

7. FINANCIAL INFORMATION

7.1 Consolidated Profit and Dividend Record

A summary of the proforma consolidated audited results of the APPI Group for the five(5) financial years ended 31 December 1998 to 2002 has been prepared for illustrative purposes only based on the audited accounts of the APPI Group and the assumption that the current structure of the Group has been in existence throughout the period under review:-

	Financial Year Ended				
	31.12.1998 RM'000	31.12.1999 RM'000	31.12.2000 RM'000	31.12.2001 RM'000	31.12.2002 RM'000
Revenue	26,002	29,952	42,519	43,783	50,137
EBIDTA	4,817	8,059	8,734	8,062	10,869
Interest expense	438	371	330	290	302
Depreciation & amortisation	919	996	1,318	1,518	1,658
Profit before exceptional items	3,460	6,692	7,086	6,254	8,909
Exceptional items	-	-	-	-	-
Share of profits and losses of associated corporations and joint ventures	-	-	-	-	-
PBT	3,460	6,692	7,086	6,254	8,909
Taxation *	537	86	1,991	1,415	2,109
Profit after taxation from ordinary activities	2,923	6,606	5,095	4,839	6,800
Extraordinary items	-	-	-	-	-
Minority interest	-	-	-	-	-
Net profit	2,923	6,606	5,095	4,839	6,800
No. of Shares assumed to be in issue of RM0.50 each ('000)	80,000	80,000	80,000	80,000	80,000
Gross EPS (sen)	4.32	8.36	8.86	7.82	11.14
Net EPS (sen)	3.65	8.26	6.37	6.05	8.50
Basic and diluted EPS (sen)	3.65	8.26	6.37	6.05	8.50
Dividend rate (%)	-	-	-	-	6.25

* Adjusted for over/under provision of taxation to the respective years.

Notes:-

- (i) Turnover is net of sales rebates;
- (ii) There were no extraordinary items and exceptional items in the financial years under review;
- (iii) For financial year ended 31 December 2002; the Group has proposed a final net dividend of RM5,005,007.70, which was paid on 17 March 2003;
- (iv) The gross earnings per share has been calculated based on the profit before taxation divided by the enlarged paid up share capital of the respective years;
- (vi) The net earnings per share has been calculated based on the profit after taxation divided by the enlarged paid up share capital of the respective years.

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7. FINANCIAL INFORMATION (Cont'd)

7.2 Analysis and Commentary on Financial Performance

- Revenue and PAT for financial year ended 31 December 1998 has increased by approximately 32% and 80% respectively as compared to previous year as a result of strong marketing effort by the management. Increase is also contributed by higher price benefited from weakened RM in the said financial year.

Effective tax rate is lower than the statutory tax rate due to double tax deductions for promotion of exports and research and development expenditure.

- Additional sales orders from non-European markets such as North America, Africa, Middle East, Australasia and Asia has further contributed to the continued growth of revenue approximately 15% in financial year ended 31 December 1999.

There is no taxation expense for financial year ended 31 December 1999 due to tax waiver year declared for income earned in the said year. Taxation expense for the year represents deferred taxation.

- Revenue has increased significantly in financial year ended 31 December 2000 of approximately 42% due to increase in sales orders from European and non-European markets. The growth in pretax profit after taking into account the impact of foreign exchange gain in prior year was 38.5%. This is in line with the increase in revenue.

However, PAT has decreased by 23% as compared to previous year as a result of tax waiver year in 1999.

- Turnover has remained rather constant for financial year ended 31 December 2001. However, the PAT has slightly decreased by approximately 5% due to decrease in the gross profit margin from 37% to 34%. The effective tax rate is lower than the statutory tax rate mainly due to double tax deductions for promotion of exports.
- Revenue has increased by approximately 14.5% in year 2002 as compared to previous year due to increase in sales to Japan and USA. PBT increased by approximately 42% mainly due to effort in securing more orders from retailers which contributed a higher profit margin than sales to wholesalers and importers. In addition, the Group has introduced new measures to increase its production efficiency and adopting more effective fuel saving control measures.

