
13. ACCOUNTANTS' REPORT (Cont'd)

9. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONTD)**9.3 SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of Consolidation**

The Proforma Group financial statements include the audited financial statements of SGB and its subsidiary companies made up to 31st December, 2002.

At the date of acquisition, the fair values of the subsidiary companies' net assets are determined and these values are reflected in the Proforma Group financial statements. The difference between the cost of acquisition and the fair value of the Group's share of the subsidiary companies' identifiable net assets at the date of acquisition is reflected as goodwill or reserve arising on consolidation.

All intragroup transactions and balances are eliminated on consolidation.

(b) Associated Companies

The Group treats as associated companies those companies in which a long term equity interest of between 20% to 50% is held and where it exercises significant influence through representation on the Board of Directors or management participation over the financial and operating policies of the investee companies.

Investment in an associated company is stated at cost. Provision is made in the event of a permanent impairment in value. The Group's share of the post-acquisition results and reserves of the associated company are included in the consolidated financial statements based on the latest audited financial statements of the company concerned.

Goodwill represents the excess of the purchase consideration over the fair value of the net assets of the associated company at the date of acquisition.

(c) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

Leasehold land is amortised over the period of the lease of 99 years expiring in the year 2073.

Other property, plant and equipment are depreciated on a straight line basis calculated to write off the cost of the assets over their estimated useful lives. The principal annual rates used for this purpose are as follows:—

	%
Buildings	2 – 5
Electrical installations	10
Plant, machinery and tools	10 – 20
Office equipment, furniture and fittings	10 – 33 1/3
Motor vehicles	15 – 20
Renovations	20 – 33 1/3

Assets under hire purchase financing and leases are depreciated on a policy and basis consistent with that adopted for depreciable assets as stated above.

13. ACCOUNTANTS' REPORT (Cont'd)

9. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONTD)**9.3 SIGNIFICANT ACCOUNTING POLICIES (CONTD)****(d) Inventories**

Inventories are valued at the lower of cost and net realisable value. In arriving at net realisable value, due allowance has been made for all damaged, obsolete and slow-moving items. Cost is determined on the weighted average basis for inventories held by the subsidiary company engaged in oilfield chemicals and related engineering services and on the "first-in, first-out" basis for inventories held by other subsidiary companies.

For work-in-progress and manufactured inventories, cost consists of direct materials, incidental costs in bringing the stocks to their present location, direct labour and an appropriate proportion of fixed and variable production overheads.

(e) Receivables

Trade and other receivables are carried at their anticipated realisable value. Bad debts are written off in the period in which they are identified. Allowance for doubtful debts is made based on estimates of probable losses which may arise from non-collection of certain receivable accounts upon review of all material outstanding amounts at balance sheet date.

(f) Impairment of Assets

The carrying values of assets are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying value of the assets with their recoverable amount. Recoverable amount is the higher of net realisable value and value in use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash generating units.

An impairment loss is charged to the income statement immediately. The subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately. There is no impairment loss recognised in the income statement of the Proforma Group to date.

(g) Hire Purchase Financing

Outstanding obligations, after deducting attributable finance charges, are included as liabilities in the financial statements. Finance charges are recognised as expenses in the income statement over the period of the hire purchase instalments to give a constant periodic interest rate on the remaining liabilities.

(h) Leases

Payments made under operating leases are recognised as expenses in the income statement over the lease term. Payments made under finance leases are apportioned between attributable finance charges and the reduction of the outstanding principal. Finance charges are recognised as expenses in the income statement over the period of the leases to give a constant periodic interest rate on the remaining liabilities.

(i) Foreign Currencies

Transactions in foreign currencies are converted into Ringgit Malaysia at rates ruling at the date of transactions or at contracted rates, where applicable. Foreign currency monetary assets and liabilities outstanding at balance sheet date are translated at the exchange rates prevailing at that date. All gains and losses on exchange are included in the income statement.

