

10. DIRECTORS REPORT

(Prepared for inclusion in this Prospectus on DBE's letterhead)



GURNEY™

D.B.E. GURNEY RESOURCES BERHAD

(Company No. 535763-A)

7 January 2004

The Shareholders of
D.B.E. Gurney Resources Berhad
No. 400 Jalan Kamunting
Batu 2, Taman Saujana
34600 Kamunting
Perak Darul Ridzuan

Head Office	Plot 138, Kawasan Perindustrian Pelabuhan Lumut, Kg. Aceh, 32000 Sitiawan, Perak Darul Ridzuan, Malaysia.
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Dear Sir/Madam,

For and on behalf of the Directors of D.B.E. Gurney Resources Berhad ("DBE"), I report after due enquiry that during the period from 31 August 2003 (being the date to which the last audited accounts of DBE and its subsidiaries have been made) to 7 January 2004 (being a date not earlier than fourteen days before the issue of this Prospectus) that :-

- (a) the business of the Company and its subsidiaries have, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited accounts of the Company and its subsidiaries which have adversely affected the business and operations or the value of the assets of the Company and its subsidiaries;
- (c) the current assets of the Company and its subsidiaries appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in Section 9.4(iii) of this Prospectus, no contingent liabilities have arisen by reason of any guarantees given by the Company and its subsidiaries;
- (e) in the opinion of the Directors, they are not aware of since the last audited accounts of the Group where, any default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings; and
- (f) since the last audited accounts of the Company and its subsidiaries, save as disclosed in the Accountants' Report and Proforma Consolidated Balance Sheet as set out in Sections 11 and 9.11 respectively of this Prospectus, there has been no changes in published reserve nor any unusual factors affecting the profits of the Company and its subsidiaries.

Yours faithfully

On behalf of the Board of Directors of
D.B.E. GURNEY RESOURCES BERHAD


DATO LIM SIANG CHOW
Executive Chairman

11. ACCOUNTANTS' REPORT

(Prepared for inclusion in the Prospectus)



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Date: 7 January 2004

The Board of Directors
D.B.E. GURNEY RESOURCES BERHAD
400, Jalan Kamunting, Batu 2
34600 Kamunting
Perak Darul Ridzuan

Dear Sirs,

1. INTRODUCTION

The following report has been prepared by Messrs. Siva Tan & Co., an approved company auditors, for inclusion in the Prospectus to be dated 15 January 2004 in connection with the Public Issue of 11,600,000 new ordinary shares of RM0.50 each in D.B.E. Gurney Resources Berhad (hereinafter referred to as "DBE" or "the Company") at an issue price of RM1.20 per share and the Offer for Sale of 9,400,000 ordinary shares of RM0.50 each in DBE at an offer price of RM1.20 per share and the listing of and quotation for the entire enlarged issued and paid-up share capital of DBE on the Second Board of the Malaysia Securities Exchange Berhad ("MSEB").

2. GENERAL INFORMATION

2.1 INCORPORATION

The Company was incorporated in Malaysia under the Companies Act, 1965 on 2 January 2001 as a private limited company and changed its status to a public limited company on 6 February 2003.

2.1.1 SUBSIDIARY COMPANIES

On 29 October 2001, the Company acquired the entire issued share capital in the following companies, the principal activities of which are as follows:-

- i) **D.B.E. Breeding Sdn. Bhd. ("DBE Breeding")**
Operating poultry breeding farms and sales of eggs.
- ii) **D.B.E. Hatchery Sdn. Bhd. ("DBE Hatchery")**
Hatchery of day-old broiler chicks.
- iii) **D.B.E. Poultry Sdn. Bhd. ("DBE Poultry")**
Operating broiler farms, trading in related farm products and materials and poultry feed mill operations.
- iv) **D.B.E. Food Processing Industries Sdn. Bhd. ("DBE Food Processing")**
Processing and sales of chicken and other food stuff.
- v) **D.B.E. Marketing Sdn. Bhd. ("DBE Marketing")**
Trading of broilers, feeds and related poultry farm products.
- vi) **D.B.E. Gurney Chicken Sdn. Bhd. ("DBE Chicken")**
Operating retail food and beverages sale outlets.
- vii) **D.B.E. Poultry Feedmills Sdn. Bhd. ("DBE Feedmills")**
This company has remained dormant since its date of incorporation.

11. ACCOUNTANTS' REPORT (CONT'D)

2.2 SHARE CAPITAL

At the date of incorporation, the Company's authorised share capital was RM100,000 divided into 100,000 ordinary shares of RM1.00 each. On 25 February 2002, the authorised share capital was increased from RM100,000 to RM50,000,000 divided into 45,500,000 ordinary shares of RM1.00 each and 4,500,000 preference shares of RM1.00 each. On 20 October 2003, the authorised 4,500,000 preference shares of RM1.00 each were converted into 4,500,000 ordinary shares of RM1.00 thereby resulting in the Company having only one class of shares, comprising 50,000,000 ordinary shares of RM1.00 each.

On 27 October 2003, the authorised share capital of the Company, comprising 50,000,000 ordinary shares of RM1.00 each was sub-divided into 100,000,000 ordinary shares of RM0.50 each.

The present issued and paid-up share capital of the Company is RM34,200,000 comprising 68,400,000 ordinary shares of RM0.50 each. Upon completion of the Public Issues, the issued and paid-up capital of DBE will be enlarged to RM40,000,000 comprising 80,000,000 ordinary shares of RM0.50 each.

The changes in the Company's issued and fully paid-up ordinary share capital since its incorporation are as follows:-

Date of Allotment	No of shares	Par Value RM	Consideration	Cumulative Issued and Paid-up Share Capital No. of Shares	RM
02.01.2001	5	1.00	Cash - Subscribers' shares	5	5
22.05.2001	995	1.00	Cash allotment	1,000	1,000
25.02.2002	14,000,000	1.00	Acquisitions of the entire issued share capital in subsidiary companies via issuance of 14,000,000 in DBE shares at an issue price of RM1.40 per share	14,001,000	14,001,000
25.02.2002	161,290	1.00	Cash allotment issued at RM1.55 per share	14,162,290	14,162,290
05.07.2002	2,943,511	1.00	Cash allotment issued at RM1.55 per share	17,105,801	17,105,801
20.10.2003	4,487,558	1.00	Conversion of preference shares	21,593,359	21,593,359
25.10.2003	12,606,641	1.00	Bonus Issue	34,200,000	34,200,000
27.10.2003	34,200,000	0.50	Sub-division of every one(1) ordinary share of RM1.00 each into two(2) ordinary shares of RM0.50 each	68,400,000	34,200,000

On 5 July 2002, the Company issued 4,487,558 10% fixed cumulated redeemable convertible preference shares of RM1.00 each at par by way of cash allotment. On 20 October 2003, all the preference shares were converted into 4,487,558 ordinary shares of RM1.00 each on the basis of one(1) new ordinary share for every existing preference share held.

2.3 PARTICULARS ON SUBSIDIARY COMPANIES

Details of the subsidiaries of the Company, all of which are incorporated in Malaysia, at the date of this report are as follows:-

Name	Date of Incorporation	Issued and Paid-up Share Capital RM	Par Value RM	Effective Equity Interest %
D.B.E. Breeding Sdn. Bhd.	19-03-1991	1,450,000	1.00	100
D.B.E. Hatchery Sdn. Bhd.	15-09-1994	350,000	1.00	100
D.B.E. Poultry Sdn. Bhd.	05-12-1995	5,000,000	1.00	100
D.B.E. Marketing Sdn. Bhd.	27-11-1995	500,003	1.00	100
D.B.E. Food Processing Industries Sdn. Bhd.	15-09-1994	600,000	1.00	100
D.B.E. Gurney Chicken Sdn. Bhd.	03-10-1995	800,000	1.00	100
D.B.E. Feedmills Sdn. Bhd.	16-11-1996	3	1.00	100

The principal activities of the above subsidiaries are set out in Section 2.1.1 above.