Effective tax rate is lower than the statutory tax rate due to double tax deductions for promotion of exports and reinvestment allowance.

7.3 Analysis of Revenue by Products

	Financial Years Ended 31 December									
	1998 RM'000	%	1999 RM'000	%	2000 RM'000	%	2001 RM'000	%	2002 RM'000	%
Lawn and Garden	23,656	91.0	27,890	93.1	40,122	94.4	40,681	93.4	47,443	94.6
Household ceramic decorative items	2,346	9.0	2,062	6.9	2,397	5.6	3,102	6.6	2,694	5.4
	<u>26,002</u>	<u>100.0</u>	<u>29,952</u>	<u>100.0</u>	<u>42,519</u>	<u>100.0</u>	<u>43,783</u>	<u>100.0</u>	<u>50,137</u>	<u>100.0</u>

7.4 Basis of Accounting Policies

The proforma consolidated results of the Group have been prepared under the acquisition method of accounting. The financial information has been prepared in

7. FINANCIAL INFORMATION (Cont'd)

accordance with approved accounting standards in Malaysia.

There has been no significant change in the accounting policies and practices applied by the Group for the past five (5) years.

7.5 Directors' Declaration on Financial Performance

As at 31 May 2003, being the latest practicable date prior to the printing of this Prospectus, the financial conditions and operations of the Company and its subsidiaries are not affected by any of the following :

- i) Known trends, demands, commitments, events or uncertainties that have had or that the Group reasonably expects to have a material favourable or unfavourable impact on the financial performance, position and operations of the APPI Group;
- ii) Material commitment for capital expenditure;
- iii) Unusual, infrequent events or transactions or any significant economic changes that materially affected the financial performance, position and operations of the APPI Group; and
- iv) Known events, circumstance, trends, uncertainties and commitments that are reasonably likely to make the historical financial statements not indicative of future financial performance and position.

7.6 Working Capital, Borrowings, Contingent Liabilities, Litigations/ Arbitration and Capital Commitments
■ Working Capital

The Directors of APPI are of the opinion that after taking into account the cashflow forecast, banking facilities available and gross proceeds from the Rights Issue and Public Issue, the Group will have adequate working capital for its present and foreseeable requirements.

■ Borrowings

As at 31 May 2003 (being the last practical date prior to the printing of the Prospectus), the Group's total borrowings (all interest bearing) amounted to approximately RM 3,339,229 comprising of overdrafts, term loans and bankers' acceptances as detailed below:-

	Total borrowings
	RM
Repayable within one year	3,339,229.02
Repayable after more than one year	-
Total	<u>3,339,229.02</u>

■ Contingent Liabilities, Litigations/ Arbitration and Capital Commitments

As at 16 June 2003 (being the last practical date prior to the printing of the Prospectus), the Directors are not aware of any contingent liabilities, litigations/ arbitration or capital commitments which, upon becoming enforceable, may have material impact on the profit or net asset value of the Group.

7. FINANCIAL INFORMATION (Cont'd)**7.7 Consolidated Profit Forecast**

The Directors of APPI forecast that, barring any unforeseen circumstances, the proforma consolidated PBT and PAT for the year ending 31 December 2003 will be as follows:-

	Forecast Financial year ending 31 December 2003 RM'000
Revenue	58,637
Consolidated PBT	10,262
Less: taxation	2,959
Less: minority interest	-
Consolidated PAT and minority interest	7,303
Number of shares in issue	80,000
Gross EPS (Sen)*	12.83
Net EPS (Sen)*	9.13
Gross PE ratio (times) based on Public Issue/ Offer For Sale price of RM0.60 per Share (times)	4.68
Net PE ratio (times) based on Public Issue price/ Offer For Sale price of RM0.60 per Share (times)	6.57

* Based on the enlarged issued and paid-up share capital of 80.0 million Shares.

