(Prepared for inclusion in this Prospectus)

Horwath

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The Board of Directors
Sern Kou Resources Berhad
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Dear Sirs

SERN KOU RESOURCES BERHAD ("SKRB" OR "THE COMPANY")
ACCOUNTANTS' REPORT

1. PURPOSE OF REPORT

This report has been prepared by Horwath, an approved company auditor, for inclusion in the Prospectus of SKRB to be dated 19 January 2004 in connection with the Offer for Sale of 11,782,000 new ordinary shares of RM0.50 each and Public Issue of 12,680,000 new ordinary shares of RM0.50 each in SKRB at an issue price of RM0.90 per share and the listing of and quotation for the entire enlarged issued and paid-up share capital of SKRB comprising 90,000,000 ordinary shares of RM0.50 each on the Second Board of Malaysia Securities Exchange Berhad ("MSEB").

2. DETAILS OF SKRB AND ITS SUBSIDIARIES

2.1 THE COMPANY

The Company was incorporated on 5 July 2000 in Malaysia as a private limited company under the Companies Act, 1965 under the name of Sern Kou Resources Sdn. Bhd. SKRB was converted to a public company on 13 March 2003. Its principal activities are that of investment holding and provision of management services.

2.2 RESTRUCTURING AND LISTING SCHEME

In conjunction with and as an integral part of the listing of SKRB on the Second Board of MSEB, the Company undertook the following transactions which have been approved by the relevant authorities:-

(a) Declaration of interim tax-exempt dividends of RM6 million comprising RM3.2 million, RM0.25 million and RM2.55 million from the profits after taxation of Sern Kou Furniture Industries Sdn. Bhd. ("SKFI"), S.K. Furniture Sdn. Bhd. ("SK") and Valued Products (M) Sdn. Bhd. ("VPM") respectively for the 8-month period ended 31 August 2003, prior to the implementation of the acquisition by SKRB of SKFI, SK, and VPM as set out below ("Parting of Dividend"). The Parting of Dividend was completed on 14 November 2003;

(b) Sub-division of the par value of the ordinary shares in SKRB from RM1.00 per share to RM0.50 per share ("Share Split") which was completed on 19 November 2003;

(c) Acquisition by SKRB of:-

(i) SKFI

Acquisition of the entire issued and fully paid-up share capital of SKFI comprising 5,000,000 ordinary shares of RM1.00 each for a total purchase consideration of RM11,942,952 which was to be fully satisfied by the issuance of 21,928,642 new ordinary shares of RM0.50 each in SKRB at an issue price of approximately RM0.54 per share ("SKFI Acquisition"). The SKFI Acquisition was completed on 30 November 2003;

(ii) SK

Acquisition of the entire issued and fully paid-up share capital of SK comprising 2,500,000 ordinary shares of RM1.00 each for a total purchase consideration of RM3,434,280 to be fully satisfied by the issuance of 6,305,736 new ordinary shares of RM0.50 each in SKRB at an issue price of approximately RM0.54 per share ("SK Acquisition"). The SK Acquisition was completed on 30 November 2003; and

(iii) VPM

Acquisition of the entire issued and fully paid-up share capital of VPM comprising 5,000,000 ordinary shares of RM1.00 each for a total purchase consideration of RM9,060,225 to be fully satisfied by the issuance of 16,635,622 new ordinary shares of RM0.50 each in SKRB at an issue price of approximately RM0.54 per share ("VPM Acquisition"). The VPM Acquisition was completed on 30 November 2003.

The above are collectively referred to as "Acquisitions" hereinafter. Upon completion of the Acquisitions, SKRB, SKFI, SK and VPM are referred to as "SKRB Group" or "the Group".

The purchase consideration for SKFI, SK and VPM are based on the audited NTA as at 31 December 2002 of RM11,942,952, RM3,434,280 and RM9,060,225, respectively.

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2.2 RESTRUCTURING AND LISTING SCHEME (CONT'D)

(d) Rights issue of 32,446,000 new ordinary shares at an issue price of RM0.50 per share, to be payable in full upon acceptance, on the basis of approximately 7.23 new ordinary shares for every 10 existing ordinary shares of SKRB held after the Acquisitions ("Rights Issue"). The Rights Issue was completed on 9 January 2004;

(e) Offer for sale by the offerors of 11,782,000 ordinary shares of RM0.50 each in SKRB at an offer price of RM0.90 per ordinary share upon completion of the Rights Issue ("Offer for Sale"). Of these, 7,282,000 ordinary shares are reserved for bumiputera investors approved by the Ministry of International Trade and Industry ("MITI"); and 4,500,000 ordinary shares to be allocated for eligible directors, employees, customers and suppliers of the SKRB Group;

(f) Public issue of 12,680,000 new ordinary shares of RM0.50 each at an issue price of RM0.90 per share which will be allocated in the following manner ("Public Issue"):-

(i) 6,000,000 new ordinary shares made available for application by the Malaysian public; and

(ii) 6,680,000 new ordinary shares by way of private placement.

(g) The listing of and quotation for the entire enlarged issued and paid-up share capital of SKRB comprising 90,000,000 ordinary shares of RM0.50 each on the Second Board of MSEB.