13. ACCOUNTANTS' REPORT (Cont'd)**9. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONTD)****9.3 SIGNIFICANT ACCOUNTING POLICIES (CONTD)****(i) Foreign Currencies (Contd)**

The principal closing rates used in the translation of foreign currency amounts are set out as follows: –

Foreign Currency	At 31st December, 2002
1 US Dollar	RM3.80
1 Sterling Pound	RM6.00
1 Euro	RM3.83
1 Singapore Dollar	RM2.16

(j) Deferred Taxation

The Group adopts the liability method of accounting for deferred taxation. Provision is made for taxation deferred in respect of all material timing differences except where it is thought reasonably probable that such differences are not expected to reverse in the foreseeable future. Where timing differences result in a debit balance, this is recognised only when there is reasonable expectation of realisation.

(k) Revenue

Revenue comprises invoiced value of goods sold (net of discounts and returns) and services rendered, warehousing rental, rental of vehicles and related charges. Sales and service fees are recognised upon delivery of goods and rendering of services. Rental income and related charges are recognised on an accrual basis.

(l) Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid assets that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

9.4 PROPERTY, PLANT AND EQUIPMENT

	Cost RM	Accumulated Depreciation RM	Net Book Value RM
At cost:			
Leasehold land	3,328,280	219,550	3,108,730
Buildings	7,589,349	1,788,292	5,801,057
Electrical installations	473,781	367,007	106,774
Office equipment, furniture and fittings	4,777,829	3,567,407	1,210,422
Motor vehicles	9,217,794	4,307,288	4,910,506
Plant, machinery and tools	8,737,207	4,434,631	4,302,576
Renovations	2,057,406	1,078,385	979,021
	<u>36,181,646</u>	<u>15,762,560</u>	<u>20,419,086</u>

13. ACCOUNTANTS' REPORT (Cont'd)**9. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONTD)****9.4 PROPERTY, PLANT AND EQUIPMENT (CONTD)**

	Cost RM	Accumulated Depreciation RM	Net Book Value RM
Land and buildings of the Proforma Group comprise:—			
(i) Shop office on freehold land	2,889,406	522,150	2,367,256
(ii) Office building and factory on leasehold land	4,646,577	448,537	4,198,040
(iii) Warehouse on land leased under tenancy agreement expiring in the year 2006	452,058	205,275	246,783
(iv) Warehouses on land leased under tenancy agreement expiring in the year 2014	2,897,388	817,256	2,080,132
(v) Extension to a warehouse leased under tenancy agreement expiring in the year 2003	32,200	14,624	17,576
	<u>10,917,629</u>	<u>2,007,842</u>	<u>8,909,787</u>

Included under property, plant and equipment of the Proforma Group are:—

(a) Assets acquired under existing hire purchase financing, leasing arrangements and term loans as follows:—

	Cost RM	Accumulated Depreciation RM	Net Book Value RM
Under hire purchase financing – Motor vehicles	<u>2,744,586</u>	<u>604,231</u>	<u>2,140,355</u>
Under leasing arrangements – Office equipment	242,590	181,943	60,647
Motor vehicles	1,072,234	430,385	641,849
Plant, machinery and tools	245,000	46,958	198,042
	<u>1,559,824</u>	<u>659,286</u>	<u>900,538</u>
Under term loans – Building	2,889,406	522,150	2,367,256
Motor vehicles	948,104	533,309	414,795
	<u>3,837,510</u>	<u>1,055,459</u>	<u>2,782,051</u>
	<u>8,141,920</u>	<u>2,318,976</u>	<u>5,822,944</u>

(b) Cost of fully depreciated assets which are still in use as follows:

	RM
Office equipment	994,651
Motor vehicles	415,120
Plant, machinery and tools	<u>1,241,170</u>
	<u>2,650,941</u>

9.5 ASSOCIATED COMPANY

Unquoted shares, at cost	245,000
Share of post-acquisition profits	<u>1,038,384</u>
	<u>1,283,384</u>
Share of net assets	1,130,654
Goodwill on acquisition	<u>152,730</u>
	<u>1,283,384</u>

13. ACCOUNTANTS' REPORT (Cont'd)

9. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONTD)**9.6 INVENTORIES**

	RM
Raw materials and consumables	9,788,868
Work-in-progress	10,142,327
Manufactured products	<u>21,434,999</u>
	41,366,194
Less: Allowance for obsolete inventories	<u>(256,177)</u>
	<u>41,110,017</u>

Raw materials comprise mainly aluminium rods and other materials for production of precision engineering components, being approximately 48.3% of total raw materials and consumables.

