

16. ACCOUNTANTS' REPORT

(Prepared for the inclusion in this Prospectus)

SHA, TAN & CO

(Formerly known as Sha & Co)
(AF: 0185)
Chartered Accountants

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ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)

Date: 25 September 2003

The Board of Directors
TOYO INK GROUP BERHAD
Lot 4.100, Tingkat 4
Wisma Central
Jalan Ampang
50450 Kuala Lumpur

Dear Sirs,

1. INTRODUCTION

This report has been prepared by Sha, Tan & Co, an approved company auditor, for inclusion in the Prospectus of Toyo Ink Group Berhad ("TIGB" or "Company") to be dated 30 September 2003 in connection with:

- i) the Offer for Sale of 7,000,000 ordinary shares of RM1.00 each in TIGB at an offer price of RM1.40 per ordinary share payable in full on application;
- and
- ii) the Public Issue of 5,000,000 new ordinary shares of RM1.00 each in TIGB at an issue price of RM1.40 per ordinary share payable in full on application;
- comprising:-
- a) 4,000,000 ordinary shares of RM1.00 each reserved for Bumiputera investors approved by the Ministry of International Trade and Industry ("MITI");
 - b) 4,000,000 ordinary shares of RM1.00 each by way of private placement;
 - c) 2,000,000 ordinary shares of RM1.00 each to eligible directors, employees and business associates of TIGB and its subsidiary companies (hereinafter jointly referred to as "TIGB Group" or "Group"); and
 - d) 2,000,000 ordinary shares of RM1.00 each to the Malaysian Public;

in conjunction with the listing of TIGB on the Second Board of the Kuala Lumpur Stock Exchange ("KLSE").

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2. FLOTATION SCHEME

In connection with the listing of and quotation for the entire enlarged issued and fully paid-up share capital of TIGB on the Second Board of the KLSE, TIGB undertook the following scheme which was approved by the relevant authorities:-

- a) Securities Commission ("SC"), on 6 June 2003, 22 September 2003 and 25 September 2003;
- b) Foreign Investment Committee, on 29 January 2003 and 26 August 2003; and
- c) MITI, on 3 December 2002, 14 March 2003 and 31 July 2003;

and involved the following:-

i) Acquisition of the entire issued and fully paid-up share capital of Toyo Ink Sdn. Bhd. ("TISB")

Acquisition of the entire issued and fully paid-up share capital of TISB comprising 1,119,615 ordinary shares of RM1.00 each, by TIGB for a total consideration of RM31,611,684 fully satisfied by the issuance of 28,999,998 new ordinary shares of RM1.00 each in TIGB at an issue price of approximately RM1.09 per ordinary share.

The purchase consideration of RM31,611,684 was arrived at on a willing buyer willing seller basis after taking into consideration the adjusted audited Net Tangible Assets ("NTA") of TISB and its subsidiary companies (hereinafter jointly referred to as "TISB Group") as at 31 March 2002 of RM31,611,684.

The adjustments made to the audited NTA of the TISB Group as at 31 March 2002 were in respect of the followings:

- a) final dividend payment for the financial year ended 31 March 2002 amounting to RM2,660,205;
- b) a declaration and payment of interim dividend for the financial year ended 31 March 2003 amounting to RM644,000; and
- c) revaluation surplus on the landed properties of TISB Group amounting to RM5,658,596.

The revaluation of the TISB Group's landed properties was undertaken by Messrs. Konsortium Perunding Hartanah Sdn. Bhd. on 22 August 2002, 27 August 2002, 10 September 2002, 17 September 2002 and 23 September 2002 and resulted in a revaluation surplus of RM5,658,596 based on the net book value ("NBV") as at 31 March 2002.

On 6 June 2003, the SC approved the value of the landed properties of TISB Group to be RM13,010,000.

On 1 August 2003, the Acquisition of TISB was completed and TISB became a wholly-owned subsidiary of TIGB.

(The above transaction is hereinafter referred to as "Acquisition")

ii) Rights Issue

Rights Issue of 6,000,000 new ordinary shares of RM1.00 each in TIGB on the basis of 1 new ordinary share of RM1.00 each for approximately 4.83 ordinary shares of RM1.00 each in TIGB held after the Acquisition, at an issue price of RM1.00 per new ordinary share.

The Rights Issue was completed on 24 September 2003.

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iii) Offer for Sale

Offer for Sale of 7,000,000 ordinary shares of RM1.00 each in TIGB by offerors at an offer price of RM1.40 per ordinary share, comprising:

- a) 4,000,000 ordinary shares of RM1.00 each reserved for Bumiputera investors approved by MITI; and
- b) 3,000,000 ordinary shares of RM1.00 each by way of private placement.

iv) Public Issue

Public Issue of 5,000,000 new ordinary shares of RM1.00 each in TIGB at an issue price of RM1.40 per ordinary share, comprising:

- a) 2,000,000 new ordinary shares of RM1.00 each to eligible directors, employees and business associates of TIGB Group;
- b) 2,000,000 new ordinary shares of RM1.00 each to the Malaysian Public; and
- c) 1,000,000 new ordinary shares of RM1.00 each by way of private placement.

Upon completion of the Public Issue, the issued and fully paid-up share capital of TIGB will increase to RM40,000,000 comprising 40,000,000 ordinary shares of RM1.00 each.

v) Listing and Quotation

The listing of and quotation for the entire enlarged issued and fully paid-up share capital of TIGB comprising 40,000,000 ordinary shares of RM1.00 each on the Second Board of the KLSE.

