

15. ACCOUNTANTS' REPORT (Cont'd)


**CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS**
9. CHB GROUP (Continued)
9.4 Consolidated cash flow statement (continued)

	<u>2002</u> RM'000
CASH FLOWS FROM INVESTING ACTIVITIES	
Payments for property, plant and equipment	(4,550)
Proceeds from disposal of property, plant and equipment	95
Proceeds from disposal of investments in a subsidiary	83
Interest income received	32
	<hr/>
Net investing cash flow	(4,340)
	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayments of short term bank borrowings	(34)
Repayments of finance lease and hire-purchase arrangements	(190)
Repayments of term loans	(1,133)
Drawdown of term loan	3,500
	<hr/>
Net financing cash flow	2,143
	<hr/>
Net movement in cash and cash equivalents	(1,578)
Cash and cash equivalents at beginning of the financial year	(4,070)
	<hr/>
Cash and cash equivalents at end of the financial year	(5,648)
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Represented by:	
Deposits, bank and cash balances	1,871
Less: Fixed deposits with licensed banks pledged as security	1,264
	<hr/>
	607
Bank overdrafts	(6,255)
	<hr/>
	(5,648)
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15. ACCOUNTANTS' REPORT (Cont'd)


**CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS**
9. CHB GROUP (Continued)
9.5 Notes to the financial statements
(a) Revenue

	← Financial year ended 31 December →				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
Direct sales	10,180	10,524	12,013	12,606	10,795
Manufacturing sales	<u>34,851</u>	<u>41,440</u>	<u>44,223</u>	<u>51,062</u>	<u>45,706</u>
	<u>45,031</u>	<u>51,964</u>	<u>56,236</u>	<u>63,668</u>	<u>56,501</u>

(b) Profit from operations

	← Financial year ended 31 December →				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
Profit from operations is stated after charging/(crediting):					
Auditors' remuneration	66	66	66	66	79
Cost of contract workers	2,227	2,344	2,812	3,715	2,546
Property, plant and equipment - depreciation	1,073	1,209	1,093	1,115	1,145
- net gain on disposal	(2)	(95)	(61)	(259)	(52)
- write off	-	10	-	-	-
Rental of premises	3	48	137	51	10
Staff costs	6,043	8,354	8,659	9,149	10,138
Interest income	(204)	(105)	(66)	(115)	(103)
Loss on disposal of investment in an associated company	-	31	-	-	-
Net realised foreign exchange gains/(loss)	(752)	51	(6)	(563)	(416)
Rental income of premises	(28)	(23)	(22)	(56)	(31)
Gain on disposal of investment in a subsidiary	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8)</u>
Included in staff costs are:					
- directors' fees	51	51	51	52	52
- directors' emoluments other than fees	<u>557</u>	<u>592</u>	<u>570</u>	<u>527</u>	<u>588</u>

(c) Finance cost

	← Financial year ended 31 December →				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
Bank commissions on trade finance facilities	76	50	54	38	27
Interest expenses	<u>1,801</u>	<u>1,102</u>	<u>1,007</u>	<u>839</u>	<u>839</u>
	1,877	1,152	1,061	877	866
Less: interest expense capitalised into property, plant and equipment	-	-	-	(47)	(188)
Finance cost charged to income statement	<u>1,877</u>	<u>1,152</u>	<u>1,061</u>	<u>830</u>	<u>678</u>

15. ACCOUNTANTS' REPORT (Cont'd)


**CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS**
9. CHB GROUP (Continued)
9.5 Notes to the financial statements (continued)
(d) Taxation

For the purpose of this Report, we have adjusted the taxation charge for the (under)/overprovision of taxation for the five financial years ended 31 December 2002. The effects of the adjustments are disclosed in Paragraph 6(c) above.

	← Financial year ended 31 December →				
	1998	1999	2000	2001	2002
	RM'000	RM'000	RM'000	RM'000	RM'000
Income tax	(942)	105	(1,422)	(1,569)	(256)
Deferred taxation	191	(310)	71	(120)	(492)
Taxation charge as restated	(751)	(205)	(1,351)	(1,689)	(748)
Tax savings from utilisation of tax losses brought forward from previous year	733	90	112	176	2
Unabsorbed tax losses which have not been recognised in the financial statements	1,303	1,228	840	211	194

No charge for income tax had been made in respect of business income earned by the Group for the financial year ended 31 December 1999 as income tax had been waived pursuant to Section 8 of the Income Tax (Amendment) Act, 1999 and the tax waived amounted to RM1,665,000. The tax credit of the Group was for the tax deducted at source recoverable in respect of a dividend declared by a subsidiary.

The effective tax rates of 1998, 2000, 2001 and 2002 were lower than the statutory rate due to reinvestment allowance, brought forward capital allowances, unabsorbed tax losses and double deduction for the promotion of exports being available for set off against the profit of the respective company in the Group.

(e) Basic earnings per 50 sen share

Basic earnings per share of the Group is calculated by dividing the net profit for the financial year by the weighted average number of ordinary shares in issue during the financial year.