2.4 RESTRUCTURING SCHEME

The following restructuring scheme, which was approved by the Securities Commission on 25 September 2003, forms an integral part of the flotation exercise of DBE on the Second Board of the MSEB:-

11. ACCOUNTANTS' REPORT (CONT'D)

i) Conversion of Preference Shares

Conversion of 4,487,558 preference shares of RM1.00 into 4,487,558 new ordinary shares of RM1.00 each on the basis of one (1) new ordinary share of RM1.00 each for every one (1) existing preference share of RM1.00 each held. The conversion was completed on 20 October 2003;

ii) Bonus Issue

The Bonus Issue of 12,606,641 new ordinary shares of RM1.00 each on the basis of approximately 584 new ordinary shares for every 1,000 existing shares held after the conversion of preference shares, by way of capitalisation of DBE's share premium and revenue reserves. The bonus issue was completed on 25 October 2003;

iii) Sub-division of Ordinary Shares

Sub-division of every existing ordinary share of RM1.00 each into two (2) new ordinary shares of RM0.50 each upon completion of the Bonus Issue. The sub-division of ordinary shares was completed on 27 October 2003; and

iv) Public Issue and Offer for Sale

Public Issue of 11,600,000 new ordinary shares of RM0.50 each in DBE at an issue price of RM1.20 per share and Offer for Sale of 9,400,000 ordinary shares of RM0.50 each at an offer price of RM1.20 per share.

3. FINANCIAL STATEMENTS AND AUDITORS

3.1 ACCOUNTING POLICIES

This report is prepared on bases and accounting policies consistent with those normally adopted in the preparation of the accounts of DBE and its subsidiaries.

This report is also prepared based on applicable approved accounting standards adopted by the Malaysian Accounting Standards Board.

3.2 FINANCIAL STATEMENTS AND AUDITORS

We have acted as auditors for DBE and all its subsidiaries throughout the period under review.

The audit reports of the respective companies for the relevant financial years/period were not subject to any audit qualification.

4. SUMMARISED INCOME STATEMENTS

4.1 DBE Group

We set out below the proforma consolidated results of DBE Group for the last five (5) financial years ended 31 December 1998 to 2002 and the eight (8) months ended 31 August 2003. The proforma consolidated results, presented for illustration purposes, are prepared on the basis that DBE had been in existence and had subscribed for the entire issued share capital in all the subsidiaries since their inceptions. The results are to be read in conjunction with the notes thereto.

	Financial Year Ended 31 December					8 months
	1998	1999	2000	2001	2002	Ended
	RM	RM	RM	RM	RM	31.08.2003
						RM
Turnover	34,018,582	37,270,312	44,006,277	64,527,816	88,043,083	76,621,439
Profit before interest, depreciation and taxation	3,539,172	5,665,297	6,489,901	10,346,383	12,023,672	10,031,970
Interest expense	(615,718)	(555,018)	(488,876)	(600,979)	(1,566,136)	(1,671,768)
Depreciation	(281,100)	(300,594)	(537,639)	(631,122)	(769,338)	(2,535,498)
Profit before taxation	2,642,354	4,809,685	5,463,386	9,114,282	9,688,198	5,824,704
Taxation	(361,100)	(358,041)	(1,431,872)	(1,890,147)	(890,186)	(777,256)
Profit after taxation	2,281,254	4,451,644	4,031,514	7,224,135	8,798,012	5,047,448
No. of ordinary shares of RM0.50 each assumed in issue	68,400,000	68,400,000	68,400,000	68,400,000	68,400,000	68,400,000
Gross earnings per share (RM)	0.04	0.07	0.08	0.13	0.14	0.09
Net earnings per share (RM)	0.03	0.07	0.06	0.11	0.13	0.07

11. ACCOUNTANTS' REPORT (CONT'D)

4.1.1 Notes To The Summarised Proforma Consolidated Income Statements of DBE Group

- i) The increase in turnover in financial year 1999 was mainly due to increase in the sales of dressed whole chickens and chickens parts, which attributed mainly to the additional slaughtering equipment acquired and additional direct workers recruited by DBE Food Processing during the year which enhanced its processing capacity as well as the increase in sales of chicken feeds to the Group's contract farming.
- ii) Turnover improved substantially in financial year 2000 mainly due to the expanded capacity in the Group's slaughtering house when the slaughtering process was automated and resulted in a two-fold increase in its processing capacity.
- iii) The significant improvement in turnover for the financial years 2001 was mainly attributed to increased sales to large corporate customers, such as Resort World Berhad, the Group's increased rearing capacity by about 15% and the significant increase in the Group's retailed sales through its new outlet in Sri Manjung, Perak opened in February 2001.
- iv) The increase in turnover for the financial year 2002 was mainly attributed to the Group's further expansion in its broiler farms which increase its rearing capacity by approximately 41%, substantial increase in sales of chicken feeds and other products to the Group's contract farmers and further increase in the Group's retailed sales through its new outlets in Bukit Mertajam (Penang) and Wangsa Maju (Klang Valley) opened in May 2002 and July 2002 respectively.
- v) The pre-tax profit improved substantially for the financial year 1999 mainly due to better gross profit margin achieved resulted from a decrease in the cost of chicken feeds consumed by the Group's broiler farms and increase in the sales of higher-margin products in the Group's sale mix.
- vi) The significant improvement in pre-tax profit for the financial year 2001 was mainly attributed to the higher turnover achieved and an improvement in its gross profit margin resulted from better sales mix achieved and increase in the Group's rearing capacity thereby reduce its reliance on contract farmers and hence enhanced its gross margin.
- vii) The effective tax rates for the financial year 1998 was lower than the then prevailing rate of 28% was mainly attributed to the availability of unabsorbed business losses and capital allowances in certain DBE Group companies to partly offset against their taxable income. A similar deviation for the financial year 1999 was attributed to the waiver of tax payable under the Income Tax (Amendment) Act, 1999. The amount provided for that year were in respect of amount under provided in prior years and deferred taxation provided on certain DBE Group companies for timing differences in respect of their accounting and taxable income. The lower effective rates for the financial years 2001 and 2002 and the 8-month period ended 31 August 2003 were mainly attributed to the claim of reinvestment allowance on capital expenditure incurred by a subsidiary, DBE Poultry, on its expansion in broiler farms and construction of new feedmill plant in 2002.
- viii) The gross and net earnings per share are calculated based on the profit before taxation and profit after taxation divided by 68,400,000 ordinary shares of RM0.50 each assumed in issue for the respective financial years/period.

4.2 DBE Breeding

We set out below the results of DBE Breeding for the last five (5) financial years ended 31 December 1998 to 2002 and the eight (8) months ended 31 August 2003. The results are to be read in conjunction with the notes thereto.

	Financial Year Ended 31 December					8 months
	1998	1999	2000	2001	2002	Ended
	RM	RM	RM	RM	RM	31.08.2003
						RM
Turnover	4,480,653	4,467,509	5,247,501	5,564,807	6,647,802	4,808,199
Profit before interest, depreciation and taxation	831,029	630,178	985,749	1,141,047	1,248,453	1,022,189
Interest expense	(70,409)	(78,517)	(92,452)	(93,441)	(85,732)	(57,429)
Depreciation	(268,933)	(227,035)	(319,853)	(360,768)	(338,024)	(221,548)
Profit before taxation	491,687	324,626	573,444	686,838	824,697	743,212
Taxation	(154,700)	(145,000)	(97,400)	(146,000)	(353,168)	(231,626)
Profit after taxation	336,987	179,626	476,044	540,838	471,529	511,586
No. of ordinary shares of RM1.00 each in issue	1,450,000	1,450,000	1,450,000	1,450,000	1,450,000	1,450,000
Gross earnings per share (RM)	0.34	0.22	0.40	0.47	0.57	0.51
Net earnings per share (RM)	0.23	0.12	0.33	0.37	0.33	0.35

11. ACCOUNTANTS' REPORT (CONT'D)

4.2.1 Notes To The Summarised Income Statements of DBE Breeding

- i) The increase in turnover for the financial year 2000 was mainly attributed to the company's increase capacity resulted from the full operation of its upgraded breeder farms from the conventional open farm to closed farm technique which increase the density of rearing capacity whereas the increase in 2002 was mainly contributed by an additional breeder farm commissioned in 2001 which reached its productive stage in 2002.
- ii) The provision for taxation made for the financial year 1999 was mainly in respect of deferred taxation for timing differences on accounting depreciation charged and capital allowance claimed on capital expenditure incurred on the company's breeder farm upgrade. No current tax charge was made for the year 1999 due to the waiver of tax payable under the Income Tax (Amendment) Act, 1999.

