

9. ACCOUNTANTS' REPORT



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Date : **28 OCT 2003**

The Board of Directors
TPC PLUS BERHAD
535B, Jalan Merdeka
Melaka Raya
75000 Melaka.

Dear Sirs,

This report has been prepared by Ernst & Young, an approved company auditor, for inclusion in the Prospectus to be dated 1 Dec 2003 in connection with the Public Issue of 19,700,000 new ordinary shares of RM0.50 each and Offer For Sale of 10,800,000 ordinary shares of RM0.50 each in TPC PLUS BERHAD (hereinafter referred to as "TPC" or "the Company") at an issue/offer price of RM0.90 per ordinary share and the listing of and quotation for the entire issued and fully paid-up share capital of TPC comprising 80,000,000 ordinary shares of RM0.50 each on the Second Board of the Kuala Lumpur Stock Exchange ("KLSE").

This report has been prepared solely for the purposes stated above, in connection with the aforementioned prospectus. This report is not to be reproduced, referred to in any other document, or used for any other purpose without our prior written consent.

This report has been prepared on a basis consistent with the accounting policies normally adopted by TPC and its subsidiaries, which are in accordance with applicable approved accounting standards issued or adopted by the Malaysian Accounting Standards Board.

A. GENERAL INFORMATION

1. Incorporation

The Company was incorporated in Malaysia on 16 May 2003 as a private limited company under the name of TPC Plus Sdn. Bhd.. On 5 June 2003, the Company was converted to a public limited company and assumed its present name.

2. Principal activities

The principal activities of the Company are investment holding and provision of management services to its subsidiaries.

3. Restructuring and flotation scheme

In conjunction with the listing of and quotation for the entire issued and paid-up share capital of the Company on the Second Board of the KLSE, the Company undertook the following restructuring scheme:

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- (i) acquisition of the entire issued and paid-up share capital of Teck Ping Chan Agriculture Sdn. Bhd. ("TPCA") and Teck Ping Chan (1976) Sdn. Bhd. ("TPC1976") for a total purchase consideration of RM30,324,968 to be satisfied by 60,299,996 new ordinary shares in TPC to be credited as fully paid up at an issue price of approximately RM0.503 per share.

| Company | No. of shares acquired | Equity interest acquired % | Purchase consideration RM | No. of new shares in TPC issued |
|---------|------------------------|----------------------------|---------------------------|---------------------------------|
| TPCA | 8,391,952 | 100 | 29,244,309 | 58,151,148 |
| TPC1976 | 700,000 | 100 | 1,080,659 | 2,148,848 |
| | | | 30,324,968 | 60,299,996 |

- (ii) public issue of 19,700,000 new ordinary shares of RM0.50 each and offer for sale of 10,800,000 ordinary shares of RM0.50 each in the Company at an issue/offer price of RM0.90 per share.

4. Share capital

The authorised share capital of the Company is RM50,000,000 comprising 100,000,000 ordinary shares of RM0.50 each.

The present issued and paid-up share capital of the Company is RM30,150,000 comprising 60,300,000 ordinary shares of RM0.50 each.

Details of changes in the issued and paid-up share capital of TPC since incorporation are as follows:

| Date of subdivision/ allotment | No. of ordinary shares of RM0.50 each | Consideration | Number of ordinary shares of RM1.00 each |
|-----------------------------------|---------------------------------------|---|--|
| As at the date of incorporation | | | 2 |
| 6 June 2003 | 4 | Subscribers' shares | 2 |
| 7 October 2003 | 60,299,996 | Issued as consideration for the acquisition of TPCA and TPC1976 | 30,150,000 |

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The information on the subsidiaries, all of which are private limited companies are as follows:

(i) TPCA

TPCA was incorporated in Malaysia on 20 September 1978. The authorised share capital of TPCA as at the date of this report was RM10,000,000 divided into 10,000,000 ordinary shares of RM1.00 each of which 8,391,952 ordinary shares of RM1.00 each have been issued and fully paid.

The principal activities of TPCA are poultry farming and investment holding.

Information on TPCA's subsidiary, a private limited company incorporated in Malaysia is as follows:

| Name | Date of incorporation | Authorised share capital RM | Issued and fully paid up share capital RM | Effective interest % | Principal activity |
|------------------------------------|------------------------------|------------------------------------|--|-----------------------------|---------------------------|
| Mestika Arif Sdn. Bhd. ("MESTIKA") | 4 January 1993 | 1,000,000 | 250,000 | 100 | Cultivation of fruits |

(ii) TPC1976

TPC1976 was incorporated in Malaysia on 1 September 1976. The authorised share capital of TPC1976 as at the date of this report was RM1,000,000 divided into 1,000,000 ordinary shares of RM1.00 each of which 700,000 ordinary shares of RM1.00 each have been issued and fully paid.

The principal activity of TPC1976 is manufacturing of poultry feeds.

B. FINANCIAL STATEMENTS AND AUDITORS

Ernst & Young were appointed auditors of TPCA, TPC1976 and MESTIKA since the financial year ended 31 December 2002. The financial statements for the other years covered in this report were audited by Arthur Andersen & Co.. The said financial statements were reported on without any qualification.

We were also appointed as auditors of TPC since the date of incorporation but no financial statements have been prepared as the Company was only incorporated on 16 May 2003, and commenced operations after 30 September 2003.

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C. SUMMARISED INCOME STATEMENTS

We set out below the proforma consolidated financial results of TPC and its subsidiaries ("the Group") for the past five financial years ended 31 December 2002 and for the nine months period ended 30 September 2003 based on their audited financial statements. The proforma consolidated results are provided for illustrative purposes only, based on the assumption that the Group had been in existence throughout the years/period under review.