	← Financial year ended 31 December →				
	1998	1999	2000	2001	2002
	RM'000	RM'000	RM'000	RM'000	RM'000
Net profit for the financial year	2,219	5,411	5,245	5,636	6,388
Weighted average number of ordinary shares in issue ('000)	54,816	54,816	54,816	55,166	55,416
Basic earnings per 50 sen share (sen)	4.05	9.87	9.57	10.22	11.53

The Company has no potential dilutive ordinary shares.

15. ACCOUNTANTS' REPORT (Cont'd)


CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS

9. CHB GROUP (Continued)

9.5 Notes to the financial statements (continued)

- (f) Included in the consolidated income statements of the Group for the financial years ended 31 December 1998 to 2002 are the results of Chemson, which are insignificant to the overall consolidated results of the Group.

The financial impact on the acquisition of additional 12.5% shareholding in RGSB by CMSB on 18 June 2001 is insignificant to the overall consolidated results of the Group for the financial year ended 31 December 2001.

- (g) Property, plant and equipment

	Freehold land RM'000	Long leasehold land RM'000	Buildings RM'000	Plant, equipment and vehicles RM'000	Capital work in progress RM'000	Total RM'000
<u>Net book value</u>						
At 1 January 1998	1,125	152	7,177	3,853	-	12,307
Additions	-	-	136	1,422	-	1,558
Disposals	-	-	-	(97)	-	(97)
Depreciation charge	-	(2)	(155)	(916)	-	(1,073)
At 31 December 1998	1,125	150	7,158	4,262	-	12,695
<u>At 31 December 1998</u>						
Cost	1,125	160	7,845	7,935	-	17,065
Accumulated depreciation	-	(10)	(687)	(3,673)	-	(4,370)
Net book value	1,125	150	7,158	4,262	-	12,695
<u>Net book value</u>						
At 1 January 1999	1,125	150	7,158	4,262	-	12,695
Additions	180	-	607	1,354	-	2,141
Disposals	-	-	-	(72)	-	(72)
Depreciation charge	-	(2)	(170)	(1,037)	-	(1,209)
At 31 December 1999	1,305	148	7,595	4,507	-	13,555
<u>At 31 December 1999</u>						
Cost	1,305	160	8,452	8,928	-	18,845
Accumulated depreciation	-	(12)	(857)	(4,421)	-	(5,290)
Net book value	1,305	148	7,595	4,507	-	13,555

15. ACCOUNTANTS' REPORT (Cont'd)


**CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS**
9. CHB GROUP (Continued)
9.5 Notes to the financial statements (continued)
(g) Property, plant and equipment (continued)

	Freehold land RM'000	Long leasehold land RM'000	Buildings RM'000	Plant, equipment and vehicles RM'000	Capital work in progress RM'000	Total RM'000
Net book value						
At 1 January 2000	1,305	148	7,595	4,507	-	13,555
Additions	43	-	293	1,078	-	1,414
Disposals	-	-	-	(3)	-	(3)
Depreciation charge	-	(2)	(176)	(915)	-	(1,093)
At 31 December 2000	1,348	146	7,712	4,667	-	13,873
At 31 December 2000						
Cost	1,348	160	8,745	9,890	-	20,143
Accumulated depreciation	-	(14)	(1,033)	(5,223)	-	(6,270)
Net book value	1,348	146	7,712	4,667	-	13,873
Net book value						
At 1 January 2001	1,348	146	7,712	4,667	-	13,873
Additions	-	-	-	916	3,147	4,063
Disposals	-	-	-	(102)	-	(102)
Depreciation charge	-	(2)	(176)	(937)	-	(1,115)
At 31 December 2001	1,348	144	7,536	4,544	3,147	16,719
At 31 December 2001						
Cost	1,348	160	8,745	10,067	3,147	23,467
Accumulated depreciation	-	(16)	(1,209)	(5,523)	-	(6,748)
Net book value	1,348	144	7,536	4,544	3,147	16,719

15. ACCOUNTANTS' REPORT (Cont'd)


CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS

9. CHB GROUP (Continued)

9.5 Notes to the financial statements (continued)

(g) Property, plant and equipment (continued)

	Freehold land RM'000	Long leasehold land RM'000	Buildings RM'000	Plant, equipment and vehicles RM'000	Capital work in progress RM'000	Total RM'000
<u>Net book value</u>						
At 1 January 2002	1,348	144	7,536	4,544	3,147	16,719
Revaluation surplus	3,212	114	958	-	-	4,284
Additions	-	-	-	1,519	3,450	4,969
Disposals	-	-	-	(43)	-	(43)
Transfer	-	-	6,597	-	(6,597)	-
Depreciation charge	-	(2)	(176)	(967)	-	(1,145)
At 31 December 2002	<u>4,560</u>	<u>256</u>	<u>14,915</u>	<u>5,053</u>	<u>-</u>	<u>24,784</u>
<u>At 31 December 2002</u>						
Cost	-	-	6,597	11,455	-	18,052
Valuation	4,560	260	8,670	-	-	13,490
Accumulated depreciation	-	(4)	(352)	(6,402)	-	(6,758)
Net book value	<u>4,560</u>	<u>256</u>	<u>14,915</u>	<u>5,053</u>	<u>-</u>	<u>24,784</u>

