH CORPORATION").**

This letter is prepared for inclusion in the Prospectus of Eng Kah Corporation Berhad to be dated 28 June 2002 in connection with the offer for sale of 1,377,000 ordinary shares of RM1.00 per share and the public issue of 6,018,000 new ordinary shares of RM1.00 per share at an issue price of RM1.80 per ordinary share payable in full upon application.

In accordance with your instruction we have valued your company's property asset comprising land and buildings as shown in the schedule below in conjunction with the listing of Eng Kah Corporation Berhad on the Second Board of the Kuala Lumpur Stock Exchange. We valued the aforesaid property asset on 15 August 2000 using a combination of the Comparison cum Cost Method and the Investment Method of Valuation. Details of our valuation are set out in our valuation report dated 15 August 2000 bearing Reference No VL/PP/9/00/SC.

Our valuation report has been prepared professionally and with due diligence in accordance with the Guidelines on Asset Valuations for submission to the Securities Commission issued by the Securities Commission and in compliance with the valuation standards contained in the Manual issued by the Board of Valuers Appraisers and Estate Agents, Malaysia.

Our opinion of the market value of the property asset concerned and other relevant particulars are as follows :-

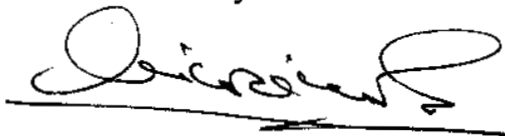


11.0 VALUATION CERTIFICATE (Cont'd)

**Arthur Lim Valuers** Sdn. Bhd.  
 (Real Estate Valuers Agents Managers Consultants)

Property Address/Title	Land Area	Buildings (age)	Gross Floor Area (sq m)	Existing Use	Date Of Valuation	Market Value
Property held for owner-occupation.						
Registered Proprietor : Eng Kah Enterprise Sdn Bhd						
PT No. 1249 (Plot 95) Mukim 12, Hala Kampong Jawa 2, Bayan Lepas Industrial Estate, Daerah Barat Daya, Pulau Pinang.  Title : HS(D) HBM 98, 60-year lease expiring on 11 June 2049.	0.8202 hectare	2-storey office block (10 years)	1,146.98	Cosmetic factory	15 August 2000	RM7,380,000.00
		Factory (10 years)	6,456.20			
		Pumphouse (10 years)	12.73			
		Substation (10 years)	33.91			
		Tool house (10 years)	14.03			
		Guardhouse (10 years)	24.81			
		<b>Total</b>	<b>7,688.66</b>			

Yours faithfully



ARTHUR LIM, MIS(M)  
 REGISTERED VALUER (V-243)

11.0 VALUATION CERTIFICATE (Cont'd)



No. 25, Jalan Yap Ah Shak, Off Jalan Dang Wangi, 50300 Kuala Lumpur, Malaysia.  
Fax: 03-26925771 (Marketing), 03-26943484 (Valuation), 03-26941261 (Agency), 03-26945543 (Admin)  
Tel: 03-26942212 Email: hbllmal@po.jaring.my Website: www.henrybutchermalaysia.com

INTERNATIONAL, REAL ESTATE AND PLANT & MACHINERY  
CONSULTANTS, VALUERS, AUCTIONEERS, AGENTS,  
PROJECT AND PROPERTY MANAGERS.

Date: 24 June 2002

The Board of Directors  
Eng Kah Corporation Berhad  
Suite 12-A, Level 12, Menara Northam  
No. 55 Jalan Sultan Ahmad Shah  
10050 Pulau Pinang

Dear Sirs,

**VALUATION OF PROPERTIES BELONGING TO ENG KAH CORPORATION BERHAD  
("ENG KAH CORPORATION")**

This Certificate has been prepared for inclusion in the Prospectus of Eng Kah Corporation to be dated 28 June 2002, in relation to the Public Issue of 6,018,000 new ordinary shares of RM1.00 each and offer for sale of 1,377,000 ordinary shares of RM1.00 each at an issue price of RM1.80 per ordinary share payable in full on application.

In accordance with your instruction, we have assessed the Market Values of the landed properties set out below in conjunction with the listing of Eng Kah Corporation on the Second Board of the Kuala Lumpur Stock Exchange. We have valued the aforesaid properties on 17 August 2000 and 21 August 2000, the details of which are set out in our valuation reports bearing Reference Nos. V.B08-2000/1109 and V/N08-2000/1110 respectively.