The effective tax rate for the financial year 2000 was lower than the then prevailing rate of 28% was mainly due to the availability of unabsorbed capital allowance brought forward to partly offset against its current year taxable income. The higher tax rate for financial year 2002 was mainly attributed to the under provision for 2001 taken up in 2002.

- iii) There were no extraordinary nor exceptional items in respect of all the financial years/period under review.
- iv) The gross and net earnings per share are calculated based on the profit before taxation and profit after taxation divided by the number of ordinary shares in issue during the respective financial years/period.

4.3 DBE Hatchery

We set out below the results of DBE Hatchery for the last five (5) financial years ended 31 December 1998 to 2002 and the eight (8) months ended 31 August 2003. The results are to be read in conjunction with the notes thereto.

	Financial Year Ended 31 December					8 months
	1998	1999	2000	2001	2002	Ended 31.08.2003
	RM	RM	RM	RM	RM	RM
Turnover	5,031,475	5,134,432	5,929,285	6,222,750	7,523,840	5,620,926
Profit before interest, depreciation and taxation	535,608	551,514	485,185	414,156	590,170	555,643
Interest expense	(40,065)	(29,108)	(24,506)	(18,364)	(1,970)	(18)
Depreciation	(146,842)	(149,248)	(155,667)	(156,343)	(131,078)	(87,386)
	348,701	373,158	305,012	239,449	457,122	468,239
Exceptional item	-	-	-	109,391	-	-
Profit before taxation	348,701	373,158	305,012	348,840	457,122	468,239
Taxation	(73,000)	10,000	(79,000)	(68,600)	(131,837)	(123,836)
Profit after taxation	275,701	383,158	226,012	280,240	325,285	344,403
No. of ordinary shares of RM1.00 each in issue	350,000	350,000	350,000	350,000	350,000	350,000
Gross earnings per share (RM)	1.00	1.07	0.87	0.68	1.31	1.34
Net earnings per share (RM)	0.79	1.09	0.65	0.80	0.93	0.98

4.3.1 Notes To The Summarised Income Statements of DBE Hatchery

- i) The increase in turnover for the financial years 2000 and 2002 were mainly attributed to the higher volume of eggs hatched as supplies from the Group's breeder farms increased as a result of its upgrade from open farm to closed farm technique in 2000 and additional breeder farm in 2002.
- ii) The lower effective rate observed for 1998 as compared to the statutory rate were mainly due to the availability of unabsorbed tax loss and capital allowance brought forward from prior years to partly offset against its current year's taxable income.
The credit in the tax charge for the financial year 1999 and a lower effective rate for the financial year 2000 were mainly attributed to the transfer from the deferred taxation provided in prior years as a result of a reversal in timing differences between accounting and taxable income of the company during the respective years.
- iii) The exceptional item for the financial year 2001 was in respect of a gain on disposal of the company's landed property to DBE Poultry.
- iv) The gross and net earnings per share are calculated based on the profit before taxation and profit after taxation divided by the number of ordinary shares in issue during the respective financial years/period.

11. ACCOUNTANTS' REPORT (CONT'D)**4.4 DBE Poultry**

We set out below the results of DBE Poultry for the last five (5) financial years ended 31 December 1998 to 2002 and the eight (8) months ended 31 August 2003. The results are to be read in conjunction with the notes thereto.

	Financial Year Ended 31 December					8 months
	1998	1999	2000	2001	2002	Ended 31.08.2003
	RM	RM	RM	RM	RM	RM
Turnover	<u>29,496,367</u>	<u>31,934,750</u>	<u>39,081,541</u>	<u>50,680,170</u>	<u>75,331,227</u>	<u>68,320,089</u>
Profit before interest, depreciation and taxation	2,224,337	4,076,116	4,430,298	7,940,988	11,471,980	4,635,479
Interest expense	(169,019)	(188,509)	(132,336)	(201,888)	(1,202,902)	1,465,581
Depreciation	(411,088)	(422,371)	(430,816)	(489,883)	(1,503,222)	(1,661,864)
Profit before taxation	<u>1,644,230</u>	<u>3,465,236</u>	<u>3,867,146</u>	<u>7,249,217</u>	<u>8,765,856</u>	<u>4,439,196</u>
Taxation	(82,900)	(203,341)	(1,128,100)	(1,441,724)	(145,817)	(336,275)
Profit after taxation	<u>1,561,330</u>	<u>3,261,895</u>	<u>2,739,046</u>	<u>5,807,493</u>	<u>8,620,039</u>	<u>4,102,921</u>
No. of ordinary shares of RM1.00 each in issue	500,000	500,000	500,000	500,000	5,000,000	5,000,000
Gross earnings per share (RM)	3.29	6.93	7.73	14.50	1.75	0.89
Net earnings per share (RM)	3.12	6.52	5.48	11.61	1.72	0.82
Fully diluted:						
- gross earnings per share (RM)	0.33	0.69	0.77	1.45	1.75	0.89
- net earnings per share (RM)	0.31	0.65	0.55	1.16	1.72	0.82

4.4.1 Notes To The Summarised Income Statements of DBE Poultry

- i) Turnover improved substantially in financial year 2000 mainly due to the expanded capacity in the Group's slaughtering house when the slaughtering process was automated. The additional supplies of grown-out broilers were mainly sourced from the contract farmers. A general increase in the market share also contributed to the improved turnover as a result of more aggressive marketing effort by the Group's marketing arm, DBE Marketing.
- ii) The significant increases in turnover in financial years ended 2001 and 2002 and the 8-month period ended 31 August 2003 were mainly attributed to the additional farm houses completed during the years/period. The sales of chicken feeds produced from the company's feedmill plant commissioned in 2002 to outside customers also contributed to the Company increased turnover.
- iii) The effective tax rates for the financial years 1998, 2001 and 2002 and the 8-month period ended 31 August 2003 were lower than the then prevailing rate of 28% were mainly attributed to the availability of unabsorbed capital allowances brought forward and reinvestment allowance claimed offset against its taxable income.

No tax charge was made for the financial year 1999 as the tax payable was waived under the Income Tax (Amendment) Act, 1999. The amount provided for that year was in respect of under provision for taxation in prior year.

- iv) There were no extraordinary nor exceptional items in respect of all the financial years/period under review.
- v) The gross and net earnings per share are calculated based on the profit before taxation and profit after taxation divided by the weighted average number of ordinary shares in issue during the respective financial years/period.

The fully diluted gross and net earnings per share are calculated based on the profit before taxation and profit after taxation divided by the number of ordinary shares in issue during the respective financial years adjusted for the bonus issue of 4,500,000 ordinary shares of RM1.00 each issued in the financial year 2002.

11. ACCOUNTANTS' REPORT (CONT'D)**4.5 DBE Marketing**

We set out below the results of DBE Marketing for the last five (5) financial years ended 31 December 1998 to 2002 and the eight (8) months ended 31 August 2003. The results are to be read in conjunction with the notes thereto.

	Financial Year Ended 31 December					8 months
	1998	1999	2000	2001	2002	Ended 31.08.2003
	RM	RM	RM	RM	RM	RM
Turnover	<u>29,177,615</u>	<u>29,374,770</u>	<u>35,073,956</u>	<u>46,918,938</u>	<u>59,181,440</u>	<u>50,761,323</u>
Profit/(Loss) before interest, depreciation and taxation	372,860	373,526	304,693	213,489	165,540	(4,108)
Interest expense	(254,298)	(199,947)	(158,654)	(137,298)	(113,677)	(19,851)
Depreciation	(102,396)	(103,756)	(104,159)	(45,415)	(47,765)	(28,037)
Profit/(Loss) before taxation	<u>16,166</u>	<u>69,823</u>	<u>41,880</u>	<u>30,776</u>	<u>4,098</u>	<u>(51,996)</u>
Taxation	(11,600)	-	(27,900)	(18,273)	(33,953)	(11,509)
Profit/(Loss) after taxation	<u>4,566</u>	<u>69,823</u>	<u>13,980</u>	<u>12,503</u>	<u>(29,855)</u>	<u>(63,505)</u>
No. of ordinary shares of RM1.00 each in issue	500,003	500,003	500,003	500,003	500,003	500,003
Gross earnings/(loss) per share (RM)	0.03	0.14	0.08	0.06	0.01	(0.10)
Net earnings/(loss) per share (RM)	0.01	0.14	0.03	0.03	(0.06)	(0.13)

4.5.1 Notes To The Summarised Income Statements of DBE Marketing

- i) The increase in turnover for the financial years ended 31 December 2000 to 2002 and the 8-month period ended 31 August 2003 were mainly attributed to the higher volume of grown-out broilers produced from the Group's broiler farms and a general increase in the market share as a result of more aggressive marketing effort pursued by the company.
- ii) No tax charge was made for the financial year 1999 as the tax payable was waived under the Income Tax (Amendment) Act, 1999. The higher effective tax rates for the other years/period under review were mainly due to certain expenses incurred which were not tax deductible.
- iii) There were no extraordinary nor exceptional items in respect of all the financial years/period under review.
- iv) The gross and net earnings/(loss) per share are calculated based on the profit/(loss) before taxation and profit/(loss) after taxation divided by the number of ordinary shares in issue during the respective financial years/period.