← As at 31 December →

	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
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Net book value

Assets acquired under finance
leases and hire-purchase:
Plant, equipment and vehicles

	<u>1,175</u>	<u>582</u>	<u>549</u>	<u>390</u>	<u>536</u>
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Assets pledged as securities
for credit facilities granted

	<u>12,695</u>	<u>13,555</u>	<u>13,873</u>	<u>13,572</u>	<u>24,784</u>
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← Financial year ended 31 December →

	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
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Interest expense capitalised

	<u>-</u>	<u>-</u>	<u>-</u>	<u>47</u>	<u>188</u>
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The above interest expense is in respect of borrowings directly related to building under construction.

15. ACCOUNTANTS' REPORT (Cont'd)


**CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS**
9. CHB GROUP (Continued)
9.5 Notes to the financial statements (continued)
(g) Property, plant and equipment (continued)

The details of the revaluation of land and buildings are as follows:

- (i) Valuations carried out by Thoo Sing Choon on 18 June 2001 and subsequently approved by Securities Commission.

	<u>Valuation method</u>	<u>Valuation amount</u> RM'000
Freehold land	Cost	* 4,070
Buildings	Cost	* 7,750
		<u>11,820</u>
Freehold land	Comparative	490
Leasehold land	Comparative	260
Buildings	Comparative	770
		<u>13,340</u>

* Restated by the valuer to the amount approved by Securities Commission

- (ii) Valuation carried out by Subramaniam A/L Arumugam on 16 May 2001 and subsequently approved by Securities Commission.

	<u>Valuation method</u>	<u>Valuation amount</u> RM'000
Buildings	Comparative	<u>150</u>

The details of the external independent valuers are as follows:

Thoo Sing Choon, Registered Valuer (No. V-132)
Colliers, Jordan Lee & Jaafar Sdn. Bhd.
Suites 3 & 6, Tingkat Kedua, Labrooy House
Jalan Dato Sagor, 30000 Ipoh, Perak Darul Ridzuan; and

Subramaniam A/L Arumugam, Registered Valuer (No. V-450)
Colliers, Jordan Lee & Jaafar Sdn. Bhd.
Level 6, Block G North, Pusat Bandar Damansara
Damansara Heights, 50490 Kuala Lumpur

15. ACCOUNTANTS' REPORT (Cont'd)


**CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS**
9. CHB GROUP (Continued)
9.5 Notes to the financial statements (continued)
(g) Property, plant and equipment (continued)

The resultant surpluses were credited to revaluation reserves and deficits charged to income statement during the financial year.

The net book value of land and buildings as at 31 December 2002 that would have been included in the financial statements, had these assets been carried at cost less accumulated depreciation and impairment losses are as follows:

	<u>2002</u> RM'000
Freehold land	1,348
Long leasehold land	142
Buildings	7,360
	<u>8,850</u>

Deferred taxation on the revaluation of land and buildings is not provided in the financial statements as it is not the intention of the directors to dispose of these assets.

(h) Associated company

	← As at 31 December →				
	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000	<u>2001</u> RM'000	<u>2002</u> RM'000
Share of net assets	260	-	-	-	-
Goodwill on acquisition	64	-	-	-	-
	<u>324</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The associated company which is incorporated in Malaysia was:

	← Equity interest as at 31 December →				
	<u>1998</u> %	<u>1999</u> %	<u>2000</u> %	<u>2001</u> %	<u>2002</u> %
Rubysteel Metal Industry (M) Sdn. Bhd. (formerly known as Chun Giap Metal Industry Sdn. Bhd.)	30	-	-	-	-

15. ACCOUNTANTS' REPORT (Cont'd)


**CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS**
9. CHB GROUP (Continued)
9.5 Notes to the financial statements (continued)
(h) Associated company (continued)

The principal activity of the associated company is that of manufacture and sale of metal household products.

The Group's share of assets, liabilities and capital commitments of the associated company is as follows:

	As at <u>31.12.1998</u> RM'000
Property, plant and equipment	162
Current assets	587
Current liabilities	(462)
Non current liabilities	<u>(27)</u>
	<u>260</u>
Capital commitments	<u>-</u>

The Group's share of the revenue and expenses of the associated company is as follows:

	Financial year ended <u>31.12.1998</u> RM'000	Financial year ended <u>31.12.1999</u> RM'000
Revenue	1,261	830
Expenses	<u>(1,150)</u>	<u>(789)</u>
Profit from ordinary activities before taxation	111	41
Taxation	<u>(33)</u>	<u>-</u>
Profit from ordinary activities after taxation	<u>78</u>	<u>41</u>

CMSB disposed its 30% shareholding in the associated company in 1999 for a total cash consideration of RM335,000.