| | ← Financial year ended 31 December → | | | | | 9 months period ended |
|--|--------------------------------------|----------------|----------------|----------------|----------------|-----------------------------|
| | 1998 RM'000 | 1999 RM'000 | 2000 RM'000 | 2001 RM'000 | 2002 RM'000 | 30.9.2003 RM'000 |
| Revenue | 22,670 | 26,463 | 26,386 | 28,680 | 37,951 | 32,478 |
| Earnings before interest, depreciation, taxation and amortisation | 5,164 | 7,413 | 4,508 | 5,453 | 9,669 | 10,172 |
| Interest expenses | (1,903) | (838) | (984) | (1,292) | (1,375) | (1,366) |
| Depreciation | (1,261) | (1,389) | (1,468) | (1,885) | (2,247) | (2,184) |
| Profit before taxation | 2,000 | 5,186 | 2,056 | 2,276 | 6,047 | 6,622 |
| Taxation | (488) | (411) | (684) | (584) | (1,564) | (1,177) |
| Profit after taxation | 1,512 | 4,775 | 1,372 | 1,692 | 4,483 | 5,445 |
| Number of ordinary shares of RM0.50 each assume to be issued ('000) | 60,300 | 60,300 | 60,300 | 60,300 | 60,300 | 60,300 |
| Gross earnings per share (RM) | 0.03 | 0.09 | 0.03 | 0.04 | 0.10 | 0.15* |
| Net earnings per share (RM) | 0.03 | 0.08 | 0.02 | 0.03 | 0.07 | 0.12* |

* Annualised

- (1) The Proforma consolidated financial results have been prepared based on the audited financial statements after incorporating the results provided by the management for each of the subsidiaries, in order to be coterminous with the financial year end of the Proforma Group.
- (2) There were no extraordinary or exceptional items in all the financial years/period under review.
- (3) There were no minority interests in all the financial years/period under review.

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- (4) The gross earnings per share has been calculated based on the profit before taxation divided by the issued and paid up share capital of 60,300,000 ordinary shares assumed to be in issue before the public issue.
- (5) The net earnings per share has been calculated based on the profit after taxation divided by the issued and paid up share capital of 60,300,000 ordinary shares assumed to be in issue before the public issue.
- (6) Taxation has been adjusted to reflect the under/over provision of deferred taxation in the respective financial years/period as follows :

| | ← Financial year ended 31 December → | | | | | 1.1.2003 to 30.9.2003 |
|--|--------------------------------------|--------|--------|--------|--------|-----------------------------|
| | 1998 | 1999 | 2000 | 2001 | 2002 | RM'000 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Taxation as stated in audited financial statements | 133 | 462 | 577 | (155) | 152 | 1,177 |
| Prior year adjustments | 355 | (51) | 107 | 739 | 1,412 | - |
| Adjusted taxation as stated in the report | 488 | 411 | 684 | 584 | 1,564 | 1,177 |

The prior year adjustments were due to the adoption of MASB 25: Income Taxes, which became effective from 1 January 2003. Under MASB 25, deferred tax liabilities are recognised for all taxable temporary differences. Previously, deferred tax liabilities were provided for on account of timing differences only to the extent that a tax liability was expected to materialise in the foreseeable future. In addition, the Group have commenced recognition of deferred tax assets for all deductible temporary differences, when it is probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilised. Previously, deferred tax assets were not recognised unless there was reasonable expectation of their realisation.

There was no charge for the year 1999 as the amount payable was waived in accordance with the Income Tax (Amendment) Act, 1999. The provision made in 1999 was due to provision for deferred tax liability. The effective tax rate for year 2000 was higher than the standard rate of tax applicable due principally to certain expenses being disallowed for taxation purposes. There was no taxation charge for the year 2001 mainly due to TPCA was in a tax loss position. The tax charge during the year was in relation to deferred taxation. The effective tax rate for other years were lower than the statutory tax rate mainly due to the reinvestment allowances claimed by TPCA.

- (7) The growth in revenue of approximately 10% in 1998 as compared to previous financial year was due to increase in demand from existing customers. In addition, the launch of TPC Lower Cholesterol eggs into the market has contributed approximately 15% of the sales during the year.

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- (8) The increase in revenue during the financial year 1999 was mainly attributed to the increase order from customers. Higher production volume that led to the achievement of economies of scale and decrease in feed costs of more than 10% resulted in the improvement of gross profit margin of the Group to approximately 40%. Hence, profit before taxation increased from approximately RM2 million to RM5.2 million.
- (9) The sales for the year 2000 decreased by 3% mainly due to the reduction in sales of feed to external parties. The profit before taxation for the year reduced by approximately 60% principally due to reduction in the market price of eggs from approximately 18.0 sen to 17.3 sen.
- (10) As a result of extensive marketing effort, coupled with the competitiveness of the selling price and emphasis in its products quality, the Group managed to secure various customers during the year. Correspondingly, the revenue increased to RM28.7 million during the financial year 2001.
- (11) Revenue for year 2002 increased by 32.3% and profit before taxation increased by 166%. This was mainly due to the increase in the production capacity as well as increase in demand from customers, which has resulted in TPCA achieving sales volume of approximately 223.6 million eggs as compared to 161.6 millions eggs in year 2001. Besides, the launch of Organic Selenium Eggs had further enhanced the performance of the Group. The premium eggs have collectively contributed 22% of the annual sales.
- (12) The annualised revenue for the year 2003 is 14.1% higher than the preceding year. The Group revenue increased due to increase in sales quantity and higher selling price. The gross profit margin for the 9 months period ended 30 September 2003 increased from 26.26% to 26.76% as compared to prior year. However, the selling and administrative expenses increased by 13.41% for the 9 months period ended 30 September 2003 compared to financial year ended 31 December 2002. Included in the Group's profit before taxation of RM6.6 million are gain on disposal of property, plant and equipment amounting to approximately RM1.09 million and compensation claimed for the said disposal of approximately RM0.94 million.

9. ACCOUNTANTS' REPORT (Cont'd)**TPCA**

| | Financial year ended | | 16 months | Financial year ended | | 9 months |
|---|----------------------|---------|------------|----------------------|---------|-----------|
| | 31 August | 1999 | period | 31 December | 2002 | period |
| | 1998 | 1999 | ended | 2001 | 2002 | ended |
| | RM'000 | RM'000 | 31.12.2000 | RM'000 | RM'000 | 30.9.2003 |
| | | | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 21,231 | 23,948 | 34,103 | 27,880 | 36,981 | 32,058 |
| Earnings before interest, depreciation, taxation and amortisation | 3,850 | 6,052 | 6,480 | 5,100 | 9,264 | 9,290 |
| Interest expenses | (1,486) | (1,247) | (1,132) | (1,088) | (1,155) | (1,199) |
| Depreciation | (1,104) | (1,206) | (1,848) | (1,752) | (2,104) | (2,091) |
| Profit before taxation | 1,260 | 3,599 | 3,500 | 2,260 | 6,005 | 6,000 |
| Taxation | (355) | (349) | (712) | (569) | (1,537) | (1,164) |
| Profit after taxation | 905 | 3,250 | 2,788 | 1,691 | 4,468 | 4,836 |
| Number of ordinary shares in issue ('000) | 8,392 | 8,392 | 8,392 | 8,392 | 8,392 | 8,392 |
| Gross earnings per share (RM) | 0.15 | 0.43 | 0.31* | 0.27 | 0.72 | 0.95* |
| Net earnings per share (RM) | 0.11 | 0.39 | 0.25* | 0.20 | 0.53 | 0.77* |