3. GENERAL INFORMATION

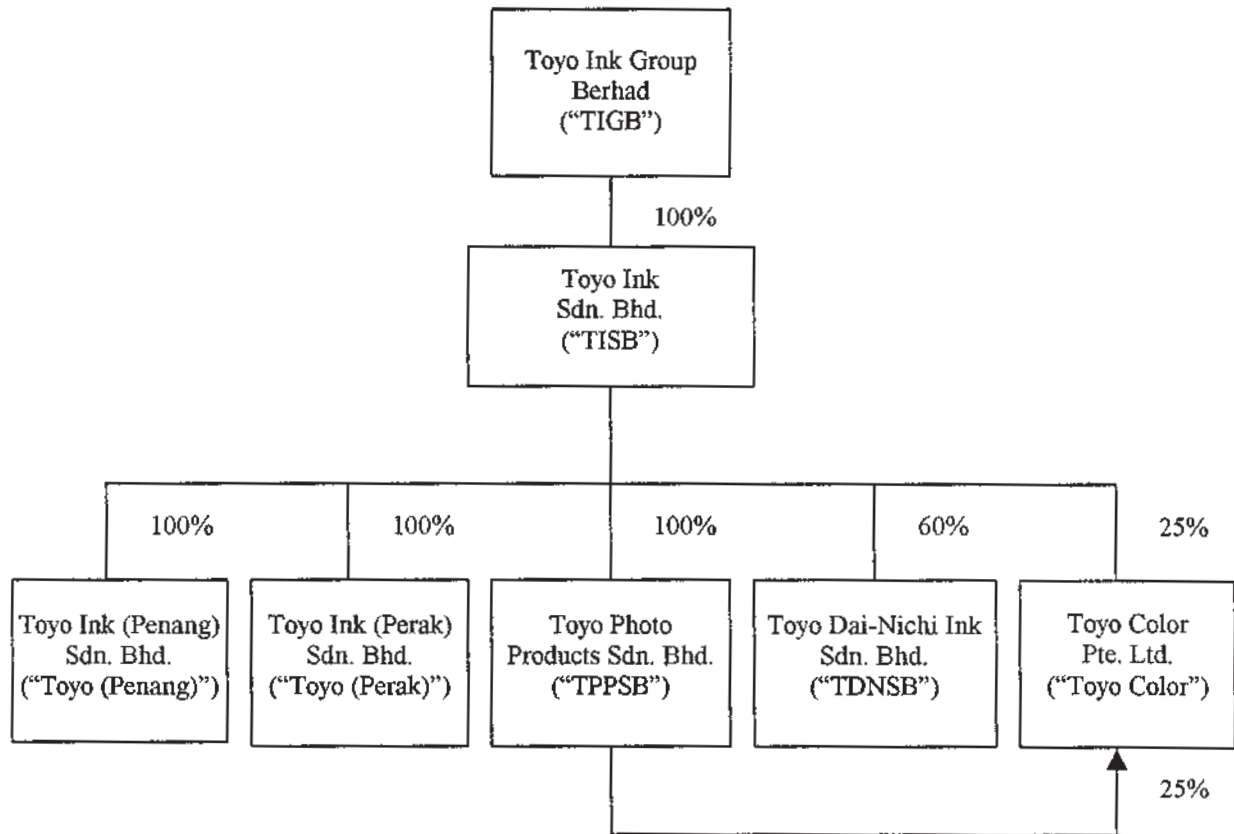
3.1 Background

The Company was incorporated in Malaysia under the Companies Act, 1965 on 24 August 2002 as a public limited company under the name of Toyo Ink Group Berhad. The principal activity of the Company is investment holding. The principal activities of the subsidiary companies and an associated company are disclosed in Section 3.4 below.

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3.2 Group Structure



Note:

TISB holds 25% direct equity interest in Toyo Color and 25% indirect interest through TPPSB.
The effective equity interest held by TIGB in Toyo Color is 50%.

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3.3 Share Capital

3.3.1 The authorised and issued and fully paid-up share capital of TIGB as at the date of this report are as follows:

	No. of Ordinary Shares of RM1.00 each	Total RM
Authorised	50,000,000	50,000,000
Issued and fully paid-up	35,000,000	35,000,000

3.3.2 The details of the changes in the issued and fully paid-up share capital of TIGB since its incorporation are as follows:

Date of allotment	No. of ordinary shares of RM1.00 each allotted	Consideration/Type of issue (at par unless otherwise stated)	Total issued and fully paid-up share capital RM
24.8.2002	2	Subscribers' shares	2
1.8.2003	28,999,998	Issued at approximately RM1.09 per ordinary share for acquisition of 100% equity interest in TISB	29,000,000
24.9.2003	6,000,000	Rights Issue on the basis of 1 for approximately 4.83	35,000,000

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3.4 Subsidiary Companies And Associated Company

The details of subsidiary companies and associate company of TIGB as at the date of this report are as follows:

Name of Companies	Date of Incorporation	--No. of Ordinary Shares--		Effective Equity Interest	Principal Activities
		Authorised Share Capital	Issued and Fully Paid-up Share Capital		
Subsidiary Companies					
TISB	7.2.1979	2,000,000	1,119,615	100%	Investment holding and as ink manufacturers.
TPPSB	2.12.1983	1,000,000	1,000,000	100%	Dealers of graphic art, films, chemicals, machineries and equipment for lithography and allied industries.
TDNSB	10.1.1990	1,000,000	1,000,000	60%	Manufacturers and dealers in printing ink and other printing materials.
Toyo (Perak)	20.3.1992	250,000	200,000	100%	Suppliers, distributors and dealers in printing ink, colour pigment, colourants for plastic and other printing materials.
Toyo (Penang)	11.10.1996	500,000	400,000	100%	Suppliers, distributors and dealers in printing ink, colour pigment, colourants for plastic and other printing materials.
Associated Company					
Toyo Color	15.11.1978	500,000	400,002	50%	Dealers, importers and exporters of printing ink, printing machinery and equipment.

Notes:

- 1) All the subsidiary companies of TIGB were incorporated in Malaysia. The associated company, Toyo Color was incorporated in Singapore.
- 2) All the shares of subsidiary companies of TIGB are at RM1.00 par value except for Toyo Color which is at Singapore Dollar \$1.00 par value.