2.3 DETAILS OF THE SUBSIDIARIES

A summary of the details of the subsidiaries of SKRB, all of which are incorporated in Malaysia, as at the date of this report is as follows:-

Name	Date of incorporation	Issued and paid-up share capital	Effective equity interest %	Principal activities
SKFI	7 September 1992	RM5,000,000	100	Manufacturing of wooden furniture
SK	4 May 1996	RM2,500,000	100	Manufacturing and trading of metal furniture and parts
VPM	6 January 1995	RM5,000,000	100	Manufacturing and processing of rubberwood and related products

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3. SHARE CAPITAL

As at the date of this report, the authorised share capital of SKRB is RM200,000,000 comprising 400,000,000 ordinary shares of RM0.50 each.

The issued and paid-up share capital of SKRB as of the date of this report is RM38,660,000 comprising 77,320,000 ordinary shares of RM0.50 each.

The changes in the issued and paid-up share capital of the Company since the date of incorporation are as follows:-

Date of allotment	Number of ordinary shares issued	Resultant number of ordinary shares in issue	Par value	Consideration/ Type of issue	Cumulative issued and paid-up ordinary share capital
			RM		RM
5 July 2000	2	2	1.00	Subscriber shares	2
5 March 2003	1,998	2,000	1.00	Cash	2,000
19 November 2003	-	4,000	0.50	Sub-division of par value from RM1.00 to RM0.50 per ordinary share	2,000
30 November 2003	44,870,000	44,874,000	0.50	Shares issued pursuant to the Acquisitions	22,437,000
9 January 2004	32,446,000	77,320,000	0.50	Rights Issue	38,660,000

Upon completion of the Public Issue as detailed in paragraph 2.2, the issued and fully paid-up share capital of SKRB will be enlarged to RM45,000,000 comprising 90,000,000 ordinary shares of RM0.50 each.

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4. RELEVANT FINANCIAL PERIOD

The relevant financial period for the purpose of this report ("Relevant Financial Period") is as follows:-

Company	Relevant Financial Period
SKRB	Financial period from 5 July 2000 (date of incorporation) to 31 December 2000, financial years ended 31 December 2001 and 2002, and 8-month period ended 31 August 2003.
SKFI	Financial years ended 30 September 1998 and 1999, 15-month period ended 31 December 2000, financial years ended 31 December 2001 and 2002, and 8-month period ended 31 August 2003.
SK	Financial years ended 31 May 1998 to 2000, 7-month period ended 31 December 2000, financial years ended 31 December 2001 and 2002, and 8-month period ended 31 August 2003.
VPM	Financial years ended 31 December 1998 to 2002, and 8-month period ended 31 August 2003.

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5. ACCOUNTING STANDARDS AND POLICIES

5.1 BASIS OF PREPARATION

The financial statements of the SKRB Group are prepared under the historical cost convention and modified to include other bases of valuation as disclosed under significant accounting policies below. The financial statements comply with applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

5.2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Group in the preparation of this report are as follows:-

(a) Basis of Consolidation

The proforma consolidated financial statements include the financial statements of the Company and all its subsidiaries.

A subsidiary is defined as a company in which the Group has the power to exercise control over the financial and operating policies so as to obtain benefits from its activities.

All subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of 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.

Intragroup transactions, balances and unrealised gains on transactions are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

(b) Goodwill or Negative Goodwill on Consolidation

Goodwill represents the excess of the fair value of the purchase consideration over the Group's share of the fair values of the identifiable net assets of the subsidiaries at the date of acquisition. Negative goodwill represents the excess of the Group's share of the fair values of the identifiable net assets of the subsidiaries at the date of acquisition over the fair value of the purchase consideration.

Goodwill is stated net of negative goodwill and is retained in the consolidated balance sheet. The carrying value of the goodwill is reviewed annually and is written down for impairment where it is considered necessary. The impairment value of goodwill is taken to the consolidated income statement.

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5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Financial Instruments

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

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 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.

Financial instruments recognised in the balance sheet are disclosed in the individual policy statement associated with each item.

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated under the straight-line method to write off the cost of the assets over their estimated useful lives. The principal annual rates used for this purpose are:-

Long leasehold land	over the lease period of 52 years to 95 years
Buildings	2% to 10%
Plant and machinery, tools and factory equipment	10%
Furniture and fittings	10%
Office equipment, furniture and fittings	10%
Motor vehicles and forklifts	10% to 20%

(e) Impairment of Assets

The carrying values of assets, other than those to which MASB 23 - Impairment of Assets does not apply, are reviewed at each balance sheet date for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts.

An impairment loss is charged to the income statement immediately unless the asset is carried at its revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of a previously recognised revaluation surplus for the same asset.

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5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Impairment of Assets (Cont'd)

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at its revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to the revaluation surplus. However, to the extent that an impairment loss on a same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

(f) Assets under Hire Purchase

Plant and equipment acquired under hire purchase are capitalised in the financial statements and are depreciated in accordance with the policy set out in Note 5.2(d) above. Each hire purchase payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Finance charges are allocated to the income statement over the period of the respective hire purchase agreements.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in-first-out basis, and comprises the purchase price and incidentals incurred in bringing the inventories to their present location and condition. Cost of finished goods and work-in-progress includes the cost of materials, labour and an appropriate proportion of production overheads.