* Annualised

- (1) There were no exceptional or extraordinary items in all the financial years/period under review.
- (2) The gross earnings per share has been calculated based on the profit before taxation divided by the number of ordinary shares in issue at the respective years/period.
- (3) The net earnings per share has been calculated based on the profit after taxation divided by the number of ordinary shares in issue at the end of the respective years/period.

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- (4) The taxation has been adjusted to reflect the under/over provision of deferred taxation in the respective financial years/periods as follows:

| | 16 months | | | 9 months | | |
|--|---|----------------|---|---|----------------|--|
| | Financial year ended 31 August 1998 RM'000 | 1999 RM'000 | period ended 31.12.2000 RM'000 | Financial year ended 31 December 2001 RM'000 | 2002 RM'000 | period ended 30.9.2003 RM'000 |
| Taxation as stated in audited financial statements | - | 400 | 605 | (170) | 125 | 1,164 |
| Prior year adjustments | 355 | (51) | 107 | 739 | 1,412 | - |
| Adjusted taxation as stated in the report | 355 | 349 | 712 | 569 | 1,537 | 1,164 |

The prior year adjustments were due to the adoption of MASB 25: Income Taxes, which became effective from 1 January 2003. Under MASB 25, deferred tax liabilities are recognised for all taxable temporary differences. Previously, deferred tax liabilities were provided for on account of timing differences only to the extent that a tax liability was expected to materialise in the foreseeable future. In addition, the Company has commenced recognition of deferred tax assets for all deductible temporary differences, when it is probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilised. Previously, deferred tax assets were not recognised unless there was reasonable expectation of their realisation.

There was no tax charge for the year 1999 as the amount payable was waived in accordance with the Income Tax (Amendment) Act, 1999. The provision made in 1999 was due to provision for deferred tax liability. There was no tax charge for the year 1998 and 2001 as the company was in a tax loss position. The tax charge during these years were in relation to deferred taxation. The effective tax rates for other years were lower than the statutory tax rate due to the claims of reinvestment allowances.

- (5) The growth in revenue of approximately 10% in 1998 as compared to previous financial year was due to increase in demand from existing customers. In addition, the launch of TPC Lower Cholesterol eggs into the market had contributed approximately 15% of the sales during the year.
- (6) The sales volume for year 1999 raised by approximately 17.57% as a result of increase demand from customers. Higher production volume that led to the achievement of economies of scale and decrease in the feed costs of more than 10% resulted in the improvement of gross profit margin of the company to approximately 40%. Hence, profit before taxation increased from approximately RM1.3 million to RM3.6 million.

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- (7) The increase in revenue for the financial period ended 31 December 2000 was mainly due to the increase in orders from the existing and new customers. The introduction of Body eggs to the market during the financial period also contributed to the increased sales. However, the annualised profit before taxation for the year reduced by approximately 27% principally due to reduction in the market price of eggs.
- (8) As a result of extensive marketing effort, coupled with the competitiveness of the selling price and emphasis in its products quality, TPCA managed to secure various new customers during the year 2001. Correspondingly, the revenue increased to RM27.9 million during the financial year.
- (9) Revenue for year 2002 increased by 32.6% and profit before taxation increased by 166%. This was mainly due to the increase in production capacity as well as increase in demand from customers, which resulted in TPCA achieving sales volume of approximately 223.6 million eggs compared to 161.6 millions eggs in year 2001. Besides, the launch of Organic Selenium Eggs had further enhanced the performance of the company. The premium eggs have collectively contributed 22% of the annual sales.
- (10) The annualised revenue for year 2003 is 15.6% higher than the preceding year as TPCA optimised its production capacity, which resulted in higher sales volume. Previously, TPC Farm Fresh Sdn Bhd ("TPCF") has been acted as the marketing arm of TPCA for local customers. With effect from May 2003, the entire operations of TPCF have been transferred to the company. As such, TPCA enjoyed higher margin during the period for sales previously attributed to TPCF. As such, the gross profit margin for the 9 months period ended 30 September 2003 increased from 24.58% to 24.80% as compared to prior year. However, the selling, administrative and finance expenses increased by 26.30% for the 9 months period ended 30 September 2003 compared to financial year ended 31 December 2002 resulted from the above transfer. Included in the profit before taxation of RM6.0 million are gain on disposal of property, plant and equipment amounting to approximately RM0.43 million and compensation claimed for the said disposal of approximately RM0.94 million.

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TPC1976

| | 16 months | | | 9 months | | |
|---|-----------------------------------|--------|------------------------------|-------------------------------------|--------|-----------------------------|
| | Financial year ended 31 August | | 16 months period ended | Financial year ended 31 December | | 9 months period ended |
| | 1998 | 1999 | 31.12.2000 | 2001 | 2002 | 30.9.2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 14,378 | 14,825 | 21,006 | 19,800 | 24,966 | 19,043 |
| Earnings before interest, depreciation, taxation and amortisation | 443 | 1,015 | 795 | 432 | 425 | 1,217 |
| Interest expenses | (449) | (404) | (336) | (226) | (220) | (167) |
| Depreciation | (150) | (132) | (192) | (129) | (138) | (90) |
| (Loss)/profit before taxation | (156) | 479 | 267 | 77 | 67 | 960 |
| Taxation | - | - | (175) | (11) | (24) | (87) |
| (Loss)/profit after taxation | (156) | 479 | 92 | 66 | 43 | 873 |
| Number of ordinary shares in issue ('000) | 700 | 700 | 700 | 700 | 700 | 700 |
| Gross (loss)/earning per share (RM) | (0.22) | 0.68 | 0.29* | 0.11 | 0.10 | 1.83* |
| Net (loss)/earning per share (RM) | (0.22) | 0.68 | 0.10* | 0.09 | 0.06 | 1.66* |