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4. DIVIDENDS

The Company has not paid or declared any dividends since its incorporation. Details of dividends declared and paid by its subsidiary companies for the past five (5) financial years are as follows:

Name of Companies	Financial year ended	Date of Declaration	Date of Payment	Issued and Fully Paid-up Share Capital RM	Gross Dividend RM	Gross Dividend Rate per Share (%)	Tax Rate (%)	Aggregate Dividend Paid RM
TISB	31.3.2003	31.7.2003	9.8.2003	1,119,615	2,183,249	195	28	1,571,939
		31.7.2003	9.8.2003	1,119,615	1,007,654	90	*0	1,007,654
		13.12.2002	20.12.2002	1,119,615	2,575,115	230	28	1,854,082
		18.10.2002	18.10.2002	1,119,615	884,496	79	28	636,837
	31.3.2002	27.8.2002	30.8.2002	1,119,615	3,694,729	330	28	2,660,205
		8.3.2002	31.5.2002	1,119,615	2,239,230	200	28	1,612,246
		23.1.2002	5.2.2002	1,000,000	1,000,000	100	28	720,000
		23.11.2001	23.11.2001	1,000,000	140,000	14	28	100,800
		23.11.2001	23.11.2001	1,000,000	1,860,000	186	*0	1,860,000
	31.3.2001	28.8.2001	6.9.2001	1,000,000	500,000	50	*0	500,000
	31.3.2000	29.9.2000	9.10.2000	1,000,000	100,000	10	28	72,000
	31.3.1999	30.9.1999	1.10.1999	1,000,000	500,000	50	28	360,000
	TPPSB	31.3.2003	31.7.2003	9.8.2003	1,000,000	680,000	68	28
31.7.2003			9.8.2003	1,000,000	90,000	9	*0	90,000
24.3.2003			27.3.2003	1,000,000	900,000	90	*0	900,000
24.3.2003			27.3.2003	1,000,000	100,000	10	28	72,000
31.3.2002		28.6.2002	15.8.2002	750,000	1,125,000	150	28	810,000
31.3.2001		28.8.2001	6.9.2001	750,000	150,000	20	*0	150,000
31.3.2000		29.9.2000	9.10.2000	750,000	75,000	10	28	54,000
31.3.1999		30.9.1999	1.10.1999	750,000	150,000	20	28	108,000
TDNSB	31.3.2003	27.6.2003	18.7.2003	1,000,000	400,000	40	28	288,000
		24.3.2003	28.3.2003	1,000,000	150,000	15	28	108,000
	31.3.2002	28.6.2002	25.7.2002	1,000,000	500,000	50	28	360,000
	31.3.2001	28.8.2001	6.9.2001	1,000,000	300,000	30	28	216,000
	31.3.2000	22.9.2000	9.10.2000	1,000,000	300,000	30	28	216,000
Toyo (Perak)	31.3.2003	31.7.2003	9.8.2003	200,000	100,000	50	28	72,000
		24.3.2003	26.3.2003	200,000	120,000	60	28	86,400
	31.3.2001	28.8.2001	6.9.2001	200,000	20,000	10	*0	20,000
	31.3.2000	29.9.2000	9.10.2000	200,000	20,000	10	28	14,400

The Group did not have any fixed dividend payment policy for all the financial years under review.

*- tax exempt dividends were declared to utilise the tax exempt account of the respective companies.

- tax exempt account of the companies arose from the tax exempt income derived in financial year ended 31 March 1999 in view of the income tax waiver under the Income Tax (Amendment) Act, 1999.

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5. BASIS OF ACCOUNTING AND ACCOUNTING POLICIES

This report is prepared based on audited financial statements which have been prepared in accordance with applicable approved accounting standards in Malaysia issued by the Malaysian Accounting Standards Board, and is presented on a basis consistent with the accounting policies normally adopted by TIGB Group.

6. FINANCIAL STATEMENTS AND AUDITORS

The financial year end of TIGB and its subsidiaries is 31 March.

Sha, Tan & Co (formerly known as Sha & Co), have been auditors of the following companies:-

- i) TIGB, TDNSB, Toyo (Perak) and Toyo (Penang) since their incorporation.
- ii) TISB with effect from financial year ended 31 March 1985.
- iii) TPPSB with effect from financial year ended 31 March 1990.

Prior to the financial years with effect from the financial years mentioned above, the financial statements of the respective companies were audited by other firms of accountants.

The auditors' reports on the financial statements of TIGB and all its subsidiary companies for all the financial years under review were not subject to any reservation or qualification.

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7. FINANCIAL PERFORMANCE - PROFORMA CONSOLIDATED RESULTS

We set below the summarised proforma consolidated results of the TIGB Group for the past five (5) financial years ended 31 March 2003 for illustrative purposes only after making such adjustments considered necessary on the assumption that the structure of TIGB Group had been in existence throughout the financial years under review.

7.1 TIGB Group – Summarised Proforma Consolidated Results

	< ----- Financial Years Ended 31 March ----- >				
	1999 RM	2000 RM	2001 RM	2002 RM	2003 RM
Revenue	36,216,720	46,646,478	52,957,104	47,111,109	52,524,380
Profit before depreciation, amortisation and interest	4,898,233	6,632,098	6,796,513	9,802,450	8,577,894
Depreciation and amortisation	(1,044,533)	(1,074,826)	(1,110,994)	(1,120,781)	(828,067)
Interest expense	(729,906)	(320,271)	(232,683)	(221,477)	(258,603)
Interest income	-	239	3,346	20,427	38,910
Share of results in associated company ⁽¹⁾	110,153	76,699	60,230	(6,661)	6,929
Profit before taxation	3,233,947	5,313,939	5,516,412	8,473,958	7,537,063
Taxation	(175,083)	(1,815,442)	(1,657,723)	(2,477,567)	(2,112,626)
Profit after taxation but before minority interest	3,058,864	3,498,497	3,858,689	5,996,391	5,424,437
Minority interest	2,181	(264,943)	(304,671)	(271,245)	(196,897)
Profit after taxation and minority interest	3,061,045	3,233,554	3,554,018	5,725,146	5,227,540
Number of ordinary shares of RM1.00 each assumed in issue ⁽²⁾	29,000,000	29,000,000	29,000,000	29,000,000	29,000,000
Gross earnings per share	0.11	0.18	0.19	0.29	0.26
Net earnings per share	0.11	0.11	0.12	0.20	0.18
Profit before taxation margin (%)	9	11	10	18	14
Effective tax rate (%)	5	34	30	29	28
Gross dividend rate (%)	-	-	-	-	-

⁽¹⁾The results of associated company, Toyo Color, have been accounted for using the equity method.