In arriving at net realisable value, due allowance is made for all damaged, obsolete and slow-moving items.

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5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Receivables

Receivables are carried at anticipated realisable value. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the balance sheet date.

(i) Payables

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

(j) Taxation

Taxation for the period comprises current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the period and is measured using the tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise 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.

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 utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised 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 the deferred tax is included in the resulting goodwill or negative goodwill. The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

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5.2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Equity Instruments

Ordinary shares are classified as equity. Dividend proposed on ordinary shares is dealt with in equity in the period in which they are proposed. Dividend proposed is recognised as a liability upon approval.

(l) Foreign Currencies

Transactions in foreign currencies are converted into Ringgit Malaysia at the approximate rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated at the approximate rates ruling as of that date. All exchange differences are taken to the income statement.

(m) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with financial institutions, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(n) Revenue Recognition

(i) Sale of Goods

Sales are recognised upon delivery of goods and customers' acceptance.

(ii) Interest Income

Interest income is recognised on an accrual basis, based on the effective yield on the investment.

(iii) Services

Revenue is recognised when services are rendered.

5.3 CONSISTENCY OF APPLICATION OF ACCOUNTING POLICIES

There were no changes in the significant accounting policies adopted by the Group during the Relevant Financial Period except for the change in the accounting policy adopted by the Group during the financial period ended 31 August 2003 with respect to deferred taxation in compliance with MASB 25 - Income Taxes which became effective from 1 July 2002. However, the change in this accounting policy has no significant effect on the financial statements of the Group for the Relevant Financial Period.

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6. AUDITORS AND AUDIT REPORTS

6.1 AUDITORS

We have acted as the auditors for SKRB, SKFI, SK and VPM for the Relevant Financial Period except for the financial statements of the following financial periods/years which were audited by another firm of accountants:

Company	Financial Periods/Years
SKRB	Financial period from 5 July 2000 (date of incorporation) to 31 December 2000.
SKFI	Financial years ended 30 September 1998 and 1999, and 15-month period ended 31 December 2000.
SK	Financial years ended 31 May 1998 to 2000, and 7-month period ended 31 December 2000.
VPM	Financial years ended 31 December 1998 to 2000.

6.2 AUDIT REPORTS

The financial statements of SKRB, SKFI, SK and VPM for the Relevant Financial Period were reported upon without any qualification.

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7. SUMMARISED INCOME STATEMENTS

7.1 PROFORMA CONSOLIDATED INCOME STATEMENTS OF SKRB GROUP

The summarised proforma consolidated results of the SKRB Group for the Relevant Financial Period have been prepared on the assumption that SKRB Group had been in existence throughout the Relevant Financial Period. The proforma consolidated income statements are prepared for illustration purposes only and should be read in conjunction with the notes hereto:-

	Year ended 31 December					Period from 1.1.2003 to 31.8.2003
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	RM'000
Turnover	24,520	37,032	47,701	59,479	96,464	67,923
Cost of sales	(20,726)	(28,953)	(36,748)	(45,356)	(75,728)	(53,593)
Gross profit	3,794	8,079	10,953	14,123	20,736	14,330
Other operating income	78	113	66	63	23	23
	3,872	8,192	11,019	14,186	20,759	14,353
Administrative expenses	(899)	(1,285)	(1,770)	(2,563)	(2,890)	(2,182)
Selling and distribution expenses	(736)	(1,222)	(1,470)	(1,722)	(2,872)	(1,525)
Other operating expenses	(101)	(194)	(212)	(235)	(372)	(876)
Profit from operations	2,136	5,491	7,567	9,666	14,625	9,770
Finance costs	(488)	(423)	(544)	(962)	(1,303)	(799)
Profit before taxation ("PBT")	1,648	5,068	7,023	8,704	13,322	8,971
Depreciation	568	860	1,301	1,602	1,932	1,364
Interest expense	433	366	461	801	1,064	612
Interest income	(8)	(9)	(4)	-	(13)	(13)
Earnings before interest, depreciation, tax and amortization ("EBIDTA")	2,641	6,285	8,781	11,107	16,305	10,934
Depreciation	(568)	(860)	(1,301)	(1,602)	(1,932)	(1,364)
Interest expense	(433)	(366)	(461)	(801)	(1,064)	(612)
Interest income	8	9	4	-	13	13
PBT	1,648	5,068	7,023	8,704	13,322	8,971
Taxation	(131)	(198)	(1,119)	(1,196)	(3,477)	(1,956)
Profit after taxation ("PAT")	1,517	4,870	5,904	7,508	9,845	7,015
Weighted average number of ordinary shares of RM0.50 each in issue ('000)	*35,899	*41,864	44,874	44,874	44,874	44,874
Gross earnings per share ("EPS") (sen)	4.6	12.1	15.7	19.4	29.7	#20.0
Net EPS (sen)	4.2	11.6	13.2	16.7	21.9	#15.6

* - *Based on the weighted average number of SKRB Shares in issue before the Rights Issue and Public Issue, after taking into consideration the bonus issue of the subsidiaries.*

\# - *Based on the proforma results for the 8-month period ended 31 August 2003.*

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7.1 PROFORMA CONSOLIDATED INCOME STATEMENTS OF SKRB GROUP (CONT'D)

Notes to the proforma consolidated income statements of SKRB Group:-

(a) The proforma consolidated income statements are presented for illustrative purposes only and are prepared based on the audited financial statements of SKRB, SKFI, SK and VPM for the Relevant Financial Period. The proforma consolidated income statements are prepared on the basis that the acquisition of the entire issued and paid-up capital of SKFI, SK and VPM by SKRB had been in effect throughout the Relevant Financial Period.