Directors' Commentary on Achievability of Consolidated Profit Forecast

The Board of Directors of APPI (the "Board") confirms that the consolidated profit forecast of APPI for financial year ending 31 December 2003 has been prepared on the bases and accounting principles consistent with those previously adopted in the preparation of the audited financial statements. The Board also confirms that the underlying bases and assumptions stated therein have been reviewed by them after due and careful enquiry and after taking into account the future prospects of the industry, the future plans of APPI Group and its level of gearing, liquidity and working capital requirements. The Board confirms that the profit forecast of the Group are achievable and the assumptions made are reasonable, barring unforeseen circumstances.

Nevertheless, in the light of the current economic environment in Malaysia, certain assumptions, including interest and exchange rates, may defer significantly from actual should the economic situation differ significantly from the date of this Prospectus and this may have a material impact on APPI Group's profit forecast.

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7. FINANCIAL INFORMATION (Cont'd)

7.8 Sensitivity Analysis

- **Deviation of 5% on selling prices**

	As forecasted RM'000	Assuming selling price increase by 5% RM'000	% change	Assuming selling price decrease by 5% RM'000	% change
Year ending 31 December 2003					
Net revenue	58,637	59,222	1.0	58,050	(1.0)
Profit before taxation	10,262	10,745	4.7	9,770	(4.8)

- **Deviation of 5% on cost of production**

	As forecasted RM'000	Assuming cost increase by 5% RM'000	% change	Assuming cost decrease by 5% RM'000	% change
Year ending 31 December 2003					
Cost of production	36,896	38,742	5.0	35,048	(5.1)
Profit before taxation	10,262	8,375	(18.4)	12,121	18.1

The directors have assessed the sensitiveness of the forecast to fluctuation in major variables thereof. The directors' view is that the main vulnerability, in so far as the achievement of the forecast is concerned, are fluctuations in the selling price and cost of raw material.

The directors are of the opinion that the forecasted selling price and raw material costs are realistic. The directors are satisfied with the adequacy and reliability of management accounting and forecast procedures and are confident of the achievability of the forecast.

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7. FINANCIAL INFORMATION (Cont'd)

7.9 Auditors' Letter on the Consolidated Profit Forecast of the APPI Group for the Financial Year Ending 31 December 2003

J. S. SOO & CO.

史如絲會計公司

No. AF: 0193

Chartered Accountants

58 A-1, Jalan Cantonment
10250 Penang.

Tel: 04-2263128 / 268

Fax: 04-2272298

E-mail: jssoco@tm.net.my

20 June 2003

The Board of Directors
APP Industries Berhad
58-A, Jalan Cantonment
10250 Penang.


Dear Sirs,

**APP INDUSTRIES BERHAD
CONSOLIDATED PROFIT FORECAST
FOR THE YEAR ENDING 31 DECEMBER 2003**


We have reviewed the accounting policies and calculations for the consolidated profit forecast of APP Industries Berhad ("APPI") and its subsidiaries ("APPI Group"), for which the Directors are solely responsible, for the year ending 31 December 2003 which has been prepared for inclusion in the Prospectus to be dated **27 JUN 2003** in connection with the public issue of 4,450,000 new ordinary shares of RM0.50 each and the offer for sale of 8,800,000 ordinary shares of RM0.50 each at an issue/offer price of RM0.60 per ordinary share and the listing of and quotation for the entire enlarged issued and paid-up share capital of APPI comprising 80,000,000 ordinary shares of RM0.50 each on the Second Board of the Kuala Lumpur Stock Exchange.

In our opinion, the consolidated profit forecast for the year ending 31 December 2003, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of assumptions made by the Directors of APPI as set out in the prospectus, and is prepared on a basis consistent with the accounting policies normally adopted by the companies within the Group.