Included in manufactured products are drilling fluids materials, namely mud chemicals, which account for approximately 90.9% of total manufactured products.

9.7. TRADE RECEIVABLES

	RM
Trade debtors	36,033,955
Less: Allowance for doubtful debts	<u>(731,018)</u>
	<u>35,302,937</u>

Credit terms of trade receivables range from 30 to 90 days. As at 31st December, 2002, 54.3% of the trade receivables are owed by five major customers.

9.8 OTHER RECEIVABLES

	RM
Other debtors	1,357,635
Less: Allowance for doubtful debts	<u>(123,971)</u>
	1,233,664
Amount due from director – related companies	681,954
Less: Allowance for doubtful debts	<u>(681,954)</u>
	-
Deposits –	
Rental of premises and warehouses	362,653
Others	<u>394,815</u>
	757,468
Advance payments to suppliers –	
Purchase of raw materials	338,813
Purchase of property, plant and equipment	<u>445,964</u>
	784,777
Prepayments –	
Finance charges	123,472
Insurance	113,936
Others	<u>790,790</u>
	1,028,198
Tax recoverable	651,863
Total	<u>4,455,970</u>

13. ACCOUNTANTS' REPORT (Cont'd)

9. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONTD)**9.8 OTHER RECEIVABLES (CONTD)**

Amount due from director – related companies represents advances which are interest-free and have no fixed terms of repayment. Certain directors of SMAS Rent-A-Car Sdn. Bhd. ("SMAS") are also directors of these companies.

As at 31st January, 2003, advance payments to suppliers totalling RM310,265 have been adjusted accordingly upon receipt of goods.

Included in prepayments are professional fees and expenses amounting to RM536,846 which have been incurred in relation to the restructuring exercise and flotation scheme undertaken by SGB.

9.9 AMOUNT DUE FROM ASSOCIATED COMPANY

This represents intercompany advances to an associated company which are interest-free and have no fixed terms of repayment. The associated company is Sosma Sdn. Bhd., a company incorporated in Malaysia.

9.10 CASH AND CASH EQUIVALENTS

	RM
Short term deposits with licensed banks	9,344,314
Cash and bank balances	6,944,391
Bank overdrafts (Note 9.13)	(2,585,048)
Balance before public issue	13,703,657
Proceeds from public issue	17,014,020
Estimated listing expenses	(2,000,000)
Balance after public issue and listing expenses	28,717,677
Proceeds from the issue of shares assuming the full exercise of the ESOS options	12,420,000
Balance after public issue, listing expenses and the assumed full exercise of the ESOS options	28,717,677
Cash and cash equivalents comprise: –	
Short term deposits with licensed banks	36,778,334
Cash and bank balances	6,944,391
Bank overdrafts	(2,585,048)
	41,137,677
Short term deposits before public issue comprise: –	
Amount pledged as security against credit facilities	8,017,663
Amount pledged as tender deposits	1,246,185
Amount not subject to any restriction	80,466
	9,344,314

The tender deposits are guaranteed by the licensed banks and will be payable should the contracts tendered by KMC be awarded to the company. As at 31st January, 2003, submission of the tenders had been closed and KMC is currently awaiting for the results.