* Annualised

- (1) There were no exceptional or extraordinary items in all the financial years/period under review.
- (2) The gross earnings per share has been calculated based on the profit before taxation divided by the number of ordinary shares in issue at the respective years/period.
- (3) The net earnings per share has been calculated based on the profit after taxation divided by the number of ordinary shares in issue at the respective years/period.
- (4) The taxation has been adjusted to reflect the under/over provision in the respective financial years/periods. There was no taxation charge for year 1998 as the company was in a tax loss position. There was no tax charge for the year 1999 as the amount payable was waived in accordance with the Income Tax (Amendment) Act, 1999. The effective tax rate for year 2000 to 2002 was higher than the standard rate of tax applicable due principally to certain expenses being disallowed for taxation purposes. The effective tax rate for period 2003 was lower than the standards rate of tax applicable due principally to certain income not subject to tax.

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- (5) Revenue for year 1998 increased by 23.1% due to the increased orders from its sole customer, TPCA and also increase in selling price.
- (6) Revenue for the year 1999 increased by about 3% as compared to the previous financial year mainly due to increase in sales volume by approximately 13% as a result of increasing demand from its major customers TPCA, as well as procurement of a new customer. Correspondingly, the company managed to turnaround and made a profit before taxation of approximately RM479,000.
- (7) Approximately 95% of the revenue for the financial period ended 2000 derived from sales to TPCA. The sales of TPC 1976 increased in line with the operations of TPCA. However, the selling price to TPCA remained constant while raw material prices such as premix and soya bean increased, gross profit margin before depreciation deteriorated from 10.7% to 7.7%. Hence, profit before taxation decreased from approximately RM479,000 to RM267,000.
- (8) The revenue for year 2001 recorded an improvement of 26% as compared to the annualised revenue in the previous year. This was mainly due to increase in consumption of feeds in TPCA by more than 40%. Nevertheless, the increase in raw material price compared with constant selling price caused an erosion of gross profit margin before depreciation from 7.7% to 5.2%. In this regard, profit before taxation dropped from RM267,000 to RM77,000.
- (9) TPCA maintained its increasing order for the financial year 2002, which has contributed to an increase in revenue of TPC1976 from approximately RM19.8 million in 2001 to approximately RM25.0 million in 2002. In contrast, gross profit margin after depreciation decreased from 4.53% to 3.18% mainly due to the rising costs of raw materials, especially maize and soya beans.
- (10) The annualised revenue for year 2003 is 1.70% higher than the preceding year as there is a consistent increase in orders from TPCA. However, TPC1976 recorded a higher pretax profit from RM67,000 to RM960,000, included therein is a gain on disposal of property during the period amounting to RM662,550.

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| | 16 months | | | 9 months | | |
|---|---|----------------|---|---|----------------|--|
| | Financial year ended 31 August 1998 RM'000 | 1999 RM'000 | period ended 31.12.2000 RM'000 | Financial year ended 31 December 2001 RM'000 | 2002 RM'000 | period ended 30.9.2003 RM'000 |
| Revenue | 22 | 9 | - | - | - | 11 |
| Earnings before interest, depreciation, taxation and amortisation | (45) | (102) | (96) | (71) | (33) | (47) |
| Depreciation | - | (4) | (5) | (4) | (4) | (3) |
| Loss for the year/period | (45) | (106) | (101) | (75) | (37) | (50) |
| Number of ordinary shares in issue ('000) | 250 | 250 | 250 | 250 | 250 | 250 |
| Net loss per share (RM) | (0.18) | (0.42) | (0.30)* | (0.30) | (0.15) | (0.27)* |

* Annualised

- (1) There were no exceptional or extraordinary items in all the financial years/period under review.
- (2) The net loss per share has been calculated based on the loss for the years/period divided by the number of ordinary shares in issue at the respective years/period.
- (3) There was no tax charge for the years/period under review as MESTIKA was in a tax loss position.

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D. SUMMARISED BALANCE SHEETS

As the TPC Group was in placed with effect from 7 October 2003, it is therefore impractical to present consolidated balance sheets of TPC Group throughout the period under review. Accordingly, we set out below the summarised audited balance sheets of its subsidiary companies for the relevant financial years/period as follows :

TPCA

The audited balance sheets of TPCA for the past six (6) financial years/period are as follows:

| | As at 31 August | | As at 31 December | | | As at 30 |
|--------------------------------|-----------------|----------------|-------------------|-----------------|-----------------|-----------------|
| | 1998 | 1999 | 2000 | 2001 | 2002 | September |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | 2003 |
| | | | | | | RM'000 |
| NON-CURRENT ASSETS | | | | | | |
| Property, plant and equipment | 23,221 | 22,245 | 31,305 | 42,968 | 50,633 | 55,120 |
| Investment in subsidiary | - | - | 7,041 | 7,041 | 7,041 | 7,041 |
| | <u>23,221</u> | <u>22,245</u> | <u>38,346</u> | <u>50,009</u> | <u>57,674</u> | <u>62,161</u> |
| CURRENT ASSETS | | | | | | |
| Inventories | 4,184 | 3,850 | 4,316 | 7,861 | 11,755 | 13,223 |
| Trade receivables | 1,022 | 1,173 | 2,128 | 6,456 | 5,832 | 5,212 |
| Other receivables | 9,842 | 10,980 | 5,945 | 2,721 | 2,746 | 4,097 |
| Cash and bank balances | 19 | 41 | 221 | 370 | 208 | 259 |
| | <u>15,067</u> | <u>16,044</u> | <u>12,610</u> | <u>17,408</u> | <u>20,541</u> | <u>22,791</u> |
| CURRENT LIABILITIES | | | | | | |
| Short term borrowings | 10,868 | 10,186 | 12,843 | 17,003 | 18,698 | 18,147 |
| Trade payables | 8,052 | 7,441 | 9,760 | 10,906 | 13,172 | 13,808 |
| Other payables | 718 | 354 | 1,398 | 2,150 | 3,585 | 1,159 |
| Taxation | - | - | 217 | 81 | 50 | 120 |
| | <u>19,638</u> | <u>17,981</u> | <u>24,218</u> | <u>30,140</u> | <u>35,505</u> | <u>33,234</u> |
| NET CURRENT LIABILITIES | | | | | | |
| | <u>(4,571)</u> | <u>(1,937)</u> | <u>(11,608)</u> | <u>(12,732)</u> | <u>(14,964)</u> | <u>(10,443)</u> |
| | <u>18,650</u> | <u>20,308</u> | <u>26,738</u> | <u>37,277</u> | <u>42,710</u> | <u>51,718</u> |
| FINANCED BY : | | | | | | |
| Share capital | 8,392 | 8,392 | 8,392 | 8,392 | 8,392 | 8,392 |
| Reserves | 4,608 | 7,857 | 13,294 | 14,814 | 19,283 | 24,126 |
| Shareholders' equity | <u>13,000</u> | <u>16,249</u> | <u>21,686</u> | <u>23,206</u> | <u>27,675</u> | <u>32,518</u> |
| Long term borrowings | 4,120 | 2,180 | 2,260 | 10,540 | 10,092 | 13,347 |
| Deferred taxation | 1,530 | 1,879 | 2,792 | 3,531 | 4,943 | 5,853 |
| Non-current liabilities | <u>5,650</u> | <u>4,059</u> | <u>5,052</u> | <u>14,071</u> | <u>15,035</u> | <u>19,200</u> |
| | <u>18,650</u> | <u>20,308</u> | <u>26,738</u> | <u>37,277</u> | <u>42,710</u> | <u>51,718</u> |
| NTA per ordinary share (RM) | 1.55 | 1.94 | 2.58 | 2.77 | 3.30 | 3.87 |