Yours faithfully,



J. S. SOO & CO.
Firm Number : AF-0193
Chartered Accountants



SOO JOO SEE
Approval Number : 1054/4/05(J)

7. FINANCIAL INFORMATION (Cont'd)

**APP INDUSTRIES BERHAD
 CONSOLIDATED PROFIT FORECAST AND ASSUMPTIONS**

The Directors of APP Industries Berhad forecast that, in the absence of unforeseen circumstances, the consolidated profit before and after taxation of APPI Group for the year ending 31 December 2003 will be as follows:

Financial Year Ending 31 December 2003

	RM'000
Revenue	58,637
Consolidated profit before taxation	<u>10,262</u>
Taxation	<u>(2,959)</u>
Consolidated profit after taxation	<u>7,303</u>
Number of APPI Shares in issue ('000)	80,000
Weighted average number of APPI Shares in issue ('000)*	45,612
Gross EPS (Sen) based on:	
- number of APPI Shares in issue	12.83
- weighted average number of APPI Shares in issue	22.50
Gross PE Multiple based on the issue price of RM0.60 per share (times)	
- number of APPI Shares in issue	4.68
- weighted average number of APPI Shares in issue	2.67
Net EPS (Sen) based on:	
- number of APPI Shares in issue	9.13
- weighted average number of APPI Shares in issue	16.01
Net PE Multiple based on the issue price of RM0.60 per share (times)	
- number of APPI Shares in issue	6.57
- weighted average number of APPI Shares in issue	3.75

Note:

- * The computation of the weighted average number of APPI Shares in issue is based on the assumption that the Public Issue will be completed by July 2003.

7. FINANCIAL INFORMATION (Cont'd)

The principal assumptions upon which the consolidated profit forecast has been made are set out below:

1. The proceeds from the Public Issue of APPI shares will be received in July 2003.
2. The profit forecast is prepared on the basis of acquisition method of accounting.
3. There will be no significant changes in the prevailing economic and political environment in Malaysia and elsewhere which will adversely affect the activities of APPI Group or the market in which it operates.
4. There will be no significant changes in the present legislations or government regulations, rates and bases of duties, levies, and corporate tax rate affecting the activities of APPI Group or the market in which it operates.
5. There will be no significant changes to the group structure other than those planned and incorporated in the forecast.
6. There will be no significant changes in the principal activities of APPI Group.
7. There will be no significant changes in the management, operating and accounting policies from those presently adopted by the companies within the APPI Group.
8. There will be no major industrial dispute or any abnormal circumstances which will adversely affect the operations of APPI group.
9. Foreign currency exchange rates will not fluctuate significantly from the prevailing exchange rate of RM3.80: USD1.00.
10. There will be no significant fluctuations in inflation and interest rates.
11. There will be no material changes in sales mix and margin of the products of APPI Group.
12. There will be no material increase in the prices of raw material, wages, costs of production and other operating expenses, and there will be no disruption in the supply of materials by major suppliers that will adversely affect the activities of APPI Group.
13. Existing financial facilities will remain available with no significant changes on their prevailing interest rates.
14. There will be no material acquisitions or disposal of property, plant and equipment or investments other than those included in the profit forecast.

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7. FINANCIAL INFORMATION (Cont'd)

7.10 Dividend Forecast and Policy

On the basis of the consolidated profit forecast and on the assumption that the present basis for calculating taxation and the rates of taxation will remain unchanged, the Directors of APPI Group anticipate that they will be in a position to propose, based on the enlarged issued share capital of 80,000,000 Shares, a gross dividend of 3 sen per Share or 6% for the financial year ending 31 December 2003.

It will be the policy of the Directors in recommending dividends to allow shareholders to participate in the profits of the Group as well as leaving adequate reserves for the future growth of the APPI Group.

The intended appropriation of consolidated profit for the financial year ending 31 December 2003 will be as follows:-

	Financial Year Ending 31 December 2003 RM'000
Consolidated PBT	10,262
Less : Taxation	2,959
Consolidated PAT	7,303
Less : Gross dividend of RM2,400,000 less 28% taxation	1,728
Consolidated retained profit for the year	<u>5,575</u>
Gross dividend per Share (sen)	3.00
Net dividend per Share (sen) less 28% taxation	2.16
Gross dividend per Share (%)	6
Net dividend per Share (%)	4.32
Gross dividend yield based on the issue price of RM0.60 per Share (%)	5.0
Net dividend yield based on the issue price of RM0.60 per Share (%)	3.6
Gross dividend cover (times)	3.04
Net dividend cover (times)	4.23

Net dividend amounting to RM1,728,000 which is forecasted to be declared and paid in the financial year ending 31 December 2003 will be waived if:-

- (a) the Group could not meet its financial forecasts; and
- (b) the payment of the dividend would adversely affect the Group's cashflows and operations.