(b) The proforma consolidated income statements for the Relevant Financial Period have been prepared based on accounting policies consistent with those adopted in the preparation of the audited financial statements of the SKRB Group.

(c) The results of SKFI and SK for the financial years/period ended 1998 to 2000 have been time-apportioned to 31 December.

(d) The difference between the effective tax rate and the statutory tax rate is explained in the notes to the income statements of each individual company.

(e) There were no extraordinary or exceptional items during the Relevant Financial Period under review.

(f) The proforma gross EPS is computed by dividing the profit before taxation by the weighted number of ordinary shares in issue, based on the existing paid-up share capital before the Rights Issue and Public Issue.

(g) The proforma net EPS is computed by dividing the profit after taxation by the weighted number of ordinary shares in issue, based on the existing paid-up share capital before the Rights Issue and Public Issue.

(h) All significant intra-group transactions are eliminated on consolidation and the consolidated results reflect external transactions only.

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7.2 INCOME STATEMENT OF SKRB

The summarised results of SKRB based on its audited financial statements for the Relevant Financial Period are set out below:-

	Period from 5.7.2000 to 31.12.2000 RM'000	Year ended 31 December 2001 RM'000	Year ended 31 December 2002 RM'000	Period from 1.1.2003 to 31.8.2003 RM'000
Turnover	-	-	-	-
Administrative expenses	(4)	(2)	(2)	(8)
Loss before taxation ("LBT")	(4)	(2)	(2)	(8)
Taxation	-	-	-	-
Loss after taxation ("LAT")	(4)	(2)	(2)	(8)
Weighted average number of ordinary shares of RM1.00 each in issue	^	^	^	1,482
Gross loss per share ("LPS") (RM)	(2,000)	(1,000)	(1,000)	#(8.10)

^ - *Issued and fully paid-up capital of RM2 comprising 2 ordinary shares of RM1.00 each.*
\# - *Annualised.*

The losses incurred by SKRB for the Relevant Financial Period were mainly due to preliminary expenses and professional fees incurred such as audit fee, secretarial fee and taxation fee.

7.3 INCOME STATEMENTS OF SKFI

The summarised results of SKFI based on its audited financial statements for the Relevant Financial Period are set out below:-

	Year ended 30 September		Period from 1.10.1999 to	Year ended 31 December		Period from 1.1.2003 to
	1998 RM'000	1999 RM'000	31.12.2000 RM'000	2001 RM'000	2002 RM'000	31.8.2003 RM'000
Turnover	9,537	16,909	29,231	31,972	54,357	36,614
Cost of sales	(8,320)	(13,480)	(22,823)	(24,308)	(42,664)	(28,959)
Gross profit	1,217	3,429	6,408	7,664	11,693	7,655
Other operating income	78	68	5	53	12	13
	1,295	3,497	6,413	7,717	11,705	7,668
Administrative expenses	(383)	(573)	(1,067)	(1,280)	(1,497)	(1,157)
Selling and distribution costs	(419)	(941)	(1,345)	(1,318)	(278)	(1,362)
Other operating expenses	(64)	(178)	(236)	(207)	(2,334)	(446)
Finance costs	(99)	(80)	(171)	(300)	(739)	(473)
PBT	330	1,725	3,594	4,612	6,857	4,230
Depreciation	148	308	639	650	960	674
Interest expense	69	45	114	207	586	346
Interest income	(7)	(10)	(5)	-	(12)	(13)
EBIDTA	540	2,068	4,342	5,469	8,391	5,237
Less : Depreciation	(148)	(308)	(639)	(650)	(960)	(674)
Interest expense	(69)	(45)	(114)	(207)	(586)	(346)
Add : Interest income	7	10	5	-	12	13
PBT	330	1,725	3,594	4,612	6,857	4,230
Taxation	(91)	6	(952)	(143)	(1,807)	(649)
PAT	239	1,731	2,642	4,469	5,050	3,581
Weighted average number of ordinary shares of RM1 each in issue ('000)	*5,000	*5,000	*5,000	5,000	5,000	5,000
Gross EPS (sen)	6.6	34.5	#57.5	92.2	137.1	#126.9
Net EPS (sen)	4.8	34.6	#42.3	89.4	101.0	#107.4

* - *After adjustment for bonus issue.*
\# - *Annualised.*

7.3 INCOME STATEMENTS OF SKFI (CONT'D)

Notes to the income statements of SKFI:-

(a) *Turnover for the financial year ("FY") 1998 increased by 45% to RM9.5 million mainly due to the increase in export sales to Australia. This had led to the increase in PBT to RM330,000.*