11. ACCOUNTANTS' REPORT (CONT'D)**4.6 DBE Food Processing**

We set out below the results of DBE Food Processing for the last five (5) financial years ended 31 December 1998 to 2002 and the eight (8) months ended 31 August 2003. The results are to be read in conjunction with the notes thereto.

	Financial Year Ended 31 December					8 months
	1998	1999	2000	2001	2002	Ended 31.08.2003
	RM	RM	RM	RM	RM	RM
Turnover	<u>4,493,386</u>	<u>6,971,624</u>	<u>13,688,242</u>	<u>25,315,596</u>	<u>19,032,230</u>	<u>10,972,605</u>
Profit before interest, depreciation and taxation	334,051	763,039	1,416,630	1,523,076	1,491,931	631,491
Interest expense	(81,927)	(58,937)	(80,261)	(147,986)	(142,260)	(101,032)
Depreciation	(107,377)	(125,890)	(328,536)	(478,603)	(549,922)	(366,929)
	<u>144,747</u>	<u>578,212</u>	<u>1,007,833</u>	<u>896,487</u>	<u>799,749</u>	<u>163,530</u>
Exceptional item	-	-	-	195,654	-	-
Profit before taxation	<u>144,747</u>	<u>578,212</u>	<u>1,007,833</u>	<u>1,092,141</u>	<u>799,749</u>	<u>163,530</u>
Taxation	(38,900)	(19,700)	(99,472)	(215,550)	(225,411)	(74,010)
Profit after taxation	<u>105,847</u>	<u>558,512</u>	<u>908,361</u>	<u>876,591</u>	<u>574,338</u>	<u>89,520</u>
No. of ordinary shares of RM1.00 each in issue	600,000	600,000	600,000	600,000	600,000	600,000
Gross earnings per share (RM)	0.24	0.96	1.68	1.49	1.33	0.27
Net earnings per share (RM)	0.18	0.93	1.51	1.46	0.96	0.15

4.6.1 Notes To The Summarised Income Statements of DBE Food Processing

- i) The substantial increase in turnover for the financial year 1999 was mainly attributed to additional supplies of grown-out broilers from the Group's broiler farms, as a result of the increased capacity in the Group's broiler farms and a general increase in the trading activities of third party food stuff.
- ii) The significant increase in turnover for the financial year 2000 was mainly attributed to the company's two-fold increase in capacity as a result of its slaughtering house extension and the new equipment acquired which automated its slaughtering process.
- iii) The substantial decrease in turnover for the financial year 2002 was mainly attributed to the transfer of certain major customers to DBE Marketing and a decrease in the trading activities of less profitable non-chicken products sourced from outside suppliers.
- iv) No current tax charge was made for the financial year 1999 due to the waiver of tax payable under the Income Tax (Amendment) Act, 1999. The provision made for the year represented a deferred tax charge due to timing difference between the company's accounting and taxable income.

The lower effective tax rate for the financial year 2000 was mainly attributed to the reinvestment allowance claimed and that of 2001 mainly due to a capital gain on disposal of landed property which was not subject to income tax.

- v) The exceptional item for the financial year 2001 was in respect of a gain on disposal of the company's landed property to DBE Poultry.
- vi) The gross and net earnings per share are calculated based on the profit before taxation and profit after taxation divided by the number of ordinary shares in issue during the respective financial years/period.

11. ACCOUNTANTS' REPORT (CONT'D)**4.7 DBE Gurney Chicken**

We set out below the results of DBE Gurney Chicken for the three (3) financial years ended 31 December 2000 to 2002 and the eight (8) months ended 31 August 2003. The results are to be read in conjunction with the notes thereto.

	---Financial Year Ended 31 December---			8 months
	2000	2001	2002	Ended
	RM	RM	RM	31.08.2003
				RM
Turnover	1,193,768	8,304,035	10,205,477	9,606,589
Profit/(Loss) before interest, depreciation and taxation	(266,997)	(116,996)	(305,744)	309,432
Interest expense	(667)	(2,002)	(19,595)	(27,857)
Depreciation	(51,999)	(65,585)	(156,988)	(165,272)
Profit/(Loss) before taxation	(319,663)	(184,583)	(482,327)	116,303
Taxation	-	-	-	-
Profit/(Loss) after taxation	(319,663)	(184,583)	(482,327)	116,303
No. of ordinary shares of RM1.00 each in issue	800,000	800,000	800,000	800,000
Gross earnings/(loss) per share (RM)	(0.40)	(0.23)	(0.60)	0.15
Net earnings/(loss) per share (RM)	(0.40)	(0.23)	(0.60)	0.15

4.7.1 Notes To The Summarised Income Statements of DBE Gurney Chicken

- DBE Gurney Chicken was incorporated on 3 October 1995 and commenced operation on 1 April 2000. Consequently, there was no income statement prepared for the financial years prior to the financial year 2000.
- The increase in the turnover for the financial years ended 31 December 2001 and 2002 and the 8-month period ended 31 August 2003 were mainly attributed to increase in the number of sales outlet operated by the company. There was one outlet in 2000, two in 2001, four in 2002 and the 8-month period ended 31 August 2003.
- No current tax charge was made for the 8-month period ended 31 August 2003 due to the utilisation of unabsorbed capital allowances and tax losses brought forward.
- There were no extraordinary nor exceptional items in respect of all the financial years/period under review.
- The gross and net earnings per share are calculated based on the profit before taxation and profit after taxation divided by the number of ordinary shares in issue during the respective financial years/period.

4.8 DBE Feedmills

DBE Feedmills was incorporated on 16 November 1996 and has remained dormant throughout the period under review.

5. DIVIDENDS

There were no dividends paid or declared by DBE or its subsidiaries during the financial periods/years under review except for the following dividend declared and paid by DBE, DBE Poultry, DBE Food Processing and DBE Hatchery:-

Financial Year		Paid up Capital RM	Dividend Rate Gross	Net Dividend Paid RM	Tax Deducted at Source RM
Preference Shares:					
DBE					
31 December 2002	Second half-year of 2002	4,487,558	10% p.a.	161,552	62,826
31 December 2003	01-01-2003 to 27-10-2003	4,487,558	10% p.a.	265,565	103,275
Ordinary Shares:					
DBE					
31 December 2002	1st and Final	17,105,801	5%	615,809	239,481

11. ACCOUNTANTS' REPORT (CONT'D)**DBE Poultry**

31 December 2001	1st and Final	500,000	620%	3,100,000	Tax exempt
31 December 2002	1st and Final	5,000,000	24%	864,000	336,000
31 December 2002	1st and Final	5,000,000	16%	800,000	Tax exempt
31 December 2003	Interim	5,000,000	60%	2,160,000	840,000
31 December 2003	Interim	5,000,000	70%	3,500,000	Tax exempt

DBE Food Processing

31 December 2003	Interim	600,000	92%	396,000	154,000
31 December 2003	Interim	600,000	58%	350,000	Tax exempt

DBE Hatchery

31 December 2003	Interim	350,000	100%	350,000	Tax exempt
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6. SUMMARISED BALANCE SHEETS

We set out below the summarised audited balance sheets of DBE and its subsidiaries for the relevant periods/years:

6.1 DBE

DBE was incorporated on 2 January 2001 and made up its first set of financial statements for the period from its date of incorporation to 31 December 2001.