⁽²⁾Based on number of ordinary shares assumed to be in issue after the Acquisition.

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Notes:-

- i) *The summarised proforma consolidated results are prepared for illustrative purposes only and are based on the audited financial statements of TIGB, TISB, TPPSB, TDNSB, Toyo (Perak), and Toyo (Penang).*
- ii) *The proforma consolidated results have been prepared based on accounting policies consistent with those currently adopted in the preparation of the audited financial statements of the Group.*
- iii) *All significant inter-company transactions have been eliminated from the proforma consolidated results.*
- iv) *There were no extraordinary or exceptional items as defined in the Malaysian Accounting Standards Board Standard No 3 on "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies" ("MASB 3") for all the financial years under review.*
- v) *The increase in TIGB Group's consolidated revenue for the financial year ended 31 March 2000 as compared to the financial year ended 31 March 1999 was mainly due to:-*
- a) the effect of pricing policy adopted since the financial year 1998 which resulted in more sales for this financial year;*
 - b) an increase in demand of Gravure inks, Offset inks and machineries; and*
 - c) the commencement of the business of Toyo (Penang) which contributed revenue of RM2,674,312 to TIGB Group.*

The increase in TIGB Group's consolidated revenue for the financial year ended 31 March 2001 as compared to the financial year ended 31 March 2000 was mainly due to increase of revenue in TPPSB which was the result of promotion of new type of machinery into the market by selling at a promotional price, i.e. at a discount.

The decrease in TIGB Group's consolidated revenue for the financial year ended 31 March 2002 as compared to the financial year ended 31 March 2001 was mainly due to the decrease in sales of machineries in TPPSB and sales of Gravure inks in TDNSB.

The increase in TIGB Group's consolidated revenue for the financial year ended 31 March 2003 as compared to the financial year ended 31 March 2002 was mainly due to the increase in sales of the machineries and printing consumables by TPPSB as well as the increase in revenue of Toyo (Perak).

- vi) *The increase in margin of profit before taxation over revenue ("PBT Margin") for the financial year ended 31 March 2000 as compared to the financial year ended 31 March 1999 was mainly due to increase of gross profit margin of Gravure inks and Offset inks in TDNSB resulted from effective cost control measures.*

The decrease in PBT Margin for the financial year ended 31 March 2001 as compared to the financial year ended 31 March 2000 was mainly due to the promotional price introduced by TPPSB which has resulted in a decrease in gross profit margin.

The significant increase in PBT Margin for the financial year ended 31 March 2002 as compared to the financial year ended 31 March 2001 was mainly due to:-

- a) TPPSB has cut down the sales volume of machineries, which has lower gross profit margin and increased the sales volume of printing consumables, which has higher gross profit margin;*
- b) increase in sales of Flexographic inks from TISB which contributed higher gross profit margin;*
- c) export sales from TISB, which contributed higher gross profit margin than those sold locally;*
- d) the results of rationalisation of TISB's product mix and customer base;*
- e) TISB has obtained an exemption of import duties from Ministry of Finance Malaysia ("MOF") for one of its raw materials, which resulted in a lower cost of production that translated into a higher profit margin; and*
- f) the results of TIGB Group's effort to control their manufacturing overheads.*

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The decrease in PBT Margin for the financial year ended 31 March 2003 as compared to the financial year ended 31 March 2002 was mainly due to an increase in prices of certain raw materials, staff costs and certain selling expenses coupled with the bad debts written off and allowance for doubtful debts amounting to RM1,757,540 as a result of global economic uncertainty which affects the liquidity of certain customers. However, the decrease in PBT Margin is mitigated by the reduction in depreciation charge for plant and equipment.

- vii) *There were no significant variation between the effective tax rate and the statutory tax rate for the financial years ended 2001, 2002 and 2003.*

No taxation based on the results for the financial year ended 1999 was provided as in accordance to the tax legislation, chargeable income earned during the financial year was waived from taxation. The effective tax rate of 5% was in respect of provision of deferred taxation in TISB.

The higher TIGB Group's effective tax rate applicable to the financial year ended 2000, was mainly due to the adjustment of provision of deferred taxation and provision of taxation for previous financial year, especially in TISB and TPPSB.

- viii) *The proforma gross Earnings Per Share ("EPS") has been calculated based on the proforma profit before taxation divided by the number of ordinary shares assumed to be in issue following the Acquisition.*

The proforma net EPS has been calculated based on the proforma profit after taxation and minority interest divided by the number of ordinary shares assumed to be in issue following the Acquisition.

- ix) *No dividend has been declared or paid by TIGB and Toyo (Penang) for the financial years under review. The dividends declared and paid by TISB, TPPSB, TDNSB and Toyo (Perak) for the financial years under review can be referred to in Section 4.*

7.2 TIGB Group - Proforma Consolidated Balance Sheet

As the purchase consideration for the Acquisition is calculated on adjusted audited NTA based on the audited financial statements of the subsidiary companies as at 31 March 2002, it is therefore impracticable to present proforma balance sheets of TIGB Group throughout the financial years under review. Accordingly, proforma balance sheet of TIGB Group has only been presented in respect of 31 March 2003 based on the latest audited statement of assets and liabilities of TISB Group as at 31 March 2003 as shown in Section 10 of this Report. In addition, balances due from/(to) companies within the Group for the financial years under review are disclosed in Section 8 of this Report.

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Chartered Accountants**8. FINANCIAL PERFORMANCE****8.1 Toyo Ink Group Berhad ("TIGB")**

The following is the financial information of TIGB (company level) for the financial period from 24 August 2002 (date of incorporation) to 31 March 2003.