(b) *Turnover increased further by 77% to RM16.9 million for FY1999 largely due to the increase in export sales to Australia and United States of America ("US") coupled with the results derived from the participation in furniture trade fairs promoting the Malaysian-made furniture in the global market. The significant increase in turnover had resulted in the improved PBT of RM1.7 million.*

(c) *On an annualised basis, the turnover for the FP2000 was higher by 38% compared to FY1999 mainly due to the increased sales to Australia, United Kingdom ("UK") and the US resulting from the improved marketing efforts as well as the introduction of a range of new products such as dining sets and tables. PBT increased by RM1.2 million or 71% on an annualised basis, mainly due to the increase in turnover and improved gross profit margin arising from the increased production level, lower material costs and the change in product mix.*

(d) *Turnover for the FY2001 was higher by 37% compared to FP2000, on an annualised basis, largely due to the increased export sales to the UK and the US. The decrease in raw materials prices and the concentration on the production of higher profit margin products such as tables and dining sets had resulted in an improvement in the gross profit margin. The effect of the increase in turnover and improved gross profit margin had contributed positively to the increase in PBT by 28% to approximately RM4.6 million.*

(e) *Turnover for the FY2002 had further increased by 70% to RM54.4 million largely due to the increase in export sales to Australia, the UK and the US through continuous promotional efforts carried out in various trade furniture exhibitions. In tandem with the increase in the overall business volume, the operating expenses had also increased. However, the gross profit derived from the significant increase in turnover was more than sufficient to absorb the increase in operating expenses resulting in the increase in PBT by 49% to approximately RM6.9 million.*

(f) *Turnover for the financial period ended 31 August 2003 ("FP2003") increased marginally by 1% on an annualised basis compared to FY2002. Despite the marginal increase in turnover, on an annualised basis, PBT decreased slightly by RM0.5 million or 7% mainly due to the marginal increase in operating overheads.*

(g) *The effective tax rate of SKFI for the FY1998 approximates closely the statutory tax rate of 28%. No provision for tax was made for the profit for the FY1999 as the amount of tax payable was waived, in accordance with the provisions of the Income Tax (Amendment) Act, 1999. The effective tax rates for the FP2000, FY2001 and FP2003 were lower than the statutory tax rate due to the utilisation of reinvestment allowances whilst the effective tax rate for FY2002 was lower than the statutory tax rate due to the availability of increased export sales allowances.*

(h) *There was no exceptional or extraordinary item in the Relevant Financial Period under review.*

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7.3 INCOME STATEMENTS OF SKFI (CONT'D)

(i) The gross EPS is computed by dividing the profit before taxation by the weighted average number of ordinary shares in issue, for the respective Relevant Financial Period.

(j) The net EPS is computed by dividing the profit before taxation by the weighted average number of ordinary shares in issue, for the respective Relevant Financial Period.

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7.4 INCOME STATEMENTS OF SK

The summarised results of SK based on its audited financial statements for the Relevant Financial Period are set out below:-

	Year ended 31 May			Period from 1.6.2000 to	Year ended 31 December		Period from 1.1.2003 to
	1998 RM'000	1999 RM'000	2000 RM'000	31.12.2000 RM'000	2001 RM'000	2002 RM'000	31.8.2003 RM'000
Turnover	2,339	2,685	4,733	7,012	9,682	13,625	9,994
Cost of sales	(2,095)	(2,433)	(4,110)	(4,872)	(7,823)	(11,087)	(8,031)
Gross profit	244	252	623	2,140	1,859	2,538	1,963
Other operating income	1	3	103	19	10	10	11
Administrative and other operating expenses	(38)	(70)	(121)	(160)	(416)	(462)	(354)
Selling and distribution expenses	(116)	(90)	(222)	(201)	(314)	(412)	(371)
Finance costs	-	(2)	(62)	(68)	(97)	(79)	(36)
PBT	91	93	321	1,730	1,042	1,595	1,213
Depreciation	26	79	152	85	159	148	102
Interest expense	-	-	66	58	69	54	14
EBIDTA	117	172	539	1,873	1,270	1,797	1,329
Less : Depreciation	(26)	(79)	(152)	(85)	(159)	(148)	(102)
Interest expense	-	-	(66)	(58)	(69)	(54)	(14)
PBT	91	93	321	1,730	1,042	1,595	1,213
Taxation	(25)	-	(17)	(221)	(390)	(376)	(337)
PAT	66	93	304	1,509	652	1,219	876
Weighted average number of ordinary shares of RM1 each in issue ('000)	*^	*275	*2,418	2,500	2,500	2,500	2,500
Gross EPS (sen)	906,330.0	33.9	13.3	#118.6	41.7	63.8	#72.8
Net EPS (sen)	656,360.0	33.9	12.6	#103.5	26.1	48.8	#52.5

^ - *10 ordinary shares.*
* - *After adjustment for bonus issue.*
\# - *Annualised.*

7.4 INCOME STATEMENTS OF SK (CONT'D)

Notes to the income statements of SK:-

(a) Turnover for FY 1998 increased by 71% to RM2.3 million mainly due to the increase in export sales to Australia. PBT increased in line with the increase in the gross profit arising from the increase in turnover;

(b) Turnover increased slightly by 15% or RM0.3 million to RM2.6 million for FY1999 mainly due to the increase in the export sales to Australia, Saudi Arabia and Singapore. PBT remained constant compared to FY1998 mainly because the slight increase in gross profit was offset by the increase in operating overheads.