15. ACCOUNTANTS' REPORT (Cont'd)


CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS

9. CHB GROUP (Continued)

9.5 Notes to the financial statements (continued)

(i) Inventories

	← As at 31 December →				
	1998	1999	2000	2001	2002
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>At cost</u>					
Raw materials	4,914	4,909	7,588	6,440	8,949
Work in progress	2,799	3,247	3,535	2,259	3,483
Finished goods	10,644	11,075	14,102	14,769	14,729
	<u>18,357</u>	<u>19,231</u>	<u>25,225</u>	<u>23,468</u>	<u>27,161</u>
Inventories pledged as securities for credit facilities granted	<u>18,357</u>	<u>19,231</u>	<u>25,225</u>	<u>23,468</u>	<u>27,161</u>

(j) Debtors

	← As at 31 December →				
	1998	1999	2000	2001	2002
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Trade</u>					
Trade debtors					
- normal trade terms	6,154	11,041	9,465	8,262	9,978
- instalment schemes	-	-	165	39	480
Amounts owing by companies in which certain directors have significant influence	1,143	450	-	-	-
	<u>7,297</u>	<u>11,491</u>	<u>9,630</u>	<u>8,301</u>	<u>10,458</u>
<u>Non trade</u>					
Other debtors	166	212	108	189	73
Deposits	44	69	82	37	645
Prepayments	377	357	670	941	1,309
Amount owing by an associated company	47	-	-	-	-
Amounts owing by companies in which certain directors have controlling interests	236	634	672	421	14
Amounts owing by companies in which certain directors have significant influence	109	-	-	-	-
Amounts owing by certain directors	55	262	1,051	888	-
	<u>1,034</u>	<u>1,534</u>	<u>2,583</u>	<u>2,476</u>	<u>2,041</u>
	<u>8,331</u>	<u>13,025</u>	<u>12,213</u>	<u>10,777</u>	<u>12,499</u>

	<u>2002</u>
The currency exposure profile of trade debtors are as follows:	RM'000
- Ringgit Malaysia	4,180
- US Dollar	6,278
Total trade debtors	<u>10,458</u>

15. ACCOUNTANTS' REPORT (Cont'd)


**CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS**
9. CHB GROUP (Continued)
9.5 Notes to the financial statements (continued)
(j) Debtors (continued)

All non trade balances are denominated in Ringgit Malaysia.

Credit terms of trade debtors of the Group are as follows:

- (i) normal trade terms - payment in advance to 90 days; and
- (ii) instalment schemes - 4 months to 12 months.

The Group has no significant concentration of credit risk for trade debtors other than 58% of trade debtors as at 31 December 2002 were in respect of three major debtors located in Canada, China and Denmark. The Group's historical experience in collection of trade debtors falls within the recorded allowances. The directors believe that no additional credit risk beyond amounts allowed for collection loss is inherent in the Group's trade debtors.

Included in deposits is an amount of RM535,000 (2001: Nil) being deposits paid for the purchase of computer software and the remaining contracted sum has been disclosed as part of the capital commitments in Paragraph 9.5(q).

Non trade balances with related parties are unsecured, interest free and have no fixed terms of repayment.

(k) Deposits, bank and cash balances

	← As at 31 December →				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
Fixed deposits with licensed banks	1,166	1,243	1,257	1,441	1,264
Bank and cash balances	736	739	550	1,996	607
	<u>1,902</u>	<u>1,982</u>	<u>1,807</u>	<u>3,437</u>	<u>1,871</u>
Fixed deposits with licensed banks pledged as security for credit facilities granted	<u>1,166</u>	<u>1,213</u>	<u>1,210</u>	<u>1,225</u>	<u>1,264</u>
					<u>2002</u>
The currency exposure profile of deposits, bank and cash balances is as follows:					RM'000
- Ringgit Malaysia					1,810
- US Dollar					60
- Euro					1
Total deposits, bank and cash balances					<u>1,871</u>

15. ACCOUNTANTS' REPORT (Cont'd)


**CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS**
9. CHB GROUP (Continued)
9.5 Notes to the financial statements (continued)
(k) Deposits, bank and cash balances (continued)

Interest rates on deposits, bank and cash balances are as follows:

	← As at 31 December →				
	1998 %	1999 %	2000 %	2001 %	2002 %
Fixed deposits with licensed banks	5.2 to 5.5	3.3 to 4.0	3.5 to 4.3	3.2 to 4.0	3.2 to 4.0
Bank balances held at call with a licensed bank	<u>4.7</u>	<u>4.7</u>	<u>6.0</u>	<u>3.8</u>	<u>1.1</u>

The remaining bank and cash balances are deposits placed in current accounts with various licensed banks in Malaysia and cash on hand which do not earn any interest.

Fixed deposits with licensed banks as at 31 December 2002 have maturity periods ranging from 30 days to 365 days.