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TPC1976

The audited balance sheets of TPC1976 for the past six (6) financial years/period are as follows:

| | As at 31 August | | As at 31 December | | | As at 30 |
|--|-----------------|--------|-------------------|--------|--------|-----------|
| | 1998 | 1999 | 2000 | 2001 | 2002 | September |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | 2003 |
| | | | | | | RM'000 |
| NON-CURRENT ASSET | | | | | | |
| Property, plant and equipment | 1,030 | 1,046 | 1,006 | 981 | 970 | 871 |
| CURRENT ASSETS | | | | | | |
| Inventories | 300 | 328 | 410 | 340 | 417 | 562 |
| Trade receivables | 7,602 | 7,957 | 9,091 | 10,518 | 12,624 | 12,559 |
| Other receivables | 61 | 48 | 41 | 109 | 122 | 752 |
| Cash and bank balances | - | - | 2 | 1 | 1 | 1 |
| | 7,963 | 8,333 | 9,544 | 10,968 | 13,164 | 13,874 |
| CURRENT LIABILITIES | | | | | | |
| Short term borrowings | 3,939 | 3,849 | 4,250 | 2,941 | 3,104 | 3,157 |
| Trade payables | 4,372 | 4,444 | 5,031 | 7,179 | 9,243 | 9,068 |
| Other payables | 101 | 111 | 120 | 115 | 209 | 202 |
| Taxation | - | - | 115 | 24 | - | - |
| | 8,412 | 8,404 | 9,516 | 10,259 | 12,556 | 12,427 |
| NET CURRENT (LIABILITIES)/ ASSETS | | | | | | |
| | (449) | (71) | 28 | 709 | 608 | 1,447 |
| | 581 | 975 | 1,034 | 1,690 | 1,578 | 2,318 |
| FINANCED BY : | | | | | | |
| Share capital | 700 | 700 | 700 | 700 | 700 | 700 |
| Reserves | (299) | 180 | 272 | 338 | 381 | 1,255 |
| Shareholders' Equity | 401 | 880 | 972 | 1,038 | 1,081 | 1,955 |
| Long term borrowings | 180 | 95 | 8 | 570 | 406 | 272 |
| Deferred taxation | - | - | 54 | 82 | 91 | 91 |
| Non current liabilities | 180 | 95 | 62 | 652 | 497 | 363 |
| | 581 | 975 | 1,034 | 1,690 | 1,578 | 2,318 |
| NTA per ordinary shares (RM) | | | | | | |
| | 0.57 | 1.26 | 1.39 | 1.48 | 1.54 | 2.79 |

9. ACCOUNTANTS' REPORT (Cont'd)**MESTIKA**

The audited balance sheets of MESTIKA for the past six (6) financial period/years are as follows:

| | As at 31 August | | As at 31 December | | | As at 30 |
|---|-----------------|----------------|-------------------|----------------|----------------|----------------|
| | 1998 | 1999 | 2000 | 2001 | 2002 | September |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | 2003 |
| | | | | | | RM'000 |
| NON-CURRENT ASSET | | | | | | |
| Property, plant and equipment | 818 | 831 | 8,201 | 8,197 | 8,193 | 8,190 |
| CURRENT ASSET | | | | | | |
| Other receivables | 3 | 3 | 3 | 3 | 3 | 2 |
| CURRENT LIABILITY | | | | | | |
| Other payables | 989 | 1,108 | 1,204 | 1,276 | 1,308 | 1,353 |
| NET CURRENT LIABILITY | (986) | (1,105) | (1,201) | (1,273) | (1,305) | (1,351) |
| | (168) | (274) | 7,000 | 6,924 | 6,888 | 6,839 |
| FINANCED BY : | | | | | | |
| Share capital | 250 | 250 | 250 | 250 | 250 | 250 |
| Reserves | (418) | (524) | 6,381 | 6,305 | 6,269 | 6,220 |
| Shareholders' equity | (168) | (274) | 6,631 | 6,555 | 6,519 | 6,470 |
| NON-CURRENT LIABILITY | | | | | | |
| Deferred taxation | - | - | 369 | 369 | 369 | 369 |
| | (168) | (274) | 7,000 | 6,924 | 6,888 | 6,839 |
| Net tangible assets/(liabilities) per ordinary shares (RM) | (0.67) | (1.10) | 26.52 | 26.22 | 26.08 | 25.88 |

9. ACCOUNTANTS' REPORT (Cont'd)

**E. DIVIDENDS**

Details of interim tax exempt dividend declared by a subsidiary, TPCA, in respect of the financial years/periods under review are as follows :

| Period Ended | Issued and Paid-up Share Capital RM'000 | Dividend rate % | Dividend RM'000 |
|---------------------|--|----------------------------|----------------------------|
| 30.9.2003 | 8,392 | 50 | 4,196 |

Except for the above, no dividend has been paid or declared by the other subsidiaries during all the financial year/periods under review.