(c) Turnover for the FY2000 increased significantly by 76% to RM4.7 million largely due to the increase in export sales to Australia and the two new export markets i.e. the UK and the US. The increase in turnover and gross profit margin resulting from the sale of a higher margin product i.e. dining sets had contributed to the increase in PBT by 245% to RM321,000.

(d) On an annualised basis, turnover for the financial period ended 31 December 2000 ("FP2000") increased further by 154% compared to FY2000 mainly due to the increase in export sales to Australia, and two new markets i.e. Italy and Switzerland. The increase in turnover and an improvement in the gross profit margin resulting from the increase in selling prices of certain products and the drop in main raw material prices coupled with the sale of a higher margin product i.e. dining sets had contributed positively to the increase in PBT by RM2.6 million, on an annualised basis.

(e) Turnover increased by 38% to RM9.68 million for FY2001. However, on an annualised basis, turnover would have been lower by RM2.3 million or 19% mainly due to a decline in export sales to Australia and the US. The gross profit margin had also declined largely due to the overall decrease in selling prices of certain products and the increase in main raw material prices. On an annualised basis, PBT was 65% lower than FP2000 mainly due to the decrease in turnover and gross profit margin.

(f) Turnover for FY2002 increased significantly by 41% to RM13.6 million largely due to the increase in export sales to the US, Saudi Arabia and two new markets i.e. Finland and Norway. With the increase in turnover, PBT increased disproportionately by 53% to RM1.6 million mainly due to the increase in operating overheads at a relatively lower rate of 15%.

(g) Turnover for the financial period ended 31 August 2003 ("FP2003") increased by 10% on an annualised basis compared to FY2002. This is mainly due to the increase in export sales to the US and Europe during the financial period. The increase in turnover resulted in improved PBT by 14% to RM1.8 million, on an annualised basis.

Horwath

7.4 INCOME STATEMENTS OF SK (CONT'D)

(h) *The effective tax rates of SK for the FY1998 approximate closely the statutory tax rate of 28%. No provision for tax was made for the profit for the FY1999 as the amount of tax payable was waived, in accordance with the provisions of the Income Tax (Amendment) Act, 1999. The effective tax rates for FY2000, FP2000, FY2002 and FP2003 were lower than the statutory tax rate due to the utilisation of the reinvestment allowances brought forward. The effective tax rate for FY2001 was higher than the statutory tax rate due to certain expenses being disallowed for taxation purposes.*

(i) *There was no exceptional or extraordinary item in the Relevant Financial Period under review.*

(j) *The gross EPS is computed by dividing the profit before taxation by the weighted average number of ordinary shares in issue, for the respective Relevant Financial Period.*

(k) *The net EPS is computed by dividing the profit before taxation by the weighted average number of ordinary shares in issue, for the respective Relevant Financial Period.*

7.5 INCOME STATEMENTS OF VPM

The summarised results of VPM based on its audited financial statements for the Relevant Financial Period are set out below:-

	← Year ended 31 December →					Period from 1.1.2003 to 31.8.2003
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	RM'000
Turnover	12,884	18,171	19,390	24,578	37,944	28,224
Cost of sales	(11,109)	(14,414)	(15,963)	(19,978)	(31,438)	(23,512)
Gross profit	1,775	3,757	3,427	4,600	6,506	4,712
Other income	-	-	-	-	-	-
	1,775	3,757	3,427	4,600	6,506	4,712
Administrative expenses	(413)	(546)	(712)	(873)	(956)	(684)
Selling and distribution costs	(87)	(81)	(100)	(90)	(126)	(59)
Other operating expenses	(6)	(9)	(13)	(20)	(67)	(143)
Profits from operation	1,269	3,121	2,602	3,617	5,357	3,826
Finance costs	(392)	(292)	(313)	(565)	(484)	(290)
PBT	877	2,829	2,289	3,052	4,873	3,536
Depreciation	323	380	641	793	824	588
Interest expense	370	271	284	525	424	251
EBIDTA	1,570	3,480	3,214	4,370	6,121	4,375
Less : Depreciation	(323)	(380)	(641)	(793)	(824)	(588)
Interest expense	(370)	(271)	(284)	(525)	(424)	(251)
PBT	877	2,829	2,289	3,052	4,873	3,536
Taxation	(55)	(2)	(130)	(663)	(1,296)	(970)
PAT	822	2,827	2,159	2,389	3,577	2,566
Weighted average number of ordinary shares of RM1 each in issue ('000)	*5,000	*5,000	5,000	5,000	5,000	5,000
Gross EPS per share (sen)	17.5	56.6	45.8	61.0	97.5	#106.1
Net EPS (sen)	16.4	56.5	43.2	47.8	71.5	#77.0

* - *After adjustment for bonus issue.*
\# - *Annualised.*

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7.5 INCOME STATEMENTS OF VPM (CONT'D)