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7. FINANCIAL INFORMATION (Cont'd)

7.11 Proforma Consolidated Balance Sheets of APPI Group

APP INDUSTRIES BERHAD

PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2002

(Prepared for the inclusion in the Prospectus)

The proforma consolidated balance sheets of APPI as at 31 December 2002 set out below are provided for illustrative purposes only, to show the effects on the balance sheets of APPI as at 31 December 2002 had the Acquisitions, Rights Issue, Public Issue and proposed utilisation of proceeds been effected on that date:

	I	II	III	IV
	After	After I and	After II and	After III and
As At 31	Acquisitions	Rights Issue	Public Issue	Utilisation of
December				Proceeds from
2002				Rights and
				Public Issues
RM'000	RM'000	RM'000	RM'000	RM'000
PROPERTY, PLANT AND EQUIPMENT	44,241	44,241	44,241	46,344
CURRENT ASSETS				
Inventories	8,339	8,339	8,339	8,339
Receivables	12,754	12,754	12,754	12,754
Cash and bank balances	3,123	4,998	7,668	3,488
	380	26,091	28,761	24,581
CURRENT LIABILITIES				
Payables	(7,536)	(7,536)	(7,536)	(7,536)
Provision for taxation	(343)	(343)	(343)	(343)
Proposed dividend	(5,005)	(5,005)	(5,005)	(5,005)
Bank borrowings	(3,757)	(3,757)	(3,757)	(3,599)
	(16,641)	(16,641)	(16,641)	(16,483)
NET CURRENT (LIABILITIES) /ASSETS	7,575	9,450	12,120	8,098
TERM LOANS	(119)	(119)	(119)	-
HIRE PURCHASE PAYABLES	(271)	(271)	(271)	(271)
DEFERRED TAXATION	(1,111)	(1,111)	(1,111)	(1,111)
	50,315	52,190	54,860	53,060
Financed by:				
SHARE CAPITAL	35,900	37,775	40,000	40,000
SHARE PREMIUM	12,565	12,565	13,010	11,210
ACCUMULATED LOSSES	(9)	(9)	(9)	(9)
SHAREHOLDERS' FUNDS	48,456	50,331	53,001	51,201
RESERVE ON CONSOLIDATION	1,859	1,859	1,859	1,859
	50,315	52,190	54,860	53,060
Net liabilities / NTA per ordinary share (RM)	0.70	0.69	0.69	0.66

Represents RM 2.00

7. FINANCIAL INFORMATION (Cont'd)

NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS**1. Basis of preparation**

- (a) The proforma consolidated balance sheets of APPI as at 31 December 2002 have been prepared based on the audited financial statements of APPI, APP, AE, APC, APM and OW as at 31 December 2002.
- (b) The accounting policies and bases are consistent with those normally adopted by APPI and its subsidiaries, APP, AE, APC, APM and OW, in the preparation of their respective audited financial statements for the year ended 31 December 2002.
- (c) The proforma consolidated balance sheets are arrived at using the acquisition method of accounting, where the difference between the purchase price over the fair value of the net assets of the subsidiary companies at the date of acquisition is included in the consolidated balance sheets as goodwill or reserve on consolidation, where appropriate.
- (d) A final net dividend amounting to RM5,005,007.70 had been subsequently declared for the financial year ended 31 December 2002 and paid to the existing shareholders of APP on 17 March 2003. For the purpose of the Proforma Consolidated Balance Sheets, the dividend declared has been adjusted and reflected in the Balance Sheets.