9. ACCOUNTANTS' REPORT (Cont'd)**F. STATEMENT OF ASSETS AND LIABILITIES**

The following statement of assets and liabilities of the Proforma Group has been prepared based on the audited financial statements of TPCA, TPC1976 and MESTIKA as at 30 September 2003 and on the assumption that the acquisitions of subsidiaries had been effected as at 30 September 2003.

| | Note | The Company RM'000 | Proforma Group RM'000 |
|---|------|--------------------------|-----------------------------|
| NON-CURRENT ASSET | | | |
| Property, plant and equipment | 2 | - | 66,453 |
| CURRENT ASSETS | | | |
| Inventories | 3 | - | 13,516 |
| Trade receivables | 4 | - | 5,685 |
| Other receivables | 5 | - | 3,822 |
| Cash and bank balances | 6 | * | 260 |
| | | * | 23,283 |
| CURRENT LIABILITIES | | | |
| Short term borrowings | 7 | - | 21,305 |
| Trade payables | | - | 10,810 |
| Other payables | 9 | - | 5,571 |
| Taxation | | - | 45 |
| | | - | 37,731 |
| NET CURRENT ASSETS/(LIABILITIES) | | * | (14,448) |
| | | * | 52,005 |
| FINANCED BY : | | | |
| Share capital | 10 | * | 30,150 |
| Share premium | | - | 175 |
| Shareholders' equity | | * | 30,325 |
| Reserve on consolidation | | - | 1,250 |
| | | * | 31,575 |
| Long term borrowings | 7 | - | 13,618 |
| Deferred taxation | 11 | - | 6,812 |
| Non-current liabilities | | - | 20,430 |
| | | * | 52,005 |
| NTA per ordinary share (RM) | | 0.500 | 0.524 |

* This represents RM2

9. ACCOUNTANTS' REPORT (Cont'd)

**G. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES****1. SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of Preparation**

The financial statements of the Proforma Group and the Company have been prepared under the historical cost convention except for the revaluation of land, buildings and farm sheds. The financial statements comply with the provisions of the Companies Act 1965 and applicable Approved Accounting Standards in Malaysia.

(b) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Revenue relating to sales of goods is recognized net of discounts upon the transfer of risks and rewards.

(c) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries. Subsidiaries are those companies in which the Proforma Group has a long term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

Subsidiaries are consolidated using the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet. The difference between the cost of an acquisition and the fair value of the Proforma Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or negative goodwill arising on consolidation.

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Proforma Group's share of its net assets together with any unamortised balance of goodwill and exchange differences which were not previously recognised in the consolidated income statement.

9. ACCOUNTANTS' REPORT (Cont'd)**(d) Investment in Subsidiaries**

Investment in subsidiaries is stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 1(g).

On disposal of such investment, the difference between net disposal proceed and its carrying amount is charged or credited to the income statement.

(e) Foreign Currency Transactions

Transactions in foreign currencies are initially recorded into Ringgit Malaysia at rates of exchange ruling at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined. All exchange differences are taken to the income statement.

The principal exchange rates used for every unit of foreign currency ruling at balance sheet date are as follows:

| | RM |
|------------------|-----------|
| Euro Dollar | 3.97 |
| Singapore Dollar | 2.19 |

(f) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 1(g).

Revaluations are made at least once in every five years based on a valuation by an independent valuer on an open market value basis. Any revaluation increase is credited to equity as a revaluation surplus, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is recognised the income statement to the extent of the decrease previously recognised. A revaluation decrease is first offset against an increase on unutilised earlier valuations in respect of the same asset and is thereafter recognised as an expense. Upon the disposal of revalued assets, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained profits.

Freehold land and capital work-in-progress are not depreciated. Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates :

| | |
|---|--------|
| Buildings | 2% |
| Plant and machinery, factory equipment and plantation equipment | 5%-10% |
| Farm sheds and farm equipment | 5%-10% |
| Motor vehicles | 20% |
| Renovation, electrical installation and laboratory equipment | 10% |
| Office equipment and furniture and fittings | 5%-10% |

9. ACCOUNTANTS' REPORT (Cont'd)



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Upon the disposal of an item of property, plant or equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement and the unutilised portion of the revaluation surplus on that item is taken directly to retained profits.

(g) Impairment of Assets

At each balance sheet date, the Proforma Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

(h) Inventories

Inventories are stated at the lower of cost (determined on the first-in, first-out basis) and net realisable value. Cost of eggs and feedmeal include direct product costs and appropriate production overheads.

Livestocks comprise pullets and layers, which are stated at cost adjusted for amortisation (calculated based on their economic egg laying lives less net realisable value). Cost consists of original purchase price of day old chicks plus growing costs which include feeds and vaccines, direct labour cost and proportion of farm overheads. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(i) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

9. ACCOUNTANTS' REPORT (Cont'd)

Deferred tax is measured at the rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantially enacted at the balance sheet date. Deferred tax is recognized in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case deferred tax is included in the resulting goodwill or negative goodwill.

(j) Hire Purchase

Assets acquired by way of hire purchase are stated at an amount equal to the lower of their fair values and the present value of the minimum hire purchase payments at the inception of the hire purchase, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum hire purchase payments, the discount factor used is the interest rate implicit in the hire purchase, when it is practicable to determine; otherwise, the Proforma Group's incremental borrowing rate is used.

Hire purchase payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total hire purchase commitments and the fair value of the assets acquired, are recognised as an expense in the income statement over the term of the relevant hire purchase so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy of assets acquired under hire purchase is consistent with that for depreciable property, plant and equipment as described in Note 1(f).

(k) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at banks, net of outstanding bank overdrafts.

(l) Financial Instruments

Financial instruments are recognised in the balance sheet when the Proforma Group has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Proforma Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Trade Receivables

Trade receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on review of all outstanding amounts as at the balance sheet date.

9. ACCOUNTANTS' REPORT (Cont'd)

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(ii) Trade payables

Trade payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

(iii) Interest-Bearing Borrowings

Interest-bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of transaction costs.

Borrowing costs directly attributable to the acquisition and construction of property, plant and equipment are capitalised as part of the cost of those assets, until such time as the assets are ready for their intended use. All other borrowing costs are charged to the income statement as an expense in the period in which they are incurred.