8.1.1 Summarised result of TIGB

	⁽¹⁾ Period ended 31 March 2003 RM
Revenue	-
Loss before taxation	(49,712)
Taxation	-
Loss after taxation	(49,712)
Number of ordinary shares of RM1.00 each in issue	2
Gross loss per share	(24,856)
Net loss per share	(24,856)
Gross dividend rate (%)	-

⁽¹⁾ First financial statement as the Company was incorporated on 24 August 2002.

Notes:

- i) *There was no extraordinary or exceptional item as defined in MASB 3 for the financial period under review.*
- ii) *The loss before taxation mainly represents administrative and formation expenses of TIGB for the financial period.*
- iii) *There was no taxation for the financial period in view of loss suffered.*
- iv) *The gross loss per share has been calculated based on the loss before taxation divided by the number of ordinary shares in issue during the financial period.*
The net loss per share has been calculated based on the loss after taxation divided by the number of ordinary shares in issue during the financial period.
- v) *No dividend has been declared or paid by TIGB for the financial period under review.*

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8.1.2 Summarised balance sheet of TIGB

	⁽¹⁾ As at 31 March 2003 RM
Current asset	2
Less: Current liabilities	(49,712)
	<u>(49,710)</u>
Financed by :-	
Share capital	2
Accumulated loss	(49,712)
Shareholder's deficit	<u>(49,710)</u>
Net tangible liabilities	(49,710)
Net tangible liabilities per share	(24,855)

⁽¹⁾First financial statement as the Company was incorporated on 24 August 2002.

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8.2 Toyo Ink Sdn. Bhd. ("TISB")

The following financial information of TISB are based on the audited financial statements of TISB for the past five (5) financial years ended 31 March 2003.

8.2.1 Summarised results of TISB

	<----- Financial Years Ended 31 March ----->				
	1999 RM	2000 RM	2001 RM	2002 RM	2003 RM
Revenue					
Manufacturing	24,804,178	30,032,858	27,169,402	28,411,407	29,239,222
Dividend income	-	124,319	266,668	296,000	2,635,000
Total revenue*	24,804,178	30,157,177	27,436,070	28,707,407	31,874,222
Profit before depreciation, amortisation and interest*	2,680,124	3,248,633	3,166,082	6,485,741	7,798,506
Depreciation and amortisation	(465,545)	(461,311)	(526,133)	(624,863)	(354,718)
Interest expense	(111,339)	(14,588)	(4,781)	(20,016)	(16,589)
Interest income	-	-	2,930	19,999	38,485
Profit before taxation*	2,103,240	2,772,734	2,638,098	5,860,861	7,465,684
Taxation*	(149,849)	(979,990)	(800,036)	(1,657,638)	(1,801,760)
Profit after taxation*	1,953,391	1,792,744	1,838,062	4,203,223	5,663,924
Number of ordinary shares of RM1.00 each in issue	1,000,000	1,000,000	1,000,000	1,119,615	1,119,615
Gross earnings per share	2.10	2.77	2.64	⁽¹⁾ 5.79	6.67
Net earnings per share	1.95	1.79	1.84	⁽¹⁾ 4.15	5.06
Profit before taxation margin (%)	8	9	10	20	17
Effective tax rate (%)	7	35	30	28	24
Gross dividend rate (%)	50	10	50	830	594

⁽¹⁾ It was calculated based on weighted average share capital of 1,012,780 ordinary shares of RM1.00 each.

* The audited figures for the financial years ended 31 March 1999 to 2001 have been adjusted to reflect the effect of the prior year adjustments in respect of change in accounting policy on revenue recognition. The effect of the prior year adjustments were shown in note (iv) below.

Notes:

- i) There were no extraordinary or exceptional items as defined in MASB 3 for all the financial years under review except for those that are stated in note (iv) below.
- ii) The increase in manufacturing revenue for the financial year ended 31 March 2000 as compared to the financial year ended 31 March 1999 was mainly due to the effect of competitive pricing policy

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adopted by TISB since the financial year 1998 which had resulted a further increase in demand for Gravure inks, Flexographic inks and Offset inks.

The decrease in manufacturing revenue for the financial year ended 31 March 2001 as compared to the financial year ended 31 March 2000 was mainly due to a significant decline in the sales of Gravure inks and printing consumables. The decline in the sales of Gravure inks was the result of rationalisation of TISB's product mix and customer base.

The increase in manufacturing revenue for the financial year ended 31 March 2002 as compared to the financial year ended 31 March 2001 was mainly attributed to a better state of economy and significant increase in the sales of Flexographic inks.

The marginal increase in manufacturing revenue for the financial year ended 31 March 2003 as compared to the financial year ended 31 March 2002 was mainly attributed to the increase in orders from both the existing local and foreign customers.

- iii) The increase in PBT Margin for the financial year ended 31 March 2000 as compared to the financial year ended 31 March 1999 was mainly due to the increase in demand for Gravure inks, Flexographic inks and Offset inks as a result of the competitive pricing policy adopted by TISB since the financial year 1998.

The increase in PBT Margin for the financial year ended 31 March 2001 as compared to the financial year ended 31 March 2000 was mainly due to reduction of its administration costs as a result of the cost saving policy adopted by TISB since financial year 1999.

The significant increase in PBT Margin for the financial year ended 31 March 2002 as compared to the financial year ended 31 March 2001 was mainly due to:-

- increase in sales of Flexographic inks which contributed higher gross profit margin;
- export sales which contributed higher gross profit margin than those sold locally;
- the results of rationalisation of TISB's product mix and customer base;
- the results of TISB's effort to control its manufacturing overheads; and
- exemption of import duties from MOF for one of its raw materials which resulted in a lower cost of production that translated into a higher profit margin.

The decrease in PBT Margin for the financial year ended 31 March 2003 as compared to the financial year ended 31 March 2002 was mainly due to the increase in staff costs and allowance for doubtful debts amounting to RM878,555 as a result of global economic uncertainty which affects the liquidity of certain customers. However, the decrease in PBT Margin is mitigated by the reduction in depreciation charge for plant and equipment.