	As at 31.12.2001 RM	As at 31.12.2002 RM	As at 31.08.2003 RM
Current assets	190,246	8,953,982	10,701,769
Less : Current liabilities	(268,947)	(463,326)	(1,373,154)
Net current assets/(liabilities)	(78,701)	8,490,656	9,328,615
Investment in subsidiary companies	19,582,279	19,582,279	19,582,279
Property, plant and equipment	-	57,230	57,439
	<u>19,503,578</u>	<u>28,130,165</u>	<u>28,968,333</u>
Financed by:			
Share capital - Ordinary shares	1,000	17,105,801	17,105,801
Share capital - Preference shares	-	4,487,558	4,487,558
Share premium	-	7,241,762	7,241,762
Retained profits/(Accumulated loss)	(31,543)	(704,956)	133,211
Amount due to shareholders	19,534,121	-	-
	<u>19,503,578</u>	<u>28,130,165</u>	<u>28,968,332</u>
Net tangible assets per share of RM1.00 each (RM)	(30.54)	1.38	1.43

6.2 DBE Breeding

	-----As at 31 December-----					As at
	1998 RM	1999 RM	2000 RM	2001 RM	2002 RM	31.08.2003 RM
Current assets	5,113,520	2,752,039	1,608,899	1,299,698	1,353,686	4,350,008
Less : Current liabilities	(5,463,132)	(3,344,838)	(2,867,877)	(3,579,550)	(3,001,575)	(5,436,779)
Net current liabilities	(349,612)	(592,799)	(1,258,978)	(2,279,852)	(1,647,889)	(1,086,771)
Property, plant and equipment	2,963,713	3,709,974	4,757,779	6,164,714	5,987,591	5,840,974
	2,614,101	3,117,175	3,498,801	3,884,862	4,339,702	4,754,203
Long-term and deferred liabilities	(623,365)	(946,813)	(852,395)	(697,618)	(680,929)	(583,844)
	<u>1,990,736</u>	<u>2,170,362</u>	<u>2,646,406</u>	<u>3,187,244</u>	<u>3,658,773</u>	<u>4,170,359</u>
Financed by:						
Share capital	1,450,000	1,450,000	1,450,000	1,450,000	1,450,000	1,450,000
Retained profits	540,736	720,362	1,196,406	1,737,244	2,208,773	2,720,359
	<u>1,990,736</u>	<u>2,170,362</u>	<u>2,646,406</u>	<u>3,187,244</u>	<u>3,658,773</u>	<u>4,170,359</u>
Net tangible assets per share of RM1.00 each (RM)	<u>1.37</u>	<u>1.50</u>	<u>1.83</u>	<u>2.20</u>	<u>2.52</u>	<u>2.88</u>

11. ACCOUNTANTS' REPORT (CONT'D)**6.3 DBE Hatchery**

	As at 31 December					As at
	1998 RM	1999 RM	2000 RM	2001 RM	2002 RM	31.08.2003 RM
Current assets	1,468,418	326,253	991,440	695,117	1,278,951	6,363,147
Less : Current liabilities	(2,258,072)	(646,492)	(1,176,368)	(240,534)	(393,380)	(5,048,887)
Net current assets/(liabilities)	(789,654)	(320,239)	(184,928)	454,583	885,571	1,314,260
Property, plant and equipment	1,515,712	1,409,855	1,466,956	1,081,285	961,182	873,796
	726,058	1,089,616	1,282,028	1,535,868	1,846,753	2,188,056
Long-term and deferred liabilities	(97,100)	(77,500)	(43,900)	(17,500)	(3,100)	-
	628,958	1,012,116	1,238,128	1,518,368	1,843,653	2,188,056
Financed by:						
Share capital	350,000	350,000	350,000	350,000	350,000	350,000
Retained profits	278,958	662,116	888,128	1,168,368	1,493,653	1,838,056
	628,958	1,012,116	1,238,128	1,518,368	1,843,653	2,188,056
Net tangible assets per share of RM1.00 each (RM)	1.80	2.89	3.54	4.34	5.27	6.25

6.4 DBE Poultry

	As at 31 December					As at
	1998 RM	1999 RM	2000 RM	2001 RM	2002 RM	31.08.2003 RM
Current assets	2,398,405	5,597,370	10,605,714	5,735,526	15,532,226	24,386,311
Less : Current liabilities	(1,707,085)	(1,440,252)	(5,707,994)	(11,019,077)	(32,160,361)	(41,643,896)
Net current assets/(liabilities)	691,320	4,157,118	4,897,720	(5,283,551)	(16,628,135)	(17,257,585)
Property, plant and equipment	3,515,408	3,151,308	4,643,146	21,808,552	51,844,819	57,661,643
Investment	-	-	-	-	13,000	13,000
	4,206,728	7,308,426	9,540,866	16,525,001	35,229,684	40,417,058
Long-term and deferred liabilities	(2,080,741)	(1,920,544)	(1,413,938)	(5,690,580)	(15,775,224)	(18,523,676)
	2,125,987	5,387,882	8,126,928	10,834,421	19,454,460	21,893,382
Financed by:						
Share capital	500,000	500,000	500,000	500,000	5,000,000	5,000,000
Retained profits	1,625,987	4,887,882	7,626,928	10,334,421	14,454,460	16,893,382
	2,125,987	5,387,882	8,126,928	10,834,421	19,454,460	21,893,382
Net tangible assets per share of RM1.00 each (RM)	4.25	10.78	16.25	21.67	3.89	4.38

6.5 DBE Marketing

	As at 31 December					As at
	1998 RM	1999 RM	2000 RM	2001 RM	2002 RM	31.08.2003 RM
Current assets	4,019,644	5,313,439	7,601,197	5,941,045	7,643,457	23,138,231
Less : Current liabilities	(2,207,549)	(3,482,309)	(5,874,306)	(4,580,945)	(6,546,902)	(22,798,752)
Net current assets	1,812,095	1,831,130	1,726,891	1,360,100	1,096,555	339,479
Property, plant and equipment	281,384	279,446	180,207	144,912	281,599	287,663
	2,093,479	2,110,576	1,907,098	1,505,012	1,378,154	627,142
Long-term and deferred liabilities	(1,573,187)	(1,520,461)	(1,303,003)	(888,414)	(791,411)	(103,904)
	520,292	590,115	604,095	616,598	586,743	523,238
Financed by:						
Share capital	500,003	500,003	500,003	500,003	500,003	500,003
Retained profits	20,289	90,112	104,092	116,595	86,740	23,235
	520,292	590,115	604,095	616,598	586,743	523,238
Net tangible assets per share of RM1.00 each (RM)	1.04	1.18	1.21	1.23	1.17	1.05

11. ACCOUNTANTS' REPORT (CONT'D)**6.6 DBE Food Processing**

	As at 31 December					As at
	1998 RM	1999 RM	2000 RM	2001 RM	2002 RM	31.08.2003 RM
Current assets	703,413	791,353	1,733,603	3,292,503	5,038,719	3,518,881
Less : Current liabilities	(1,245,717)	(976,953)	(2,440,225)	(2,915,897)	(4,494,841)	(2,902,384)
Net current assets/(liabilities)	(542,304)	(185,600)	(706,622)	376,606	543,878	616,497
Property, plant and equipment	1,351,323	1,555,931	3,868,527	3,616,914	3,791,363	3,559,426
Intangible assets	809,019	1,370,331	3,161,905	3,993,520	4,335,241	4,175,923
Long-term and deferred liabilities	(70,750)	(73,550)	(956,763)	(911,787)	(679,170)	(430,332)
	<u>738,269</u>	<u>1,296,781</u>	<u>2,205,142</u>	<u>3,081,733</u>	<u>3,656,071</u>	<u>3,745,591</u>
Financed by:						
Share capital	600,000	600,000	600,000	600,000	600,000	600,000
Retained profits	138,269	696,781	1,605,142	2,481,733	3,056,071	3,145,591
	<u>738,269</u>	<u>1,296,781</u>	<u>2,205,142</u>	<u>3,081,733</u>	<u>3,656,071</u>	<u>3,745,591</u>
Net tangible assets per share of RM1.00 each (RM)	<u>1.23</u>	<u>2.16</u>	<u>3.68</u>	<u>5.14</u>	<u>6.09</u>	<u>6.24</u>