Notes to the income statements of VPM:-

(a) *Turnover for the financial year ("FY") 1998 increased by 30% to RM12.9 million mainly due to the increase in demand from the existing customers comprising mainly the local furniture manufacturers in the furniture industry. The savings in production costs resulting from the construction of the in-house preservative treatment and kiln drying facilities during FY1998 had contributed to the improved gross profit margin. With the increase in turnover and gross profit margin, PBT increased significantly by 183% to RM0.9 million.*

(b) *Turnover for FY1999 increased further by 41% to RM18.1 million mainly due to the increase in demand from the major customers and additional new customers, and the marginal increase in selling prices. The full year operations of the in-house preservative treatment and kiln drying facilities had further reduced the overall production costs resulted in the increase in gross profit margin. As the operating overheads were mostly fixed in nature, the increase in turnover and gross profit margin had led to a significant increase in PBT by 223% to RM2.9 million.*

(c) *Turnover for FY2000 increased marginally by 7% to RM19.4 million mainly due to the marginal increase in demand from the existing major customers and introduction of a new product i.e. laminated board during the year. Despite the increase in turnover, PBT decreased by 19% to RM2.3 million largely due to the decline in gross profit margin resulting from the decrease in selling prices of dry rubberwood and the slight increase in production costs due to the construction of additional kiln drying facilities during the year, and the increase in operating overheads such as payroll costs.*

(d) *Turnover for FY2001 increased by 27% to RM24.6 million mainly due to the increase in demand from the existing customers. The increase in turnover had contributed significantly to the increase in PBT by 33% to RM3.1 million.*

(e) *Turnover for FY2002 increased further by 54% to RM37.9 million mainly due to the increased selling prices of dry rubberwood and the demand from the existing major customers together with additional revenue from new customers from the furniture industry. Despite the slight decline in gross profit margin resulting from the increase in purchase prices of wet rubberwood sawn timber, PBT increased by 60% to RM4.9 million mainly due to the increase in turnover.*

(f) *On an annualised basis, the turnover for the financial period ended 31 August 2003 ("FP2003") was slightly higher by 12%. This is mainly due to the increase in demand from the existing major customers and additional new customers, and the marginal increase in selling prices of dry rubberwood. PBT increased by RM0.4 million or 9% on an annualised basis, mainly due to the increase in turnover.*

(g) *No provision for tax was made for the profit for the FY1999 as the amount of tax payable was waived, in accordance with the provisions of the Income Tax (Amendment) Act, 1999. The effective tax rates of VPM for the FY1998, 2000, 2001, 2002 and the FP2003 were lower than the statutory tax rate due to utilisation of reinvestment allowances available.*

Horwath

7.5 INCOME STATEMENTS OF VPM (CONT'D)

(h) There was no exceptional or extraordinary item in the Relevant Financial Period under review.

(i) The gross EPS is computed by dividing the profit before taxation by the weighted average number of ordinary shares in issue, for the respective Relevant Financial Period.

(j) The net EPS is computed by dividing the profit before taxation by the weighted average number of ordinary shares in issue, for the respective Relevant Financial Period.

Horwath

8. SUMMARISED BALANCE SHEETS

8.1 SKRB

The summarised balance sheets of SKRB based on its audited financial statements as at the end of the Relevant Financial Period are as follows:-

	← At 31 December →			At 31 August
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000
Property, plant and equipment	-	-	-	-
Investment in a subsidiary	-	-	-	-
	-	-	-	-
Current assets	-	-	-	3
Current liabilities	(4)	(6)	(8)	(17)
Net current liabilities	(4)	(6)	(8)	(14)
	(4)	(6)	(8)	(14)
Represented by:-				
Share capital	#	#	#	2
Accumulated losses	(4)	(6)	(8)	(16)
Shareholders' equity	(4)	(6)	(8)	(14)
Non current liabilities	-	-	-	-
	(4)	(6)	(8)	(14)

- *Issued and fully paid-up capital of RM2 comprising 2 ordinary shares of RM1.00 each.*

Horwath

8.2 SKFI

The summarised balance sheets of SKFI based on its audited financial statements as at the end of the Relevant Financial Period are as follows:-

	At 30 September		← At 31 December →			At 31 August
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000
Property, plant and equipment	708	1,601	3,371	12,007	11,998	11,633
Investment in a subsidiary	-	423	-	-	-	-
	708	2,024	3,371	12,007	11,998	11,633
Current assets	4,084	7,013	8,682	10,310	12,160	18,837
Current liabilities	(3,741)	(6,063)	(6,200)	(8,273)	(8,707)	(15,450)
Net current assets	343	950	2,482	2,037	3,453	3,387
	1,051	2,974	5,853	14,044	15,451	15,020
Financed by:-						
Share capital	500	500	2,500	5,000	5,000	5,000
Retained profits	551	2,282	2,924	4,893	6,943	7,324
Shareholders' equity	1,051	2,782	5,424	9,893	11,943	12,324
Non current liabilities	-	192	429	4,151	3,508	2,696
	1,051	2,974	5,853	14,044	15,451	15,020
NTA per ordinary share (RM)	2.10	5.56	2.17	1.98	2.39	2.46

Horwath

8.3 SK

The summarised balance sheets of SK based on its audited financial statements as at the end of the Relevant Financial Period are as follows:-