9.11 OTHER PAYABLES

	RM
Hire purchase payables	548,682
Lease payables	326,727
Amount due to related parties (Note 9.18)	5,131,924

13. ACCOUNTANTS' REPORT (Cont'd)

9. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONTD)**9.11 OTHER PAYABLES (CONTD)**

	RM
Other creditors and accruals –	
Trade accruals	3,117,293
Staff costs	1,736,311
Others	870,849
	<u>5,724,453</u>
Deposits received –	
Rental of vehicles	128,659
Others	65,000
	<u>193,659</u>
Advance payments from customers	5,134,457
Total	<u>17,059,902</u>

Amount due to related parties are unsecured, interest-free and have no fixed terms of repayment.

Trade accruals comprise temporary clearing accounts for inventories, production costs and transportation costs which are pending finalisation. As at 31st January, 2003, trade accruals amounting to RM2,293,065 have been finalised and taken to respective accounts accordingly.

In January 2003, advance payments from customers totalling RM1,829,731 have been taken up as income accordingly upon delivery of goods and rendering of services.

9.12 AMOUNT DUE TO HOLDING COMPANY

This represents rental and management fees payable to holding company. The holding company is Kaspadu Sdn. Bhd., a company incorporated in Malaysia.

9.13 BANK BORROWINGS

	RM
Bank overdrafts	2,585,048
Bankers' acceptances	7,093,000
	<u>9,678,048</u>

The bank borrowings are secured against the following:–

- (a) debenture creating a fixed and floating charge over the assets of Scomi Sdn. Bhd. ("Scomi") for RM11.0 million and a corporate guarantee issued by Kota Minerals and Chemicals Sdn. Bhd.
- (b) debenture creating a fixed and floating charge over the assets of Kota Minerals and Chemicals Sdn. Bhd. ("KMC") for RM13.7 million and a corporate guarantee issued by Scomi Sdn. Bhd.; and
- (c) a fixed charge on properties of SMAS (which are excluded from the Proforma Group as stated in Note 8.10(a)) for RM300,000, short term deposits of SMAS placed with a licensed bank amounting to RM470,000 and personal guarantees from directors of SMAS.

The Proforma Group's bank borrowings bear interest at the following rates:–

Bank overdrafts	1.00% to 1.25% per annum above the bank's Base Lending Rate
Bankers' acceptances	3.50% to 4.60% per annum

13. ACCOUNTANTS' REPORT (Cont'd)

9. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONTD)**9.14 TERM LOANS**

	RM
Balances outstanding	<u>2,533,129</u>
Repayable within 1 year	1,252,367
Repayable between 1 to 3 years	340,000
Repayable between 3 to 5 years	340,000
Repayable after 5 years	<u>600,762</u>
	<u>2,533,129</u>
This comprises:—	
Term loan I	1,450,762
Term loan II and III	134,263
Term loan IV	<u>948,104</u>
	<u>2,533,129</u>

Details of the term loans are as follows:—

- (a) Term loan I of RM1,700,000 was raised by KMC to finance the acquisition of an office premise. It is secured by way of a first party Loan Agreement and Deed of Assignment over the premise, and a corporate guarantee issued by Scomi. The principal is repayable by 120 monthly instalments of RM14,167 each commencing September 2001. Interest is charged at 1.25% per annum above the bank's Base Lending Rate and is to be serviced monthly from August 2001 until the end of the tenure of the loan.
- (b) Term loan II and III of RM600,000 and RM130,000 respectively are secured against a first legal charge over freehold land, building and apartment (which are excluded from the Proforma Group as stated in Note 8.10(a)), short term deposits of SMAS, and are guaranteed jointly and severally by directors of SMAS. The loans are repayable by 144 monthly instalments of RM6,605 and RM1,541 each respectively commencing January 1992 and September 1994. The loans bear interest at 3% and 2.25% per annum respectively above the bank's Base Lending Rate.
- (c) Term loan IV of RM2,000,000 was obtained to finance the purchase of motor vehicles. The term loan is secured against the motor vehicles financed (Note 9.4) and is guaranteed jointly and severally by directors of SMAS. Interest is charged at 6.00% per annum and is to be serviced monthly from July 1999 until the end of the tenure of the loan. The total principal drawdown of RM1,960,601 is repayable by 5 instalments as follows:—
- 1 instalment of RM697,297 in July 2002;
 1 instalment of RM315,201 in October 2002; and
 3 instalments of RM316,035 each in January 2003, June 2003 and December 2003.