- iv) The audited figures for the financial years ended 31 March 1999 to 2001 have been adjusted to reflect the effect of prior year adjustments made in the audited financial statements for the financial year ended 31 March 2002 in respect of change in accounting policy on revenue recognition. The new accounting policy account for the dividend income when the right to receive payment is established whereas the previous accounting policy accounted for the dividend income based on accrual basis. The effects of the prior year adjustments were as follows: -

	1999	2000	2001	2002	2003
	RM	RM	RM	RM	RM
Revenue					
As reported	24,906,178	30,300,177	27,487,070	28,707,407	31,874,222
Prior year adjustment	(102,000)	(143,000)	(51,000)	-	-
As restated	<u>24,804,178</u>	<u>30,157,177</u>	<u>27,436,070</u>	<u>28,707,407</u>	<u>31,874,222</u>

16. ACCOUNTANTS' REPORT (cont'd)

SHA, TAN & CO
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	1999	2000	2001	2002	2003
	RM	RM	RM	RM	RM
<i>Profit Before Depreciation, Amortisation And Interest</i>					
<i>As reported</i>	2,782,124	3,391,633	3,217,082	6,485,741	7,798,506
<i>Prior year adjustment</i>	(102,000)	(143,000)	(51,000)	-	-
<i>As restated</i>	<u>2,680,124</u>	<u>3,248,633</u>	<u>3,166,082</u>	<u>6,485,741</u>	<u>7,798,506</u>
<i>Profit Before Taxation</i>					
<i>As reported</i>	2,205,240	2,915,734	2,689,098	5,860,861	7,465,684
<i>Prior year adjustment</i>	(102,000)	(143,000)	(51,000)	-	-
<i>As restated</i>	<u>2,103,240</u>	<u>2,772,734</u>	<u>2,638,098</u>	<u>5,860,861</u>	<u>7,465,684</u>
<i>Taxation</i>					
<i>As reported</i>	178,409	1,020,030	781,836	1,657,638	1,801,760
<i>Prior year adjustment</i>	(28,560)	(40,040)	18,200	-	-
<i>As restated</i>	<u>149,849</u>	<u>979,990</u>	<u>800,036</u>	<u>1,657,638</u>	<u>1,801,760</u>
<i>Profit After Taxation</i>					
<i>As reported</i>	2,026,831	1,895,704	1,907,262	4,203,223	5,663,924
<i>Prior year adjustment</i>	(73,440)	(102,960)	(69,200)	-	-
<i>As restated</i>	<u>1,953,391</u>	<u>1,792,744</u>	<u>1,838,062</u>	<u>4,203,223</u>	<u>5,663,924</u>
<i>Shareholders' Equity / Net Tangible Assets</i>					
<i>As reported</i>	16,158,483	17,982,187	19,389,449	21,843,240	22,356,040
<i>Prior year adjustment</i>	(73,440)	(176,400)	(245,600)	-	-
<i>As restated</i>	<u>16,085,043</u>	<u>17,805,787</u>	<u>19,143,849</u>	<u>21,843,240</u>	<u>22,356,040</u>

- v) *There were no significant variation between the effective tax rate and the statutory tax rate for the financial years ended 2001 and 2002.*

The effective tax rate for the financial year ended 1999 was in respect of deferred taxation of RM187,143. No taxation based on the results for the financial year was provided as in accordance to the tax legislation, chargeable income earned during the financial year was waived from taxation.

The higher effective tax rate of 35% for the financial year ended 2000 was mainly due to the inclusion of an under provision of taxation in prior years of RM119,121.

The lower effective tax rate for the financial year ended 2003 was mainly due to the receipt of tax exempt dividend income from one of its subsidiary company namely TPPSB, amounting to RM900,000.

- vi) *The gross EPS has been calculated based on the profit before taxation divided by the number of ordinary shares in issue during the respective financial year.*

The net EPS has been calculated based on the profit after taxation divided by the number of ordinary shares in issue during the respective financial year.

- vii) *The dividends declared and paid by TISB for the financial years under review can be referred to in Section 4.*

16. ACCOUNTANTS' REPORT (cont'd)

SHA, TAN & CO
Chartered Accountants

8.2.2 Summarised Balance Sheets of TISB

	< ----- As at 31 March ----- >				
	1999	2000	2001	2002	2003
	RM	RM	RM	RM	RM
Property, plant and equipment	5,890,472	5,747,542	6,477,020	5,939,829	5,163,000
Investment in subsidiary companies	1,258,969	1,377,969	1,377,969	4,531,183	4,531,183
Investment in associated company	154,875	154,875	154,875	154,875	154,875
Current assets					
Subsidiary companies	2,332,976	3,883,307	3,533,784	1,295,275	1,889,228
Trade receivables	8,040,084	7,918,355	7,020,170	11,164,889	7,997,818
Other current assets	3,348,497	3,832,279	6,164,686	3,959,914	7,172,640
	13,721,557	15,633,941	16,718,640	16,420,078	17,059,686
Less: Current liabilities					
Subsidiary companies	890,066	1,424,822	1,478,844	556,919	987,292
Associated company	28,204	-	-	-	-
Trade payables	2,443,159	2,351,045	1,759,464	2,380,137	3,281,931
Other current liabilities	1,348,565	1,071,331	1,898,923	1,966,740	247,111
	4,709,994	4,847,198	5,137,231	4,903,796	4,516,334
Net current assets	9,011,563	10,786,743	11,581,409	11,516,282	12,543,352
	16,315,879	18,067,129	19,591,273	22,142,169	22,392,410
Financed by :-					
Share capital	1,000,000	1,000,000	1,000,000	1,119,615	1,119,615
Share premium	-	-	-	2,669,599	2,669,599
Accumulated profits	15,085,043	16,805,787	18,143,849	18,054,026	18,566,826
Shareholder's equity*	16,085,043	17,805,787	19,143,849	21,843,240	22,356,040
Long term and deferred liabilities	230,836	261,342	447,424	298,929	36,370
	16,315,879	18,067,129	19,591,273	22,142,169	22,392,410
Net tangible assets*	16,085,043	17,805,787	19,143,849	21,843,240	22,356,040
Net tangible assets per share	16.09	17.81	19.14	19.51	19.97

* The audited figures for the financial years ended 31 March 1999 to 2001 have been adjusted to reflect the effect of prior year adjustments made in the audited financial statements for the financial year ended 31 March 2002 in respect of change in accounting policy on revenue recognition. The new accounting policy account for the dividend income when the right to receive payment is established whereas the previous accounting policy accounted for the dividend income based on accrual basis. The effects of the prior year adjustments are shown in Paragraph 8.2.1(iv) above.