(l) Creditors

	← As at 31 December →				
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Trade					
Trade creditors	4,444	7,412	7,685	4,937	4,851
Amounts owing to companies in which certain directors have controlling interests	355	212	174	29	5
Amounts owing to companies where a substantial shareholder of those companies is connected with a director of the Company	-	-	-	155	69
	<u>4,799</u>	<u>7,624</u>	<u>7,859</u>	<u>5,121</u>	<u>4,925</u>
Non trade					
Other creditors and accruals	2,130	1,397	1,324	726	755
Amounts owing to directors	34	-	-	-	-
Amounts owing to companies in which certain directors have controlling interests	1	-	-	334	140
	<u>2,165</u>	<u>1,397</u>	<u>1,324</u>	<u>1,060</u>	<u>895</u>
	<u>6,964</u>	<u>9,021</u>	<u>9,183</u>	<u>6,181</u>	<u>5,820</u>

15. ACCOUNTANTS' REPORT (Cont'd)


**CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS**
9. CHB GROUP (Continued)
9.5 Notes to the financial statements (continued)
(l) Creditors (continued)

	<u>2002</u>
	RM'000
The currency exposure profile of trade creditors is as follows:	
- Ringgit Malaysia	4,347
- US Dollar	522
- Hong Kong Dollar	56
	<u>4,925</u>
Total trade creditors	<u>4,925</u>

Credit terms of trade payables granted to the Group vary from payment in advance to 90 days. Non trade balances with related parties are denominated in Ringgit Malaysia. They are unsecured, interest free and have no fixed terms of repayment.

(m) Borrowings (interest bearing)

	← As at 31 December →				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
Current					
Secured:					
Bank overdrafts	3,758	5,122	5,504	4,859	4,777
Bankers acceptances	127	106	1,171	1,997	1,810
Revolving credit	950	942	561	-	-
Trust receipts	831	1,052	46	-	56
Finance lease and hire-purchase liabilities	429	242	128	164	153
Term loan	886	1,030	269	268	618
Unsecured:					
Bank overdrafts	2,765	1,560	1,290	1,423	1,478
Bankers acceptances	874	372	854	525	1,122
Revolving credit	1,000	500	500	500	-
Trust receipts	413	-	-	-	-
	<u>12,033</u>	<u>10,926</u>	<u>10,323</u>	<u>9,736</u>	<u>10,014</u>
Non current					
Secured:					
Finance lease and hire-purchase liabilities	316	122	93	121	172
Term loan	1,076	900	1,029	760	2,777
	<u>1,392</u>	<u>1,022</u>	<u>1,122</u>	<u>881</u>	<u>2,949</u>

All borrowings are denominated in Ringgit Malaysia.

15. ACCOUNTANTS' REPORT (Cont'd)


CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS

9. CHB GROUP (Continued)

9.5 Notes to the financial statements (continued)

(m) Borrowings (interest bearing) (continued)

Finance lease and hire-purchase liabilities

Finance lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default. Finance lease and hire-purchase liabilities represent outstanding obligations payable in respect of property, plant and equipment acquired under finance leases and hire-purchase agreements, and are analysed as follows:

	← As at 31 December →				
	1998	1999	2000	2001	2002
	RM'000	RM'000	RM'000	RM'000	RM'000
Payable within 1 year	490	270	144	174	175
Payable between 1 –2 years	252	90	84	105	94
Payable between 2-5 years	92	44	14	34	93
	<u>834</u>	<u>404</u>	<u>242</u>	<u>313</u>	<u>362</u>
Less: finance charges	(89)	(40)	(21)	(28)	(37)
	<u>745</u>	<u>364</u>	<u>221</u>	<u>285</u>	<u>325</u>
Present value of finance lease and hire-purchase liabilities:					
Payable within 1 year	429	242	128	164	153
Payable between 1 –2 years	233	81	80	97	84
Payable between 2-5 years	83	41	13	24	88
	<u>745</u>	<u>364</u>	<u>221</u>	<u>285</u>	<u>325</u>
<u>Term loans</u>					
Repayable within 12 months	886	1,030	269	268	618
Repayable after 12 months	1,076	900	1,029	760	2,777
	<u>1,962</u>	<u>1,930</u>	<u>1,298</u>	<u>1,028</u>	<u>3,395</u>

Interest rates on borrowings are as follows:

	← As at 31 December →				
	1998	1999	2000	2001	2002
	%	%	%	%	%
- finance lease and hire-purchase	5.3 to	5.3 to	5.3 to	4.1 to	4.3 to
	8.3	8.3	8.3	7.9	7.9
- short term bank borrowings	8.5 to	5.5 to	3.2 to	4.7 to	4.7 to
	10.5	9.5	9.1	8.8	8.7
- term loans	6.5 to	6.5 to	6.5 to	6.5 to	6.5 to
	<u>9.8</u>	<u>8.6</u>	<u>8.5</u>	<u>8.5</u>	<u>8.4</u>

Short term bank borrowings comprise bank overdrafts, bankers acceptances, revolving credit and trust receipts.