(iv) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction cost comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

2. PROPERTY, PLANT AND EQUIPMENT**Proforma Group**

| | * Land, buildings and farm sheds RM'000 | Plant and machinery, factory and farm equipment RM'000 | Motor vehicles RM'000 | **Other assets RM'000 | Capital work in progress RM'000 | Total RM'000 |
|-------------------------------------|--|---|--------------------------------------|--------------------------------------|--|-------------------------|
| Cost | 37,479 | 32,046 | 3,401 | 3,460 | 3,154 | 79,540 |
| Accumulated Depreciation | (1,378) | (7,594) | (2,644) | (1,471) | - | (13,087) |
| Net book value | 36,101 | 24,452 | 757 | 1,989 | 3,154 | 66,453 |

9. ACCOUNTANTS' REPORT (Cont'd)

* The details of freehold land, buildings and farm sheds are as follows:

| | Freehold land RM'000 | Buildings RM'000 | Farm Sheds RM'000 | Total RM'000 |
|-------------------------------------|-------------------------------------|-----------------------------|------------------------------|-------------------------|
| Cost | 20,775 | 4,291 | 12,413 | 37,479 |
| Accumulated Depreciation | - | (143) | (1,235) | (1,378) |
| Net book value | <u>20,775</u> | <u>4,148</u> | <u>11,178</u> | <u>36,101</u> |

** Other assets consist of office equipment, laboratory equipment, furniture and fittings, renovation, orchard equipment and electrical installation.

- (a) All the property, plant and equipment of the Proforma Group have been charged to banks for banking facilities granted to the Proforma Group as described in Note 7.
- (b) The net book values of property, plant and equipment held under hire purchase are as follows:

| | Proforma Group RM'000 |
|-------------------------------------|--------------------------------------|
| Farm equipment, plant and machinery | 182 |
| Motor vehicles | 265 |
| Capital work in progress | 1,150 |
| | <u>1,597</u> |

- (c) Included in the property, plant and equipment of the Proforma Group are fully depreciated assets which are still in use costing RM2,964,000.
- (d) Borrowing costs capitalised during the financial year under work-in-progress amounted to RM328,000.

9. ACCOUNTANTS' REPORT (Cont'd)

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3. INVENTORIES

| | Proforma Group RM'000 |
|---------------------|--------------------------------------|
| At cost - | |
| Raw materials | 517 |
| Feeds | 246 |
| Pullets | 1,678 |
| Layers | 10,643 |
| Eggs | 287 |
| Packing materials | 95 |
| Vitamin and vaccine | 50 |
| | <u>13,516</u> |

4. TRADE RECEIVABLES

The Proforma Group's normal credit term ranges from 30 to 120 days. Other credit terms are assessed and approved on a case-by-case basis.

The Proforma Group has no significant concentration of credit risk that may arise from exposure to a single debtor or groups of debtors.

5. OTHER RECEIVABLES

| | Proforma Group RM'000 |
|-------------------------|--------------------------------------|
| Deposits and prepayment | 1,436 |
| Sundry receivables | 2,386 |
| | <u>3,822</u> |

Included in sundry receivables of the Proforma Group is an amount due from a debtor for disposal of property, plant and equipment amounting to RM2,367,000.

6. CASH AND BANK BALANCES

| | The Company RM'000 | Proforma Group RM'000 |
|------------------------------------|-----------------------------------|--------------------------------------|
| Cash on hand and in banks | * | 60 |
| Fixed deposit with a licensed bank | - | 200 |
| | <u>*</u> | <u>260</u> |

* This represents RM2

The fixed deposit with a licensed bank of the Proforma Group is pledged to a bank for banking facilities granted to TPCA.

9. ACCOUNTANTS' REPORT (Cont'd)**7. BORROWINGS - SECURED**

| | Proforma Group RM'000 |
|---|--------------------------------------|
| Short term borrowings: | |
| Bank overdrafts | 4,384 |
| Bankers' acceptances | 7,205 |
| Trust receipts | 6,006 |
| Term loans | 1,872 |
| Hire purchase payables (Note 8) | 1,838 |
| | <u>21,305</u> |
| Long term borrowings: | |
| Term loans | 12,763 |
| Hire purchase payables (Note 8) | 855 |
| | <u>13,618</u> |
| Total Borrowings: | |
| Bank overdrafts | 4,384 |
| Bankers' acceptances | 7,205 |
| Trust receipts | 6,006 |
| Term loans | 14,635 |
| Hire purchase payables (Note 8) | 2,693 |
| | <u>34,923</u> |
| Maturity of borrowings (excluding hire purchase payables) | |
| Within 1 year | 19,467 |
| More than 1 year and less than 2 years | 1,999 |
| More than 2 years and less than 5 years | 7,804 |
| 5 years or more | 2,960 |
| | <u>32,230</u> |

The weighted average effective interest rates during the financial year for borrowings, excluding hire purchase payables, were as follows:

| | % |
|----------------------|------|
| Bank overdrafts | 8.02 |
| Bankers' acceptances | 3.27 |
| Trust receipts | 7.55 |
| Term loans | 7.30 |

The borrowings of the Proforma Group are secured by way of fixed and floating charges over all the assets of the Proforma Group as disclosed in Note 2(a).

9. ACCOUNTANTS' REPORT (Cont'd)

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8. HIRE PURCHASE PAYABLES

| | Proforma Group RM'000 |
|---|--------------------------------------|
| Future minimum payments: | |
| Payable within one year | 1,736 |
| Payable between one and five years | 1,150 |
| | <u>2,886</u> |
| Less : Finance charges | <u>(193)</u> |
| | <u>2,693</u> |
| Representing hire purchase liabilities: | |
| Due within 12 months (Note 7) | 1,838 |
| Due after 12 months (Note 7) | 855 |
| | <u>2,693</u> |

The hire purchase liabilities bore interest between 4.90% to 7.20% per annum.