16. ACCOUNTANTS' REPORT (cont'd)

SHA, TAN & CO
Chartered Accountants

8.3 Toyo Photo Products Sdn. Bhd. ("TPPSB")

The following financial information of TPPSB are based on the audited financial statements of TPPSB for the past five (5) financial years ended 31 March 2003.

8.3.1 Summarised results of TPPSB

	<----- Financial Years Ended 31 March ----->				
	1999 RM	2000 RM	2001 RM	2002 RM	2003 RM
Revenue	11,166,953	14,459,180	23,634,462	16,633,587	21,288,112
Profit before depreciation, amortisation and interest	1,570,011	1,901,342	2,336,993	2,226,420	2,040,591
Depreciation and amortisation	(172,204)	(150,542)	(203,273)	(177,536)	(151,157)
Interest expense	(373,539)	(186,364)	(154,029)	(158,650)	(207,917)
Profit before taxation	1,024,268	1,564,436	1,979,691	1,890,234	1,681,517
Taxation	5,602	(516,215)	(556,100)	(569,977)	(508,009)
Profit after taxation	1,029,870	1,048,221	1,423,591	1,320,257	1,173,508
Number of ordinary shares of RM1.00 each in issue	750,000	750,000	750,000	750,000	1,000,000
Gross earnings per share	1.37	2.09	2.64	2.52	⁽¹⁾ 1.83
Net earnings per share	1.37	1.40	1.90	1.76	⁽¹⁾ 1.28
Profit before taxation margin (%)	9	11	8	11	8
Effective tax rate (%)	-	33	28	30	30
Gross dividend rate (%)	20	10	20	150	177

⁽¹⁾ It was calculated based on weighted average share capital of 916,438 ordinary shares of RM1.00 each

Notes:

- i) There were no extraordinary or exceptional items as defined in MASB 3 for all the financial years under review.
- ii) The increase in revenue for the financial year ended 31 March 2000 as compared to the financial year ended 31 March 1999 was mainly due to the significant increase in sales of machineries.

The significant increase in revenue for the financial year ended 31 March 2001 as compared to the financial year ended 31 March 2000 was mainly due to the result of promotion of new type of machinery into the market by TPPSB which was sold at promotional price.

The decrease in revenue for the financial year ended 31 March 2002 as compared to the financial year ended 31 March 2001 was mainly attributed to the reduction in sales volume of machineries, which has lower profit margin, as customers had completed their machinery upgrading exercises in previous financial year.

16. ACCOUNTANTS' REPORT (cont'd)

SHA, TAN & CO
Chartered Accountants

The significant increase in revenue for the financial year ended 31 March 2003 as compared to the financial year ended 31 March 2002 was mainly due to the increase in sales of machineries and printing consumables from the local and oversea customers.

- iii) *The increase in PBT Margin for the financial year ended 31 March 2000 as compared to the financial year ended 31 March 1999 was mainly due to lower interest expense and TPPSB's effort to control its administrative expenses.*

The decrease in PBT Margin for the financial year ended 31 March 2001 as compared to the financial year ended 31 March 2000 was mainly due to lower gross profit margin from new type of machinery which was sold at promotional price, and increase of cost of printing consumables about 3% - 12% which was borne by TPPSB so as to maintain the same selling price as previous financial year. However, the effect of lower gross profit margin was mitigated by cost control measures undertaken to reduce its administrative expenses and a realised gain in foreign exchange of RM194,221.

The increase in PBT Margin for the financial year ended 31 March 2002 as compared to the financial year ended 31 March 2001 was mainly due to decrease in sales of machineries, which earned low gross profit margin, and increase in sales of printing consumables, which earned higher gross profit margin.

The decrease in PBT Margin for the financial year ended 31 March 2003 as compared to the financial year ended 31 March 2002 was mainly due to the competitive pricing policy adopted by TPPSB amidst the continual increase in cost of sales and administrative costs coupled with bad debts written off and allowance for doubtful debts amounting to RM808,923.

- iv) *There were no significant variation between the effective tax rate and the statutory tax rate for the financial years ended 2001, 2002 and 2003.*

No taxation based on the results for the financial year 1999 was provided as in accordance to the tax legislation, chargeable income earned during the financial year was waived from taxation.

The higher effective tax rate of 33% for the financial year 2000 was mainly due to the inclusion of an under provision of taxation in prior years and provision for deferred taxation amounted to RM11,072 and RM41,064 respectively.

- v) *The gross EPS has been calculated based on the profit before taxation divided by the number of ordinary shares in issue during the respective financial year.*

The net EPS has been calculated based on the profit after taxation divided by the number of ordinary shares in issue during the respective financial year.