9.15 HIRE PURCHASE PAYABLES

	RM
Balances outstanding	2,140,611
Interest—in—suspense	<u>(388,587)</u>
	<u>1,752,024</u>
Repayable within 1 year (Note 9.11)	548,682
Repayable between 1 to 3 years	918,892
Repayable between 3 to 5 years	<u>284,450</u>
	<u>1,752,024</u>

13. ACCOUNTANTS' REPORT (Cont'd)

9. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONTD)

9.16 LEASE PAYABLES

	RM
Balances outstanding	745,682
Interest-in-suspense	<u>(17,731)</u>
	<u>727,951</u>
Repayable within 1 year (Note 9.11)	326,727
Repayable between 1 to 3 years	<u>401,224</u>
	<u>727,951</u>

9.17 DEFERRED TAXATION

Balance at beginning of year	92,000
Transfer from taxation account	<u>158,400</u>
Balance at end of year	<u>250,400</u>
This represents the tax effect at 28% of timing differences between depreciation and corresponding capital allowances on property, plant and equipment	<u>731,000</u>
Timing differences which are not accounted for	<u>1,993,401</u>

The timing differences which are not accounted for as at 31st December, 2002 are arising between depreciation and corresponding capital allowances on motor vehicles of SMAS. The directors are of the opinion that these timing differences are not expected to reverse in the foreseeable future in view of the nature of the business where acquisition and disposal of motor vehicles are frequent.

9.18 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

Related party relationships exist between the Proforma Group and the following entities: –

- (a) Kaspadu Sdn. Bhd. being the holding company;
- (b) Onstream Marine Sdn. Bhd. ("OMSB"), a company incorporated in Malaysia, being a substantial shareholder of Scomi. A director of Scomi is also a director of OMSB.
- (c) Amanah Ventures Sdn. Bhd. ("AVSB"), a company incorporated in Malaysia, being a preference shareholder holding 6,000,000 Redeemable Convertible Preference Shares ("RCPS") of RM0.01 each in Scomi. Subsequent to year end, AVSB sold the RCPS to Kaspadu Sdn. Bhd. who then converted them into ordinary shares of RM1.00 each in Scomi.
- (d) Sosma Sdn. Bhd. being an associated company in which the Proforma Group has an effective interest of 49%.
- (e) Director – related companies in which certain directors of SMAS are also directors of these companies.

Balances at year end included in the Proforma Statement of Assets and Liabilities are as follows: –

	RM
Amount due from – Sosma Sdn. Bhd.	<u>731,881</u>
Amount due to holding company – Rental expense payable to Kaspadu Sdn. Bhd. Management fees payable to Kaspadu Sdn. Bhd.	<u>19,319</u> <u>84,000</u>
Other payables – Onstream Marine Sdn. Bhd. Amanah Ventures Sdn. Bhd.	4,177,672 <u>954,252</u>

13. ACCOUNTANTS' REPORT (Cont'd)**9. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONTD)****9.18 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTD)**

Significant transactions between the related parties and the Proforma Group during the year ended 31st December, 2002 are as follows:—

	RM
Transactions with Sosma Sdn. Bhd. — Purchases	<u>10,400</u>
Transactions with SMAS Travel Sdn. Bhd., a director—related company of SMAS — Rental income	<u>24,000</u>
Transactions with Kaspadu Sdn. Bhd. — Rental expense paid/payable	57,957
Deposits paid on rental of office premise	57,957
Management fees paid/payable	<u>423,000</u>
Transactions with Onstream Marine Sdn. Bhd. — Advances from OMSB (net of repayment)	2,011,275
Expenses and purchase of raw materials paid on behalf by OMSB	<u>2,383,701</u>

The directors are of the view that the above transactions have been entered into in the normal course of business under terms and conditions no less favourable to the companies in the Proforma Group than those arranged with independent third parties.