15. ACCOUNTANTS' REPORT (Cont'd)


**CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS**
9. CHB GROUP (Continued)
9.5 Notes to the financial statements (continued)
(m) Borrowings (interest bearing) (continued)
Finance lease and hire-purchase liabilities (continued)

Short term bank borrowings and term loans are secured by fixed charges on the land and buildings and debentures incorporating fixed and floating charges over all the present and future assets of the Group. Certain bank borrowings are also jointly and severally guaranteed by certain directors of CHB.

The two term loans outstanding as at 31 December 2002 are repayable by 120 instalments commencing February 2001 and 60 instalments commencing September 2002 respectively. Interest on these term loans is calculated based on floating interest rates which may be varied at any time at the banks' discretion.

(n) Deferred taxation

	← As at 31 December →				
	1998	1999	2000	2001	2002
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January	491	300	610	539	659
Charge / (write back)	(191)	310	(71)	120	492
At 31 December	<u>300</u>	<u>610</u>	<u>539</u>	<u>659</u>	<u>1,151</u>

The deferred taxation balances mainly comprise of timing differences from the excess of capital allowances over depreciation.

(o) Share capital

The movements in authorised share capital and issued and fully paid-up share capital are disclosed in Paragraph 4 above.

Under the merger method of accounting, both the increases in authorised share capital and issued and fully paid-up share capital are deemed to have occurred in the Group on 1 January 1998. Share capital is recorded based on the nominal value of the ordinary shares issued.

(p) Reserves

The movements in reserves, which comprise retained profits, reserve on consolidation and revaluation reserves, are disclosed in Paragraph 9.3 above.

In accordance with the merger relief provision of Section 60(4) of the Companies Act, 1965, no provision is recorded in the share premium account in respect of the share issue for the acquisition of CMSB.

15. ACCOUNTANTS' REPORT (Cont'd)


**CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS**
9. CHB GROUP (Continued)
9.5 Notes to the financial statements (continued)
(p) Reserves (continued)

The Company has recorded its investment in CMSB at the nominal value of ordinary shares issued as consideration. On consolidation, the excess of the nominal value of the shares acquired over the carrying value of the investment is recorded as merger deficit. The merger deficit is set off against the retained profits on 1 January 1998. The impact on the financial statements is disclosed in Paragraph 6(c) above.

(q) Capital commitments

Capital expenditure authorised and contracted but not provided for in the financial statements is as follows:

	← As at 31 December →				
	1998	1999	2000	2001	2002
	RM'000	RM'000	RM'000	RM'000	RM'000
Factory building	-	-	-	2,900	0
Plant, equipment and vehicles	-	-	54	-	341
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(r) Significant related party disclosures

In addition to the related party information disclosed elsewhere in the financial statements, the Group has the following significant transactions with related parties based on terms agreed between the parties:

	Financial year ended <u>31.12.2000</u> RM'000	Financial year ended <u>31.12.2001</u> RM'000	Financial year ended <u>31.12.2002</u> RM'000
Sale of a motor vehicle to Kimberlux Sdn. Bhd., a company in which certain directors have controlling interests	-	170	-
Purchase of goods from Rubysteel Metal Industry Sdn. Bhd., a company in which a director has financial interest	119	102	22
Construction cost paid to Kimberlux Construction Sdn. Bhd., a company in which certain directors have controlling interests	41	3,100	3,159
Purchases of goods from subsidiaries of CAM Resources Bhd ("CAM") where a substantial shareholder of CAM is connected with a director of the Company	254	391	181
	<u> </u>	<u> </u>	<u> </u>

No comparative figures from financial years ended 31 December 1998 to 1999 are presented as allowed under MASB Standard 8 - Related Party Disclosures in respect of the first reporting period in which the reporting enterprise applies the requirement of this Standard.



**CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS**

9. CHB GROUP (Continued)

9.5 Notes to the financial statements (continued)

(s) Financial Instruments

(i) Financial risk management objectives and policies

The Group's activities give rise to exposures in areas of credit, interest rate, foreign exchange and liquidity risks. The Group's overall risk management is to minimise the effects of such volatility on its financial performance. The nature of these risks and the Group's approaches in managing these risks are listed below:

Credit risk

The Group operates locally in Malaysia for its direct selling activities and also exports its ladies undergarments products to mostly the European communities, Canada and the United States of America. For the local market, where a substantial portion of its revenue is on credit terms, the Group applies due credit approval and monitoring processes and assesses the credit worthiness of its customers on a periodic basis. For overseas customers, most of the trade debtors are secured via Letter of Credit or Document Against Payment at Sight and only a few customers are on credit. Credit terms are only granted to customers with good credit and payment history.

Interest rate risk

The Group's exposure to changes in interest rates relate mainly to debt obligations and deposits placed with financial institutions in Malaysia. Borrowings are contracted on both fixed and variable terms. It is the Group's policy to maintain a mixed of fixed and variable rate debt instruments to minimize interest rate risk.