2. Proforma Consolidated Balance Sheets

The proforma consolidated balance sheets are provided for illustrative purposes only to incorporate the effects of the following transactions on the basis and assumptions made by the Directors of APPI as though they were effected as at 31 December 2002:

- (a) Proforma I incorporates the following:
 - (i) revaluation surplus on landed properties of APPI Group amounting to RM21,340,132;
 - (ii) the Acquisition of the entire issued and paid up share capital of APP and OW, 28% of AE, 80% of APC, and 42.5% of APM for a total consideration of RM48,464,356 satisfied by the issuance of 71,799,046 new ordinary shares of RM0.50 each at an issue price of approximately RM0.675 per ordinary share;
 - (iii) the Acquisition of the remaining issued and paid up share capital of AE, APC and APM from APP at cost; and
 - (iii) all inter-company balances have been eliminated in arriving at the proforma consolidated balance sheets.
- (b) Proforma II incorporates Proforma I and the Rights Issue of 3,750,950 new ordinary shares of RM0.50 each, at RM0.50 each on a basis of approximately one new share for every 20 existing ordinary shares held after the acquisitions.
- (c) Proforma III incorporates Proforma II and the Public Issue of 4,450,000 new ordinary shares of the enlarged share capital of 80,000,000 ordinary shares of RM 0.50 each at RM0.60 per ordinary share to the Malaysian public and eligible directors, employees and business associates of APPI Group.

7. FINANCIAL INFORMATION (Cont'd)

(d) Proforma IV incorporates Proforma III and the proposed utilisation of the proceeds for the following:

	RM'000
Estimated listing expenses	1,800
Purchase of property, plant and equipment	2,103
Repayment of term loans	642
	4,545
	4,545

The estimated listing expenses of RM1,800,000 have been charged against the share premium account.

RM365,000 of the term loans of RM642,000 has been repaid in accordance to the scheduled repayment during the financial year ended 31 December, 2002 out of the Group's internally generated funds. Thus, RM365,000 of the proceeds to be allocated for the repayment of term loans will be used to replenish the internally generated funds of the Group.

3. Share Capital and Share Premium

The movements in the issued share capital and share premium are as follows:

	Share Capital RM'000	Share Premium RM'000
As at 31 December 2002	#	-
Shares issued pursuant to the Acquisitions	35,900	12,565
	35,900	12,565
Per Proforma I	35,900	12,565
Rights Issue	1,875	-
	37,775	12,565
Per Proforma II	37,775	12,565
Public Issue	2,225	445
	40,000	13,010
Per Proforma III	40,000	13,010
Estimated listing expenses	-	(1,800)
	40,000	11,210
Per Proforma IV	40,000	11,210

Represents RM2.00

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7. FINANCIAL INFORMATION (Cont'd)

7.12 Auditors' Letter on the Proforma Consolidated Balance Sheets

J. S. SOO & CO.

史如絲會計公司

No. AF : 0193

Chartered Accountants

58 A-1, Jalan Cantonment
10250 Penang.

Tel : 04-2263128 / 268

Fax: 04-2272298

E-mail: jssoco@tm.net.my

20 June 2003

The Board of Directors
APP Industries Berhad
58-A, Jalan Cantonment
10250 Penang.

Dear Sirs,

**APP INDUSTRIES BERHAD
PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2002**

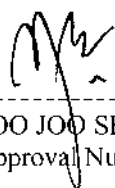
We have reviewed the presentation of the proforma consolidated balance sheets of APP Industries Berhad ("APPI") and its subsidiaries ("APPI Group") as at 31 December 2002 together with the notes thereon, for which the Directors of APPI are solely responsible, and which have been prepared for inclusion in the Prospectus to be dated **27 JUN 2003** in connection with the public issue of 4,450,000 new ordinary shares of RM0.50 each and the offer for sale of 8,800,000 ordinary shares of RM0.50 each at an issue/offer price of RM0.60 per ordinary share and the listing of and quotation for the entire enlarged issued and paid-up share capital of APPI comprising 80,000,000 ordinary shares of RM0.50 each on the Second Board of the Kuala Lumpur Stock Exchange.

Based on the results of the review, we confirm that the proforma consolidated balance sheets of APPI Group as at 31 December 2002, which are provided for illustrative purposes only, have been properly compiled to reflect the transactions as referred to in the notes to the proforma consolidated balance sheets.

Yours faithfully,



J. S. SOO & CO.
Firm Number: AF-0193
Chartered Accountants



SOO JOO SEE
Approval Number: 1054/4/05(J)