9.19 SHARE CAPITAL

The movement in the issued and fully paid—up share capital will be as follows:—

	No. of shares	Par value RM	Value RM
Upon incorporation	<u>2</u>	1.00	<u>2</u>
Share split	4	0.50	2
Share issue on acquisition of Scomi	87,670,996	0.50	43,835,498
Before public issue	<u>87,671,000</u>		<u>43,835,500</u>
Public issue	12,329,000	0.50	6,164,500
After public issue	<u>100,000,000</u>		<u>50,000,000</u>
Issue of shares assuming the full exercise of the ESOS options	9,000,000	0.50	4,500,000
After public issue and the assumed full exercise of the ESOS options	<u>109,000,000</u>		<u>54,500,000</u>

9.20 SHARE PREMIUM

The movement in the share premium account will be as follows:—

	RM
Upon incorporation	—
Premium arising from the issue of 86,670,996 new ordinary shares of RM0.50 each at approximately RM0.535 per share for acquisition of Scomi	3,070,573
Before public issue	<u>3,070,573</u>
Premium arising from the public issue of 12,329,000 new ordinary shares of RM0.50 each at RM1.38 per share	10,849,520
Estimated share issue expenses written off	(2,000,000)
After public issue	<u>11,920,093</u>
Premium arising from the issue of 9,000,000 new ordinary shares of RM0.50 each assuming the full exercise of the 9,000,000 ESOS options at RM1.38 per share	7,920,000
After public issue and the assumed full exercise of the ESOS options	<u>11,920,093</u>

13. ACCOUNTANTS' REPORT (Cont'd)

9. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (CONTD)**9.21 COMMITMENTS**

RM

Capital expenditure

Authorised and contracted for –
Purchase of property, plant and equipment 1,578,530

Authorised but not contracted for –
Purchase of property, plant and equipment 2,450,079
Purchase of inventories 110,274
4,138,883

Operating lease rentals

Due and payable within 1 year 1,429,399
Due and payable between 1 to 3 years 1,630,608
Due and payable between 3 to 5 years 994,992
Due and payable after 5 years 2,126,885
6,181,884

This comprises:–

Lease rentals on premises and warehouses 4,187,400
Lease rentals on other operating equipments 1,994,484
6,181,884

Letters of credit

Expiring within 30 days 2,213,352
Expiring between 31 days to 60 days 47,803
Expiring between 61 days to 120 days 152,306
2,413,461

9.22 CONTINGENT LIABILITIES

Other claims under dispute 277,850

9.23 SIGNIFICANT EVENTS

Scomi and Hajjah Noor Asiah Bte Dato' Mahmood and Hanizah Bte Mohamed Hussein (the "SMAS Vendors") have entered into a Conditional Share Sale Agreement dated 23rd April, 2002 for the acquisition of 1,000,000 ordinary shares of RM1.00 each in SMAS representing the entire issued and paid-up share capital of SMAS, for a total purchase consideration of RM2,150,000 to be satisfied by Scomi by way of RM1,475,000 in cash and the balance of RM675,000 by way of issuance of 63,403 new ordinary shares of RM1.00 each in Scomi at approximately RM10.65 per share. The acquisition was completed on 9th August, 2002.

The shareholders of Scomi and SGB have entered into a Conditional Share Sale Agreement dated 23rd April, 2002 for the acquisition of 9,281,762 ordinary shares of RM1.00 each in Scomi by SGB representing the entire issued and paid-up share capital of Scomi for a total purchase consideration of RM46,906,071 to be wholly satisfied by SGB by way of issuance of 87,670,996 new ordinary shares of RM0.50 each in SGB at an issue price of approximately RM0.535 per share. The acquisition was approved by the Securities Commission on 7th October, 2002, 6th March, 2003 and 31st March, 2003, and was completed on 31st March, 2003.