6.7 DBE Gurney Chicken

	As at 31 December					As at
	1998 RM	1999 RM	2000 RM	2001 RM	2002 RM	31.08.2003 RM
Current assets	407,025	406,905	421,212	1,662,563	1,555,339	2,403,869
Less : Current liabilities	(2,374)	(3,524)	(671,078)	(2,165,414)	(3,130,725)	(3,866,615)
Net current assets/(liabilities)	404,651	403,281	(249,866)	(502,851)	(1,575,386)	(1,462,746)
Property, plant and equipment	380,343	380,343	756,888	818,004	1,838,362	1,718,365
Intangible assets	15,006	16,376	-	-	-	-
Long-term and deferred liabilities	800,000	800,000	507,022	315,153	262,976	255,619
	<u>800,000</u>	<u>800,000</u>	<u>480,337</u>	<u>295,754</u>	<u>(186,572)</u>	<u>(70,269)</u>
Financed by:						
Share capital	800,000	800,000	800,000	800,000	800,000	800,000
Accumulated loss	-	-	(319,663)	(504,246)	(986,572)	(870,269)
	<u>800,000</u>	<u>800,000</u>	<u>480,337</u>	<u>295,754</u>	<u>(186,572)</u>	<u>(70,269)</u>
Net tangible assets per share of RM1.00 each (RM)	<u>0.98</u>	<u>0.98</u>	<u>0.60</u>	<u>0.37</u>	<u>(0.23)</u>	<u>(0.09)</u>

6.8 DBE Feedmills

	As at 31 December					As at
	1998 RM	1999 RM	2000 RM	2001 RM	2002 RM	31.08.2003 RM
Current assets	941	921	75	417	388	578
Less : Current liabilities	(10,118)	(11,117)	(12,338)	(16,478)	(17,611)	(18,828)
Net current liabilities	(9,177)	(10,196)	(12,263)	(16,061)	(17,223)	(18,250)
Intangible assets	9,180	10,199	-	-	-	-
	<u>3</u>	<u>3</u>	<u>(12,263)</u>	<u>(16,061)</u>	<u>(17,223)</u>	<u>(18,250)</u>
Financed by:						
Share capital	3	3	3	3	3	3
Accumulated loss	-	-	(12,266)	(16,064)	(17,226)	(18,253)
	<u>3</u>	<u>3</u>	<u>(12,263)</u>	<u>(16,061)</u>	<u>(17,223)</u>	<u>(18,250)</u>
Net tangible assets per share of RM1.00 each (RM)	<u>(3,059)</u>	<u>(3,399)</u>	<u>(4,088)</u>	<u>(5,354)</u>	<u>(5,741)</u>	<u>(6,083)</u>

11. ACCOUNTANTS' REPORT (CONT'D)**7. CASH FLOW STATEMENT**

The audited consolidated cash flow statement of DBE Group for the financial period ended 31 August 2003 is as follows:-

	RM
Cash Flows from Operating Activities	
Profit before taxation	5,824,705
Adjustments for :	
Interest income	(52,588)
Amortisation of goodwill	4,281
Provision for bad and doubtful debts	373,945
Loss on disposal of property, plant and equipment	6,213
Finance costs	1,671,777
Depreciation of property, plant and equipment	2,535,498
Operating profit before working capital changes	<u>10,363,831</u>
Changes in working capital:	
Decrease in inventories	1,014,088
Increase in trade receivables	(8,023,274)
Increase in other receivables, deposits and prepayments	(2,882,388)
Increase in trade payables	7,390,072
Decrease in other payables and accruals	(332,334)
Amount owing to directors	(22,000)
Cash Generated from Operations	<u>7,507,995</u>
Finance costs paid	(1,608,716)
Tax paid	(1,948,732)
Net Cash Flows from Operating Activities	<u>3,950,547</u>
Cash Flows from Investing Activities	
Interest received	52,588
Proceeds from disposal of property, plant and equipment	32,000
Purchase of property, plant and equipment	(7,175,547)
Net Cash Flows from Investing Activities	<u>(7,090,959)</u>
Cash Flows from Financing Activities	
Proceeds from term loans	5,300,000
Proceeds from other bank borrowings	2,447,710
Repayment of term loans	(3,107,775)
Repayment of hire purchase obligations	(1,450,886)
Net Cash Flows from Financing Activities	<u>3,189,049</u>
Net Increase in Cash and Cash Equivalents	<u>48,637</u>
Cash and Cash Equivalents brought forward	<u>(4,540,538)</u>
Cash and Cash Equivalents carried forward	<u>(4,491,901)</u>
Cash and Cash Equivalents carried forward consist of:	
Fixed deposits	285,559
Cash and bank balances	533,000
Bank overdraft	(5,310,460)
Net balance	<u>(4,491,901)</u>

11. ACCOUNTANTS' REPORT (CONT'D)

8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES

The following is a detailed statement of the assets and liabilities of DBE Group based on the audited financial statements of the Group as at 31 August 2003 and on the assumption that the restructuring exercise detailed in Section 2.4 above has been effective as at 31 August 2003 and should be read in conjunction with the notes thereto.

	Note	Audited Accounts as at 31.08.2003 RM	Proforma After Proposal as at 31.08.2003 RM
Assets Employed			
Property, plant and equipment	9.4	69,999,305	69,999,305
Investment	9.5	13,000	13,000
Goodwill on consolidation	9.6	47,097	47,097
Current Assets			
Inventories	9.7	5,449,076	5,449,076
Trade receivables	9.8	17,193,112	17,193,112
Other receivables, deposits and prepayments		4,237,292	4,237,292
Fixed deposits with financial institutions		285,559	285,559
Cash and bank balances		533,000	7,643,000
		<u>27,698,039</u>	<u>34,808,039</u>
Less:			
Current Liabilities			
Trade payables		14,222,001	14,222,001
Other payables and accrued expenses		2,546,852	2,546,852
Amount owing to directors	9.9	7,910	7,910
Hire purchase payables	9.10	2,014,452	2,014,452
Term loans	9.11	3,337,577	3,337,577
Tax liabilities		3,126,927	3,126,927
Dividend payable		777,361	777,361
Other bank borrowings	9.12	9,891,460	4,481,460
		<u>35,924,540</u>	<u>30,514,540</u>
Net current assets/(liabilities)		(8,226,501)	4,293,499
Long-term and Deferred Liabilities			
Hire purchase payables	9.10	(3,834,768)	(3,834,768)
Term loans	9.11	(15,581,080)	(15,581,080)
Deferred tax liabilities	9.13	(551,796)	(551,796)
		<u>(19,967,644)</u>	<u>(19,967,644)</u>
		<u>41,865,257</u>	<u>54,385,257</u>
Financed by:			
Share capital:			
- ordinary shares	9.14	17,105,801	40,000,000
- preference shares	9.14	4,487,558	-
Share premium	9.15	7,241,762	6,720,000
Retained profits		13,030,136	7,665,257
		<u>41,865,257</u>	<u>54,385,257</u>

9. NOTES TO THE PROFORMA STATEMENT OF ASSETS AND LIABILITIES

9.1 Basis Of Preparation Of The Financial Statements

The financial statements of the Group have been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards of the Malaysian Accounting Standards Board ("MASB").

9.2 Significant Accounting Policies

a) Accounting Convention

The financial statements of the Group are prepared under the historical cost convention.

11. ACCOUNTANTS' REPORT (CONT'D)

b) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation. Property, plant and equipment are depreciated over their estimated useful lives on a straight line method. The annual rates used are as follow:-

	%
Birdhouses	10
Farm buildings	2 -10
Cold room	10
Electrical installation and fittings	10
Plant and machinery	10
Motor vehicles	10 - 20
Office equipment	10 -20
Furniture and fittings	10
Signboards	10
Renovation	10

Freehold lands are not depreciated. Long leasehold land and building are amortised evenly over the applicable remaining lease period.

c) Basis of Consolidation

The Group's consolidated financial statements include the financial statements of the Company and all its subsidiary companies consolidated using the acquisition method of accounting where the results of the subsidiaries acquired and disposed during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements. All significant inter-company transactions are eliminated on consolidation.