Liquidity risk

The Group maintains sufficient cash and ensures availability of funding through an adequate but flexible amount of credit facilities obtained from financial institutions in Malaysia. Borrowings are maintained with varying maturities to ensure sufficient cash inflow from operations is available to meet all repayment requirements.

Foreign currency exchange risk

The Group's sales are mostly denominated in US Dollar and to a lesser extent the Euro whilst purchases are denominated in US Dollar, Euro and Hong Kong Dollar. The Group enters into foreign currency forward exchange contracts to hedge its exposure on the foreign currency receivables and payables.

15. ACCOUNTANTS' REPORT (Cont'd)


**CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS**
9. CHB GROUP (Continued)
9.5 Notes to the financial statements (continued)
(s) Financial Instruments (continued)
(ii) Foreign currency forward contracts

Foreign currency forward contracts are entered into by a subsidiary in currencies other than its functional currency to manage exposure to fluctuations in foreign currency exchange rates on specific transactions.

At 31 December 2002, the settlement date on an open forward contract is 3 January 2003. The details of the outstanding forward contract are as follows:

<u>Hedged item</u>	<u>Currency bought</u>	<u>Currency sold</u>	<u>Contractual rates</u> 1 Euro:RM	<u>RM'000 equivalent</u>
<u>Trade creditors</u>				
Future purchases of raw materials	Euro	RM	3.72	<u>29</u>

The fair value of the outstanding forward contract of the subsidiary at the balance sheet date was a favourable net position of RM2,366.

(iii) Fair values

The carrying amounts of financial assets and liabilities of the Group and the Company as at 31 December 2002 approximate their fair values.

(t) Segment reporting

CHB Group operates in Malaysia and is organised into three main business segments:

- Direct selling - involve in multi-level marketing of undergarments, garments, leather goods, sportswear and household products.
- Manufacturing sales of undergarments under Original Equipment Manufacturer arrangement ("OEM") to mainly Europe, Canada and United States of America.
- Manufacturing sales of own brand of undergarments under the "Caelygirl" trademark, mainly to cater for direct selling business and the China market.

Intersegment sales comprise sales of undergarments under "Caelygirl" trademark to the direct selling business segment.

15. ACCOUNTANTS' REPORT (Cont'd)


**CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS**
9. CHB GROUP (Continued)
9.5 Notes to the financial statements (continued)
(t) Segment reporting (continued)
(i) Primary reporting format - business segment

	← Financial year ended 31 December →				
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
Sales					
Direct selling	10,180	10,524	12,013	12,606	10,795
Manufacturing sales (OEM)	34,113	40,775	43,563	50,298	44,515
Manufacturing sales (own brand)	3,165	2,611	3,648	2,173	1,893
Less: intersegment sales	(2,469)	(1,946)	(2,988)	(1,409)	(702)
	<u>696</u>	<u>665</u>	<u>660</u>	<u>764</u>	<u>1,191</u>
Others	2,368	2,221	2,421	1,952	929
Less: intersegment sales	(2,326)	(2,221)	(2,421)	(1,952)	(929)
	<u>42</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total external sales	<u>45,031</u>	<u>51,964</u>	<u>56,236</u>	<u>63,668</u>	<u>56,501</u>
Results					
Segment result (external):					
Direct selling	(3,493)	(902)	787	1,221	524
Manufacturing sales (OEM)	7,408	6,409	5,800	6,286	6,785
Manufacturing sales (own brand)	667	1,034	824	448	381
Others	(127)	65	150	31	(11)
	<u>4,455</u>	<u>6,606</u>	<u>7,561</u>	<u>7,986</u>	<u>7,679</u>
Unallocated income	231	129	114	171	135
Profit from operations	4,686	6,735	7,675	8,157	7,814
Finance cost	(1,877)	(1,152)	(1,061)	(830)	(678)
Share of results of associated company	111	41	-	-	-
Profit from ordinary activities before tax	2,920	5,624	6,614	7,327	7,136
Tax	(751)	(205)	(1,351)	(1,689)	(748)
Profit from ordinary activities after tax	2,169	5,419	5,263	5,638	6,388
Minority interest	50	(8)	(18)	(2)	-
Net profit for financial year	<u>2,219</u>	<u>5,411</u>	<u>5,245</u>	<u>5,636</u>	<u>6,388</u>

15. ACCOUNTANTS' REPORT (Cont'd)


CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS
9. CHB GROUP (Continued)

9.5 Notes to the financial statements (continued)

(t) Segment reporting (continued)

(i) Primary reporting format - business segment (continued)