9. OTHER PAYABLES

Included in other payables of the Proforma Group are amount of RM30,645 due to directors. The amounts due are unsecured, interest free and with no fixed terms of repayment

10. SHARE CAPITAL

| | Number of Ordinary Shares of RM0.50 Each | | Amount | |
|-----------------------|---|------------------------------------|-----------------------------------|--------------------------------------|
| | The Company '000 | Proforma Group '000 | The Company RM'000 | Proforma Group RM'000 |
| Authorised | <u>100,000</u> | <u>100,000</u> | <u>50,000</u> | <u>50,000</u> |
| Issued and fully paid | <u>*</u> | <u>60,300</u> | <u>#</u> | <u>30,150</u> |

* This represents 4 ordinary shares of RM0.50

This represents RM2

11. DEFERRED TAXATION

The deferred taxation provided in the financial statements due to accelerated capital allowances amounting to approximately RM4,346,000 while deferred taxation arising from revaluation of property, plant and equipment amounting to approximately RM2,466,000.

9. ACCOUNTANTS' REPORT (Cont'd)

**12. FINANCIAL INSTRUMENTS****Financial Risk Management Objectives and Policies**

The Proforma Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Proforma Group's businesses whilst managing its interest rate, foreign exchange, liquidity and credit risks. The Proforma Group's policy is to not engage in speculative transactions.

(a) Interest Rate Risk

The Proforma Group's primary interest rate risk relates to interest-bearing debt, as the Proforma Group had no substantial long-term interest-bearing assets as at 30 September 2003.

The Proforma Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Proforma Group actively reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

The information on maturity dates and effective interest rates of financial assets and liabilities are disclosed in their respective notes.

(b) Foreign Exchange Risk

The Proforma Group sell their products internationally and is exposed to various currencies, mainly Euro Dollar and Singapore Dollar.

Foreign currency denominated assets and liabilities together with expected cash flows from highly probable purchases and sales give rise to foreign exchange exposures.

(c) Market Risk

The Proforma Group does not have material exposure to market risk with respect to its investments.

(d) Liquidity Risk

The Proforma Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Proforma Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Proforma Group strives to maintain available banking facilities of a reasonable level to its overall debt position. As far as possible, the Proforma Group raises committed funding from both capital markets and financial institutions and prudently balances its portfolio with some short term funding so as to achieve overall cost effectiveness

9. ACCOUNTANTS' REPORT (Cont'd)

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(e) Credit Risk

Credit risks, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Proforma Group's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via Proforma Group management reporting procedures.

The Proforma Group does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments.

H. PROFORMA CONSOLIDATED CASH FLOW STATEMENT

Based on the latest audited financial statements of the subsidiaries as at 30 September 2003, the proforma consolidated cash flow statement for the nine months period ended 30 September 2003 are as follows:

| | 1.1.2003 to 30.9.2003 RM'000 |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Profit before taxation | 6,622 |
| Adjustments for: | |
| Depreciation | 2,184 |
| Gain on disposal of property, plant and equipment | (1,102) |
| Provision for doubtful debts | 19 |
| Interest expense | 1,366 |
| Operating profit before working capital changes | 9,089 |
| Increase in inventories | (1,343) |
| Increase in receivables | (2,268) |
| Increase in payables | 688 |
| Cash generated from operations | 6,166 |
| Interest paid | (1,366) |
| Taxes paid | (239) |
| Net cash generated from operating activities | 4,561 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchase of property, plant and equipment | (5,895) |
| Proceeds from disposal of property, plant and equipment | 114 |
| Net cash used in investing activities | (5,781) |

9. ACCOUNTANTS' REPORT (Cont'd)

| | 1.1.2003 to 30.9.2003 RM'000 |
|---|---------------------------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Repayment of hire purchase payables | (1,664) |
| Short term borrowings | 24 |
| Drawdown of term loans | 4,800 |
| Repayment of term loans | <u>(1,565)</u> |
| Net cash generated from investing activities | <u>1,595</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 375 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | <u>(4,499)</u> |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | <u>(4,124)</u> |
| Cash and cash equivalents comprise: | |
| Cash and bank balances | 60 |
| Fixed deposits with financial institution | 200 |
| Bank overdrafts | <u>(4,384)</u> |
| | <u>(4,124)</u> |

I. PROFORMA NET TANGIBLE ASSETS COVER

Based on the statement of assets and liabilities of the Proforma Group as at 30 September 2003, the NTA per ordinary share after incorporating the adjustments for public issue will be as follows:

| (i) Net Tangible Assets | RM'000 |
|---|----------------|
| NTA of the Proforma Group as at 30 September 2003 | 31,575 |
| Proceeds from public issue | <u>17,730</u> |
| | 49,305 |
| Less : Share issue expenses | <u>(2,100)</u> |
| Proforma NTA | <u>47,205</u> |

9. ACCOUNTANTS' REPORT (Cont'd)**(ii) Share Capital**

| | Number of ordinary shares of RM0.50 each '000 |
|--|--|
| As at 30 September 2003 | * |
| Add: Issued as consideration for the acquisition of TPCA and TPC1976 | 60,300 |
| Add: Public issue | 19,700 |
| Enlarged issued and paid-up share capital | <u>80,000</u> |
| | |
| Proforma NTA per ordinary share of RM0.50 each before public issue | <u>RM0.524</u> |
| Proforma NTA per ordinary share of RM0.50 each after public issue | <u>RM0.590</u> |

* This represents 4 ordinary shares

J. EVENTS SUBSEQUENT TO BALANCE SHEET DATE 30 SEPTEMBER 2003

Subsequent to the balance sheet date, the following events had eventuated :

- (a) The authorised share capital of the Company was increased from RM100,000 to RM50,000,000 by creation of additional 99,800,000 new shares of RM0.50 each; and
- (b) The issued and paid up ordinary share capital increased from RM2 to RM30,150,000 by an issuance of 60,299,996 new ordinary shares of RM0.50 each at an issue price of approximately RM0.503 per share pursuant to the acquisitions of TPCA and TPC1976; and
- (c) Public issue of 19,700,000 new ordinary shares of RM0.50 each at an issue price of RM0.90 per ordinary shares payable in full.

The newly issued shares rank pari passu in all respects with the existing issued shares.

Other than the above, we are not aware of any subsequent event which would require any amounts stated to be adjusted or any further disclosure that is required to be made in this report.

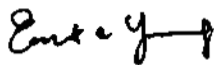
9. ACCOUNTANTS' REPORT (Cont'd)




K. AUDITED FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 30 September 2003.

Yours faithfully,


ERNST & YOUNG
No. AF 0039
Chartered Accountants


LEE AH TOO
No. 2187/09/05(J)
Partner of the Firm