13. ACCOUNTANTS' REPORT (Cont'd)

10. PROFORMA CASH FLOW STATEMENT

The proforma cash flow statement of SGB Group set out below is based on the audited financial statements of the respective companies in the Proforma Group for the financial period ended 31st December, 2002, and is presented for illustrative purposes only on the basis that the transactions before the Public Issue under the restructuring exercise had been effected on 31st December, 2002.

	Note	RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period		(73,698)
Increase in deposits and prepayments		(594,847)
Increase in other payables		668,545
Net cash used in operating activities		<u>—</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflow on acquisition of subsidiary companies	10.1	13,703,655
CASHFLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares		2
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD		<u>13,703,657</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		<u>—</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	9.10	<u>13,703,657</u>
10.1 SUMMARY OF EFFECTS OF THE ACQUISITION OF SUBSIDIARY COMPANIES		
Property, plant and equipment		20,419,086
Associated company		1,283,384
Inventories		41,110,017
Trade receivables		35,302,937
Other receivables		4,507,922
Amount due from an associated company		731,881
Short term deposits with licensed banks		9,344,314
Cash and bank balances		6,944,389
Trade payables		(27,019,875)
Other payables		(16,182,066)
Amount due to holding company		(84,000)
Provision for taxation		(1,483,743)
Bank borrowings		(9,678,048)
Hire purchase and lease creditors		(2,479,975)
Term loans		(2,533,129)
Deferred taxation		(250,400)
Net assets acquired		<u>59,932,694</u>
Reserve on consolidation		<u>13,026,623</u>
Total purchase consideration		<u>46,906,071</u>
Less: Portion discharged by issuance of shares		<u>46,906,071</u>
Portion discharged by cash		<u>—</u>
Less: Cash and cash equivalents acquired		<u>13,703,655</u>
Cash inflow on acquisition net of cash and cash equivalents acquired		<u>13,703,655</u>

13. ACCOUNTANTS' REPORT (Cont'd)**11. PUBLIC ISSUE PROCEEDS**

The cash proceeds of RM17,014,020 to be received from the Public Issue will be utilised as follows:—

	RM
Working capital	15,014,020
Estimated listing expenses	<u>2,000,000</u>
	<u>17,014,020</u>

12. NET TANGIBLE ASSETS COVER

Based on the Proforma Statement of Assets and Liabilities of SGB Group as at 31st December, 2002, the net tangible assets and enlarged share capital are as follows:—

(i) Net Tangible Assets	RM
Net tangible assets of SGB Group after Public Issue	74,873,018
Issue of shares assuming the full exercise of the ESOS options	<u>12,420,000</u>
	<u>87,293,018</u>
(ii) Share Capital	No. of shares
Enlarged issued and fully paid— up share capital on completion of Flotation Scheme	100,000,000
Issue of shares assuming the full exercise of the ESOS options	<u>9,000,000</u>
	<u>109,000,000</u>
(iii) Net Tangible Assets Cover	RM
Net tangible assets per ordinary share of RM0.50 each on completion of Flotation Scheme	0.75
Net tangible assets per ordinary share of RM0.50 each on completion of Flotation Scheme and the assumed full exercise of the ESOS options	0.80

13. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

On 26th March, 2003, Kaspadu Sdn. Bhd. acquired the RCPS held by AVSB (Note 9.18). The RCPS were fully converted into 1,047,120 ordinary shares of RM1.00 each in Scomi by Kaspadu Sdn. Bhd. on 29th March, 2003.

Upon completion of the acquisition of Scomi by SGB on 31st March, 2003, Scomi transferred its entire equity interest in KMC and SCOTS to SGB.

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

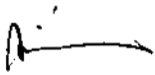
14. AUDITED FINANCIAL STATEMENTS

No audited financial statements of SGB and its subsidiary companies have been prepared in respect of any period subsequent to 31st December, 2002.

Yours faithfully,



AZMAN, WONG, SALLEH & CO.
AF:0012
Chartered Accountants



NG ENG KIAT
1064/03/05(J/PH)
Partner of the Firm

Kuala Lumpur,
Date:

11 APR 2003