The difference between the purchase price and the fair value of the net assets of subsidiary company at the date of acquisition is included in the consolidated balance sheet as goodwill on consolidation and is amortised evenly over a period of 10 year.

d) Investment In Subsidiary Company

Subsidiaries are those companies controlled by the Company. Control exists when the Company holds more than half of the issued ordinary share capital or the voting power of the investee companies or controls the composition of the board of directors and have power to govern their financial and operating policies.

Investment in subsidiary companies which is eliminated on consolidation, is stated at cost in the Company's financial statements. Provision for diminution in value is made when, in the opinion of the directors, there is a permanent impairment in the value of the investment.

e) Other Investment

Other investment is stated at cost less any permanent diminution in value of the investment.

f) Inventories

Inventories are stated at the lower of cost and net realisable value after adequate provision has been made for all deteriorated, damaged, obsolete or slow moving inventories, valued on a first-in, first-out method. Cost consists of purchases and other direct costs in bringing the inventories to its present condition and location.

g) Bad and Doubtful Debts

Known bad debts are written off and specific provision is made for any considered to be doubtful of collection.

h) Revenue Recognition

Revenue is recognised upon delivery of goods sold and customer acceptance and is stated net of returns and discounts.

Interest income is recognised when the right to received payment is established and dividend income is recognised on receipt basis.

i) Impairment Loss

The carrying amount of the Group's financial assets are reviewed for impairment losses when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying amounts of the assets with their recoverable amounts. An impairment loss is charged to the income statement immediately.

Reversal of impairment losses recognised in prior year is recorded where there is indication that the impairment losses recognised for the assets no longer exist or have decreased. The reversal is recognised to the extent of the asset's carrying amount that would have been determined, net of depreciation and amortisation, had no impairment loss been recognised. The reversal is recognised in the income statement immediately.

11. ACCOUNTANTS' REPORT (CONT'D)

j) Transactions In Foreign Currencies

Transaction in foreign currencies are recorded in Ringgit Malaysia at the rates of exchange with approximate rates ruling at the dates of the transactions. Assets and liabilities in foreign currencies at the balance sheet date are reported in Ringgit Malaysia at rates ruling at that date. Exchange differences are dealt with through the income statement.

The principal closing rates of exchange used in the preparation of the financial statements are as follows:

	RM
One Euro Dollar	4.40
One US Dollar	3.80

k) Deferred Tax Liabilities

Provision for deferred tax liabilities is calculated on the 'liability' method at current tax rate on all material timing differences. However, where the timing differences that give rise to net future tax benefits, the effects are recognised generally on actual realisation.

l) Cash and Cash Equivalents

Cash and cash equivalents represent cash and bank balances, bank overdrafts and deposits with financial institutions. Cash equivalents are short-term, highly liquid investments that are readily convertible to cash with insignificant risk of changes in value.

9.3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to price risks, including market and interest rate risk, along with credit, liquidity, currency and cash flow risk. The Group has adopted risk management policies that seek to mitigate these risks in a cost-effective manner. Significant financial assets that expose the Group to financial risk consist principally of cash and cash equivalents, inventories, trade and other receivables. Significant financial liabilities that expose the Group to financial risk consist principally of trade and other payables, term loans, hire purchase payables and other bank borrowings.

Market risk

Market risk is the risk that value of the financial instrument will fluctuate due to changes in market prices. In this respect, the Group's main market risk exposure are changes in the prices of its input materials and goods for sale.

Interest rate risk

The Group's borrowings comprise a mixture of fixed and floating interest-bearing debts. The Group manages its interest exposure by maintaining a prudent mix of fixed and floating rate borrowings. This strategy allows it to gain access to cheaper funding in a low interest rate environment and achieve a certain level of protection against hikes.

Credit risk

The Group is exposed to credit risk mainly from trade receivables. The Group extends credit to its customers based upon careful evaluation of the customer's financial condition and credit history. The Group also ensures sales are made to a large number of customers so as to limit high concentration in a customer.

Liquidity risk

The Group practices prudent liquidity risk management to minimise the mismatch of financial assets and liabilities and to maintain sufficient credit facilities for contingent funding requirement of working capital.

Cash flow risk

The Group reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

Fair values

The fair values of the financial assets and financial liabilities reported in the balance sheet as at 31st August, 2003 approximate the carrying amounts of these assets and liabilities because of the immediate or short-term maturity of these financial instruments except for the following:-

	Carrying Amount RM	Fair value RM
Financial liabilities		
Hire purchase payables (Section 9.10)	5,849,220	5,417,642
Term loans (Section 9.11)	<u>18,918,657</u>	<u>16,712,217</u>

11. ACCOUNTANTS' REPORT (CONT'D)**9.4 Property, Plant and Equipment**

<u>Cost</u>	As at	Additions/	Reclassification	As at
	01.01.2003	(Disposals)		31.08.2003
	RM	RM	RM	RM
Freehold land	6,628,763	-	-	6,628,763
Long leasehold land and buildings	11,531,744	76,568	-	11,608,312
Farm buildings and birdhouses	12,019,271	1,928,863	9,011,483	22,959,617
Plant and machineries	11,744,097	393,889	399,895	12,537,881
Cold rooms	440,839	56,690	-	497,529
Motor vehicles	1,375,610	9,215	359,301	1,744,126
Office equipment	676,609	61,514	-	738,123
Furniture and fittings	460,769	99,522	-	560,291
Electrical installation and fittings	723,160	579,043	-	1,302,203
Renovation	94,169	1,130	-	95,299
Signboards	43,094	18,730	-	61,824
Landscaping	-	11,771	-	11,771
Assets under hire purchase/leasing:				
- birdhouses	2,464,762	-	-	2,464,762
- motor vehicles	3,525,596	644,867	(359,301)	3,811,162
- plant and machinery	2,958,920	-	(399,895)	2,559,025
- cold room	961,500	-	-	961,500
Capital work-in-progress:				
- farm equipment	-	3,810,400	-	3,810,400
- birdhouses	18,663,177	69,667	(9,011,483)	9,721,361
	<u>74,312,080</u>	<u>7,761,869</u>	<u>-</u>	<u>82,073,949</u>
Accumulated Depreciation				
Freehold land	-	-	-	-
Long leasehold land and buildings	184,271	162,338	-	346,609
Farm buildings and birdhouses	2,881,876	774,078	-	3,655,954
Plant and machineries	2,789,917	846,893	279,929	3,916,739
Cold rooms	195,080	32,956	-	228,036
Motor vehicles	900,857	126,839	221,770	1,249,466
Office equipment	245,181	59,420	-	304,601
Furniture and fittings	65,927	34,524	-	100,451
Electrical installation and fittings	350,200	56,315	-	406,515
Renovation	24,745	6,325	-	31,070
Signboards	8,630	3,512	-	12,142
Landscaping	-	785	-	785
Assets under hire purchase/leasing:				
- birdhouses	103,520	-	-	103,520
- motor vehicles	903,905	262,648	(221,770)	944,783
- plant and machinery	655,055	93,764	(279,929)	468,890
- cold room	240,770	64,313	-	305,083
Capital work-in-progress:				
- farm equipment	-	-	-	-
- birdhouses	-	-	-	-
	<u>9,549,934</u>	<u>2,524,710</u>	<u>-</u>	<u>12,074,644</u>

11. ACCOUNTANTS' REPORT (CONT'D)

	As at 01.01.2003 RM	As at 31.08.2003 RM
Net Book Value		
Freehold land	6,628,763	6,628,763
Long leasehold land and buildings	11,347,473	11,261,703
Farm buildings and birdhouses	9,137,395	19,303,663
Plant and machineries	8,954,180	8,621,142
Cold rooms	245,759	269,493
Motor vehicles	474,753	494,660
Office equipment	431,428	433,522
Furniture and fittings	394,842	459,840
Electrical installation and fittings	372,960	895,688
Renovation	69,424	64,229
Signboards	34,464	49,682
Landscaping	-	10,986
Assets under hire purchase/leasing:		
- birdhouses	2,361,242	2,361,242
- motor vehicles	2,621,691	2,866,379
- plant and machinery	2,303,865	2,090,135
- cold room	720,730	656,417
Capital work-in-progress:		
- feedmill plant and machinery	-	3,810,400
- birdhouses	18,663,177	9,721,361
	<u>64,762,146</u>	<u>69,999,305</u>

The freehold and leasehold land and buildings of the Group costing RM17,492,520 (2001:RM18,160,507) have been pledged to financial institutions for credit facilities granted to certain subsidiary companies.