	← As at 31 December →				
	1998	1999	2000	2001	2002
	RM'000	RM'000	RM'000	RM'000	RM'000
Other information					
Segment assets:					
Direct selling	14,746	12,939	14,969	14,253	13,787
Manufacturing sales (OEM)	16,267	23,690	25,934	28,522	38,053
Manufacturing sales (own brand)	9,760	10,133	10,443	10,020	14,175
Others	119	27	49	297	286
	<u>40,892</u>	<u>46,789</u>	<u>51,395</u>	<u>53,092</u>	<u>66,301</u>
Investment in an associated company	325	-	-	-	-
Unallocated assets	392	1,004	1,723	1,309	1,311
Total assets	<u>41,609</u>	<u>47,793</u>	<u>53,118</u>	<u>54,401</u>	<u>67,612</u>
Segment liabilities:					
Direct selling	7,975	8,003	8,194	7,854	6,518
Manufacturing sales (OEM)	8,053	9,758	9,867	7,298	10,410
Manufacturing sales (own brand)	4,168	3,070	2,422	1,620	1,823
Others	157	139	145	26	31
	<u>20,353</u>	<u>20,970</u>	<u>20,628</u>	<u>16,798</u>	<u>18,782</u>
Unallocated liabilities	859	1,087	1,491	689	1,153
Total liabilities	<u>21,212</u>	<u>22,057</u>	<u>22,119</u>	<u>17,487</u>	<u>19,935</u>
Capital expenditure:					
Direct selling	497	79	362	205	64
Manufacturing sales (OEM)	943	1,967	1,007	3,846	4,626
Manufacturing sales (own brand)	118	95	45	12	279
	<u>1,558</u>	<u>2,141</u>	<u>1,414</u>	<u>4,063</u>	<u>4,969</u>
Depreciation:					
Direct selling	473	452	295	267	243
Manufacturing sales (OEM)	364	523	578	653	676
Manufacturing sales (own brand)	226	227	217	194	226
Others	10	7	3	1	-
	<u>1,073</u>	<u>1,209</u>	<u>1,093</u>	<u>1,115</u>	<u>1,145</u>

15. ACCOUNTANTS' REPORT (Cont'd)


CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS

9. CHB GROUP (Continued)

9.5 Notes to the financial statements (continued)

(t) Segment reporting (continued)

(ii) Secondary reporting format - geographical segments

Although all the business segments are located in Malaysia, the OEM segment exports majority of the undergarments manufactured to Europe, Canada and United States of America.

	← Financial year ended 31 December →				
	1998	1999	2000	2001	2002
<u>Sales</u>	RM'000	RM'000	RM'000	RM'000	RM'000
Canada	7,147	11,495	15,201	15,414	21,265
China	-	133	354	565	4,695
Denmark	3,547	2,520	2,784	4,742	5,446
Germany	5,144	3,171	5,790	6,008	2,653
France	7,755	7,027	6,016	6,557	4,164
Holland	2,876	2,003	1,549	1,373	324
United Kingdom	3,662	1,626	3,247	4,682	3,697
United States of America	302	9,626	5,880	9,704	1,947
Malaysia	10,691	10,701	12,238	12,680	10,904
Other countries	3,907	3,662	3,177	1,943	1,406
	<u>45,031</u>	<u>51,964</u>	<u>56,236</u>	<u>63,668</u>	<u>56,501</u>
<u>Capital expenditure</u>					
Malaysia	<u>1,558</u>	<u>2,141</u>	<u>1,414</u>	<u>4,063</u>	<u>4,969</u>

	← As at 31 December →				
	1998	1999	2000	2001	2002
<u>Total assets</u>	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	<u>41,609</u>	<u>47,793</u>	<u>53,118</u>	<u>54,401</u>	<u>67,612</u>

10. DIVIDENDS

The Company and its subsidiaries have not paid or declared any dividend during the financial years under review except as described below:-

<u>Financial year ended 31 December</u>	<u>Issued and paid -up share capital</u> RM'000	<u>Gross dividend rate</u> %	<u>Net dividends paid</u> RM'000	<u>Tax rate</u> %
CSB				
1998 - interim	750	375	2,025	28
1999 - interim	750	50	270	28
2001 - interim	750	26	140	28
2002 - interim	750	28	151	28

15. ACCOUNTANTS' REPORT (Cont'd)



**CAELY HOLDINGS BHD.
ACCOUNTANTS' REPORTS**

11. STATEMENT OF ASSETS AND LIABILITIES

The Statement of Assets and Liabilities based on the audited financial statements of the Group as at 31 December 2002 have been included in the Consolidated Balance Sheets as stated in Paragraph 9.2 above.

12. FINANCIAL STATEMENTS

No audited financial statements of CHB, CMSB, CCSB, MISB, and RGSB have been prepared in respect of any period subsequent to 31 December 2002.

**13. SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE SHEET DATE
31 DECEMBER 2002**

As stated in Paragraph 3(b) above, in connection with the listing and quotation of the entire issued and paid-up share capital of CHB on the Second Board of the Kuala Lumpur Stock Exchange, CMSB transferred its entire shareholdings in CCSB, MISB and RGSB to CHB and consequently on 25 April 2003, these companies became the wholly owned subsidiaries of CHB. The transfers of these companies to CHB have no effect on the Group's financial statements.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Smith Long', written over the printed name of the firm.

PRICEWATERHOUSECOOPERS
(No. AF-1146)
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Cho Choo Meng', written below the signature of the firm.

CHO CHOO MENG
(No. 2082/09/04 (J))
Partner of the firm