These valuations reports have been prepared in accordance with the "Guidelines on Asset Valuations for Submission to the Securities Commission (1995)" issued by the Securities Commission in compliance with the Valuation Standards issued by the Board of Valuers, Appraisers and Estate Agents, Malaysia and with the necessary professional responsibility and due diligence.

We have valued the properties listed below with titles free from all encumbrance, using the Comparison and Investment Methods of Valuation and are of the opinion that the Market Values of these properties are as follows:-



THE INTERNATIONAL NETWORK

• Hong Kong • Singapore • Manila • London • Birmingham • Leeds • Bristol • Cardiff • Edinburgh • Glasgow • Aberdeen  
• Dublin • Belfast • Leicester • Southampton • Warsaw • Associates throughout Europe, Australasia, North and South America

## 11.0 VALUATION CERTIFICATE (Cont'd)



## Property held for owner occupation

Registered Owner/ Property Address/ Reference No.	Date of Valuation	Tenure	Land Area (sq.m.)	Building/ Age of the Building	Gross built-up Area (sq.m.)	Existing Use/ Description	Market Value (RM)
Malaysian Industrial Estate Bhd. PT7 HS(D) 107774 Section 23, Town of Shah Alam, District of Petaling, State of Selangor (Lot 14A Jalan 23/2, Kawasan MIEL, Section 23, 40300 Shah Alam, Selangor) V/B08-2000/1109	21.08.2000	Leasehold for 99 years expiring on November 14, 2095.	3,143.00	10 years	17,991	1½ storey semi-detached factory	RM3,000,000
Taihen Metal Industries Sdn. Bhd. PT No. 1667 and 16777, held under HS(D) 110950 and 110951 respectively. Mukim of Setul, District of Seremban, State of Negeri Sembilan. (Situating within Arab-Malaysian Industrial Park) V/N08-2000/1110	17.08.2000	Freehold	<u>PT 16776</u> (11,761.80 sq.m.)  <u>PT 16777</u> (11,556.8 sq.m.)	Factory 1  2-storey office annexe  Factory 2  3 years	3,121.00  438.45  1,506.00	Vacant Industrial land  2 units single-storey factory / warehouse buildings with 2-storey office annexe.	<u>As Vacant Industrial Land</u> (RM3,000,000)  <u>Building Approved and Certificate of Fitness Issued</u> (RM7,100,000)

HENRY BUTCHER, LIM &amp; LONG SDN. BHD.

LIEW CHEE KONG

B.Sc., MRICS

Registered Valuer (V-242)

**12.0 DIRECTORS' REPORT**

(Prepared for inclusion in this Prospectus)



**ENG KAH CORPORATION BERHAD (435649-H)**

24 June 2002

**Registered Office:**  
Suite 12-A, Level 12, Menara Northam  
No. 55, Jalan Sultan Ahmad Shah  
10050 Penang

The Shareholders  
Eng Kah Corporation Berhad

Dear Sirs/Madams,

On behalf of the Board of Directors of Eng Kah Corporation Berhad ("Eng Kah Corporation" or the "Company"), I report after due inquiry that during the period from 31 December 2001 (being the date to which the last audited accounts of the Company and its subsidiary companies have been made up) to 19 June 2002 (being a date not earlier than 14 days before the issue of this Prospectus), that:-

- (a) the business of the Company and its subsidiary companies has, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen since the last audited accounts of the Company and its subsidiary companies which have materially affected the business and operations or the value of the assets of the Company or any of its subsidiary companies;
- (c) the current assets of the Company and its subsidiary companies appear in the books at values which are believed to be realised in the ordinary course of business;
- (d) save as disclosed in the Proforma Consolidated Balance Sheets in Section 9.9 of this Prospectus, there are no contingent liabilities by reason of any guarantee or indemnity given by the Company or any of its subsidiary companies; and
- (e) save as disclosed in the Proforma Consolidated Balance Sheets in Section 9.9 and in the Accountants' Report in Section 10.0 of this Prospectus, there have been no changes in the published reserve or any unusual factors affecting the profits of the Company and its subsidiary companies since the last audited accounts of the Company and its subsidiary companies.

Yours faithfully,  
For and on behalf of the Board of  
**ENG KAH CORPORATION BERHAD**

**EWE ENG KAH**  
Chairman & Managing Director