9.5 Investment

	Audited Accounts as at 31.08.2003 RM	Proforma After Proposal as at 31.08.2003 RM
Malaysian quoted shares at cost	13,000	13,000

9.6 Goodwill on Consolidation

	Audited Accounts as at 31.08.2003 RM	Proforma After Proposal as at 31.08.2003 RM
Goodwill arising from consolidation of subsidiaries acquired:		
Balance at 1 January 2003	64,222	64,222
Less:		
Cumulative amortisation	17,125	17,125
Balance at 31 August 2003	<u>47,097</u>	<u>47,097</u>

9.7 Inventories

	Audited Accounts as at 31.08.2003 RM	Proforma After Proposal as at 31.08.2003 RM
Trading stock	196,261	196,261
Breeders (Parent stock)	975,387	975,387
Breeder eggs	846,262	846,262
Chicken feeds	2,178,845	2,178,845
Broilers	1,252,321	1,252,321
Total	<u>5,449,076</u>	<u>5,449,076</u>

11. ACCOUNTANTS' REPORT (CONT'D)**9.8 Trade Receivables**

	Audited Accounts as at 31.08.2003 RM	Proforma After Proposal as at 31.08.2003 RM
Gross balance	17,697,895	17,697,895
Less:		
Provision for doubtful debts	504,783	504,783
Net balance	<u>17,193,112</u>	<u>17,193,112</u>

9.9 Amount Owing to Directors

The amount owing to a director is unsecured, interest-free and bears no fixed terms of repayment.

9.10 Hire Purchase Payables

	Audited Accounts as at 31.08.2003 RM	Proforma After Proposal as at 31.08.2003 RM
Portion payable within the next 1 year (included in current liabilities)	2,014,452	2,014,452
Portion payable after the next 1 year (included in long-term liabilities):		
- payable between 1 to 2 years	1,680,710	1,680,710
- payable between 2 to 5 years	2,040,601	2,040,601
- payable after 5 years	113,457	113,457
Total	<u>5,849,220</u>	<u>5,849,220</u>

9.11 Term Loans

	Audited Accounts as at 31.08.2003 RM	Proforma After Proposal as at 31.08.2003 RM
Term loan bearing interest rate at 1.75% above the lender's base lending rate and repayable by 96 monthly instalments commencing in October 2001	4,972,694	4,972,694
Term loan bearing interest rate at 2.0% above the lender's base lending rate and repayable by 36 monthly instalments commencing in November 2001	3,555,640	3,555,640
Term loan under Islamic Banking principle repayable by 60 monthly instalments commencing in September 2001	225,600	225,600
Term loan bearing interest rate at 1.5% above the lender's base lending rate and repayable by 84 monthly instalments commencing in February, 2003	4,824,849	4,824,849
Term loan bearing interest rate at 1.75% above the lender's base lending rate and repayable by 48 monthly instalments commencing in November 2002	5,339,874	5,339,874
Portion payable within the next 1 year (included in current liabilities)	18,918,657	18,918,657
Portion payable after the next 1 year (included in long-term liabilities)	<u>3,337,577</u>	<u>3,337,577</u>
	<u>15,581,080</u>	<u>15,581,080</u>
Repayments due on portion payable after the next 1 year are analysed as follows:-		
- between 1 and 2 years	7,179,375	7,179,375
- between 2 and 5 years	6,248,478	6,248,478
- after 5 years	2,153,227	2,153,227
Total	<u>15,581,080</u>	<u>15,581,080</u>

The above term loans together with the other bank borrowings described in Section 9.12 below are secured by means of the following:-

- a) a debenture over the fixed and floating assets of certain subsidiary companies;
- b) legal charge over landed properties belonging to certain subsidiary companies and directors of the Company; and
- c) joint and several guarantee of all the directors of the Company.

11. ACCOUNTANTS' REPORT (CONT'D)**9.12 Other Bank Borrowings**

	Audited Accounts as at 31.08.2003 RM	Proforma After Proposal as at 31.08.2003 RM
Bank overdrafts	5,310,460	(99,540)
Bankers acceptance	4,581,000	4,581,000
Total	<u>9,891,460</u>	<u>4,481,460</u>

The above bank borrowings together with the term loans described in Section 9.11 above are secured by means of the following:

- a) a debenture over the fixed and floating assets of certain subsidiary companies;
- b) legal charge over landed properties belonging to certain subsidiary companies and directors of the Company; and
- c) joint and several guarantee of all the directors of the Company.

9.13 Deferred Tax Liabilities

	Audited Accounts as at 31.08.2003 RM	Proforma After Proposal as at 31.08.2003 RM
As at 1 January 2003	533,261	533,261
Add:		
Transferred from income statement	18,535	18,535
As at 31 August 2003	<u>551,796</u>	<u>551,796</u>

9.14 Share Capital

	Audited Accounts as at 31.08.2003 RM	Proforma After Proposal as at 31.08.2003 RM
a) Authorised:		
Ordinary shares of RM1.00 each	45,500,000	45,500,000
10% fixed cumulative redeemable convertible preference shares of RM1.00 each	4,500,000	4,500,000
Total	<u>50,000,000</u>	<u>50,000,000</u>
b) Issued and fully paid:		
Ordinary shares of RM1.00/RM0.50* each:		
As at 1 January 2003	17,105,801	17,105,801
Add:		
Conversion of preference to ordinary shares at par	-	4,487,558
Bonus Issue	-	12,606,641
Public Issue	-	5,800,000
	-	22,894,199
As at 31 August 2003	<u>17,105,801</u>	<u>40,000,000</u>

* Pursuant to the restructuring scheme detailed in Section 2.4 above, subsequent to the issue of the Bonus Issue, every one ordinary shares of RM1.00 each will be sub-divided into two (2) new ordinary shares of RM0.50

10% fixed cumulative redeemable convertible preference shares of RM1.00 each:**

As at 1 January 2003	4,487,558	4,487,558
Less:		
Conversion of preference to ordinary shares at par	-	4,487,558
As at 31 August 2003	<u>4,487,558</u>	<u>-</u>

** Pursuant to the restructuring scheme detailed in Section 2.4 above, the preference shares were converted into ordinary shares of RM1.00 each in the Company on the basis of one(1) new ordinary share for every one(1) existing preference share held.

11. ACCOUNTANTS' REPORT (CONT'D)**9.15 Share Premium**

	Audited Accounts as at 31.08.2003 RM	Proforma After Proposal as at 31.08.2003 RM
Balance as 1 January 2003	7,241,762	7,241,762
Add:		
Share premium arising from public issue	-	5,800,000
	<u>7,241,762</u>	<u>13,041,762</u>
Less:		
Bonus issue capitalised from share premium account	-	7,241,762
Estimated listing expenses	-	1,400,000
	<u>-</u>	<u>8,641,762</u>
Balance as at 31 August 2003	<u>7,241,762</u>	<u>4,400,000</u>

9.16 Capital Commitments

	Audited Accounts as at 31.08.2003 RM	Proforma After Proposal as at 31.08.2003 RM
Approved capital expenditure contracted for:		
- purchase of birdhouse equipment	9,044,947	9,044,947

10. NET TANGIBLE ASSETS PER ORDINARY SHARE

Based on the proforma statement of assets and liabilities of DBE Group as at 31 August 2003, the net tangible assets cover per share is calculated as follow :-

	Audited Accounts as at 31.08.2003 RM	Proforma After Proposal as at 31.08.2003 RM
Net tangible assets as at 31 August 2003	<u>41,818,160</u>	<u>54,338,160</u>
Number of ordinary shares of RM1.00 each in issue	17,105,801	
Number of ordinary shares of RM0.50 each in issue		80,000,000
Net tangible assets per ordinary share of RM1.00 each	<u>2.44</u>	
Net tangible assets per ordinary share of RM0.50 each		<u>0.68</u>

11. FINANCIAL STATEMENTS

No audited financial statements have been prepared in respect of any period subsequent to 31 August 2003 for DBE Group.

Yours faithfully,

SIVA TAN & CO.
Firm No.: AF 0785
Chartered Accountants (Malaysia)

TAN TIN
Approval No.: 1451/06/04(J/PH)
Chartered Accountant (Malaysia)