- vi) *The dividends declared and paid by TPPSB for the financial years under review can be referred to in Section 4.*

16. ACCOUNTANTS' REPORT (cont'd)

SHA, TAN & CO
Chartered Accountants

8.3.2 Summarised balance sheets of TPPSB

	<----- As at 31 March ----->				
	1999 RM	2000 RM	2001 RM	2002 RM	2003 RM
Property, plant and equipment	2,303,191	2,150,467	2,430,418	2,296,635	2,490,913
Investment in associated companies	154,876	274,876	274,876	154,876	154,876
Current assets					
Holding company	-	-	-	29,140	-
Related companies	9,710	-	10,120	448,470	693,951
Associated companies	-	409,379	376,356	-	-
Trade receivables	5,971,942	6,110,846	6,164,339	4,936,733	7,014,434
Other current assets	2,538,400	3,641,999	3,611,699	3,482,884	5,303,556
	8,520,052	10,162,224	10,162,514	8,897,227	13,011,941
Less: Current liabilities					
Holding company	442,974	469,145	1,381,084	-	408,184
Related companies	-	6,017	1,288	8,805	13,330
Associated companies	315,143	-	8,383	5,547	35,304
Trade payables	1,232,901	2,328,377	1,756,648	1,217,726	1,261,156
Other current liabilities	3,820,619	3,720,340	2,268,215	1,469,406	6,029,447
	5,811,637	6,523,879	5,415,618	2,701,484	7,747,421
Net current assets	2,708,415	3,638,345	4,746,896	6,195,743	5,264,520
	5,166,482	6,063,688	7,452,190	8,647,254	7,910,309
Financed by :-					
Share capital	750,000	750,000	750,000	750,000	1,000,000
Accumulated profits	4,177,468	5,171,689	6,445,280	7,765,537	6,907,045
Shareholder's equity	4,927,468	5,921,689	7,195,280	8,515,537	7,907,045
Long term and deferred liabilities	239,014	141,999	256,910	131,717	3,264
	5,166,482	6,063,688	7,452,190	8,647,254	7,910,309
Net tangible assets	4,927,468	5,921,689	7,195,280	8,515,537	7,907,045
Net tangible assets per share	6.57	7.90	9.59	11.35	⁽¹⁾ 8.63

⁽¹⁾ It was calculated based on weighted average share capital of 916,438 ordinary shares of RM1.00 each.

16. ACCOUNTANTS' REPORT (cont'd)**SHA, TAN & CO**
Chartered Accountants**8.4 Toyo Dai-Nichi Ink Sdn. Bhd. ("TDNSB")**

The following financial information of TDNSB are based on the audited financial statements of TDNSB for the past five (5) financial years ended 31 March 2003.

8.4.1 Summarised results of TDNSB

	----- Financial Years Ended 31 March ----->				
	1999 RM	2000 RM	2001 RM	2002 RM	2003 RM
Revenue	11,160,250	14,085,646	12,026,729	10,288,760	9,779,108
Profit before depreciation, amortisation and interest	599,571	1,430,522	1,435,990	1,264,754	982,959
Depreciation and amortisation	(367,956)	(375,340)	(312,011)	(275,313)	(275,570)
Interest expense	(231,365)	(106,894)	(29,605)	(16,197)	(14,577)
Profit before taxation	250	948,288	1,094,374	973,244	692,812
Taxation	(5,703)	(285,931)	(332,696)	(295,132)	(200,570)
(Loss)/Profit after taxation	(5,453)	662,357	761,678	678,112	492,242
Number of ordinary shares of RM1.00 each in issue	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Gross earnings per share	0.00	0.95	1.09	0.97	0.69
Net (loss)/earnings per share	(0.01)	0.66	0.76	0.68	0.49
Profit before taxation margin (%)	0	7	9	9	7
Effective tax rate (%)	2,281	30	30	30	29
Gross dividend rate (%)	-	30	30	50	55

Notes:

- i) *There were no extraordinary or exceptional items as defined in MASB 3 for all the financial years under review.*
- ii) *The significant increase in revenue for the financial year ended 31 March 2000 as compared to the financial year ended 31 March 1999 was mainly due to increase in the demand for Offset inks and raw materials which contributed higher profit margin.*

The decrease in revenue for the financial year ended 31 March 2001 as compared to the financial year ended 31 March 2000 was mainly due to the decline in sales of Gravure inks.

The decrease in revenue for the financial year ended 31 March 2002 as compared to the financial year ended 31 March 2001 was mainly attributed to the decrease in demand of Gravure inks and raw materials.

16. ACCOUNTANTS' REPORT (cont'd)**SHA, TAN & CO**

Chartered Accountants

The decrease in revenue for the financial year ended 31 March 2003 as compared to the financial year ended 31 March 2002 was mainly attributed to the decrease in local demand for TDNSB's products due to the lower demand from the printing and publishing sector of the business.

- iii) *The increase in PBT Margin for the financial year ended 31 March 2000 as compared to the financial year ended 31 March 1999 was mainly due to effective cost control on production which resulted in the increase of gross profit, coupled with the cost saving policy adopted by TDNSB.*

The increase in PBT Margin for the financial year ended 31 March 2001 as compared to the financial year ended 31 March 2000 was mainly due to increase in the sales of Offset inks, which contributed a higher gross profit margin and cost saving on raw materials of Offset inks.

The PBT Margin for the financial year ended 31 March 2002 is consistent with the financial year ended 31 March 2001 despite the reduction in TDNSB's revenue. This was mainly due to the Gravure inks' contribution to TDNSB's gross profit margin was insignificant. Moreover, TDNSB adopted a cost saving policy which had resulted in a lower production cost for its Offset inks.

The decrease in PBT Margin for the financial year ended 31 March 2003 as compared to the financial year ended 31 March 2002 was mainly due to the increase in prices of certain raw materials and slow down of global economy.

- iv) *There were no significant variation between the effective tax rate and the statutory tax rate for all the financial years under review except for the financial year ended 1999.*

The higher effective tax rate for the financial year ended 1999 was due to the inclusion of under provision of taxation in prior years and provision of deferred taxation of RM2,138 and RM3,565 respectively. In addition to the above, TDNSB's low pre-tax profit of RM250 when compared with taxation for the year of RM5,703 contributed to the higher effective tax rate. No taxation based on the results for the financial year was provided as in accordance to the tax legislation, chargeable income earned during the financial year was waived from taxation.

- v) *The gross EPS has been calculated based on the profit before taxation divided by the number of ordinary shares in issue during the respective financial year.*

The net (loss per share)/EPS has been calculated based on the (loss)/profit after taxation divided by the number of ordinary shares in issue during the respective financial year.

- vi) *The dividends declared and paid by TDNSB for the financial years under review can be referred to in Section 4.*