	← At 31 May →			← At 31 December →			At 31 August
	1998 RM'000	1999 RM'000	2000 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000
Property, plant and equipment	214	1,859	2,507	2,498	2,375	2,180	2,150
Intangible assets	3	3	3	-	-	-	-
	217	1,862	2,510	2,498	2,375	2,180	2,150
Current assets	343	1,369	2,150	3,373	2,505	3,252	3,033
Current liabilities	(425)	(2,702)	(2,954)	(2,778)	(1,270)	(1,755)	(952)
Net current (liabilities)/assets	(82)	(1,333)	(804)	595	1,235	1,497	2,081
	135	529	1,706	3,093	3,610	3,677	4,231
Financed by:-							
Share capital	#	300	500	500	2,500	2,500	2,500
Retained profits	135	229	553	2,063	715	934	1,560
Shareholders' equity	135	529	1,053	2,563	3,215	3,434	4,060
Non current liabilities	-	-	653	530	395	243	171
	135	529	1,706	3,093	3,610	3,677	4,231
NTA per ordinary share (RM)	67,500	1.76	2.11	5.13	1.29	1.37	1.62

- *Issued and fully paid-up capital of RM2 comprising 2 ordinary shares of RM1.00 each.*

Horwath

8.4 VPM

The summarised balance sheets of VPM based on its audited financial statements as at the end of the Relevant Financial Period are as follows:-

	← At 31 December →					At 31 August
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000
Property, plant and equipment	5,006	5,064	9,424	10,242	9,840	14,020
Investment in a subsidiary	353	362	-	-	-	-
	5,359	5,426	9,424	10,242	9,840	14,020
Current assets	3,072	4,908	5,971	8,816	9,207	14,273
Current liabilities	(4,564)	(3,864)	(4,695)	(7,761)	(7,129)	(16,513)
Net current (liabilities)/assets	(1,492)	1,044	1,276	1,055	2,078	(2,240)
	3,867	6,470	10,700	11,297	11,918	11,780
Financed by:-						
Share capital	1,000	1,000	5,000	5,000	5,000	5,000
Retained profits	1,109	3,936	2,095	2,483	4,060	4,076
Shareholders' equity	2,109	4,936	7,095	7,483	9,060	9,076
Non current liabilities	1,758	1,534	3,605	3,814	2,858	2,704
	3,867	6,470	10,700	11,297	11,918	11,780
NTA per ordinary share (RM)	2.11	4.94	1.42	1.50	1.81	1.81

9. DIVIDENDS FOR THE RELEVANT FINANCIAL PERIOD

SKFI, SK and VPM have not paid or declared any dividend during the Relevant Financial Period except as follows:-

Company	Financial Period/Year		Ordinary dividend %	Ordinary dividend RM
SKFI	FY 31 December 2002	Interim tax-exempt dividend	60	3,000,000
	FP 31 August 2003	Interim tax-exempt dividend	64	3,200,000
SK	FY 31 December 2002	Interim tax-exempt dividend	40	1,000,000
	FP 31 August 2003	Interim tax-exempt dividend	10	250,000
VPM	FY 31 December 2001	Interim tax-exempt dividend	40	2,000,000
	FY 31 December 2002	Interim tax-exempt dividend	40	2,000,000
	FP 31 August 2003	Interim tax-exempt dividend	51	2,550,000

10. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES

The proforma statements of assets and liabilities of the SKRB Group at 31 August 2003 are prepared based on the audited financial statements of SKRB, SKFI, SK and VPM as at 31 August 2003.

The Proforma Group's statements of assets and liabilities are provided for illustrative purposes only to show the effects of the Share Split, Acquisitions, Rights Issue, Offer for Sale, Public Issue and the utilisation of the proceeds from the Rights Issue and Public Issue as if these transactions had been completed as at 31 August 2003. The gross proceeds receivable by SKRB from the Rights Issue and Public Issue of RM27.635 million will be utilised as follows:-

	RM'000
Investment into lamination line	5,000
Repayment of borrowings	*9,795
Working capital	10,940
Estimated listing expenses	1,900
	27,635

* - *An amount of RM2,575,000 is to be used for the repayment of the term loans existing as of 31 August 2003. The remaining balance of RM7,220,000 has been earmarked for the partial repayment of the new term loans obtained, subsequent to 31 August 2003. The balance of RM7,220,000 has been included in the cash and bank balances for the purpose of the Proforma Consolidated Balance Sheets.*

The Proforma Group's statements of assets and liabilities should be read in conjunction with the accompanying notes thereon.

Horwath

10. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)

As at 31 August 2003	Notes	Company - Audited RM'000	Group Proforma RM'000
Property, plant and equipment	10.1	-	32,803
Current assets			
Inventories	10.2	-	12,273
Trade receivables	10.3	-	12,398
Other receivables, deposits and prepayments	10.4	2	4,009
Tax recoverable		-	312
Fixed deposits with licensed banks	10.5	-	315
Cash and bank balances		1	19,066
Total current assets		3	48,373
Current liabilities			
Trade payables	10.6	-	3,601
Other payables and accruals		-	1,684
Amount owing to directors	10.7	17	17
Dividend payable	10.8	-	6,000
Hire purchase payables	10.9	-	1,005
Short term borrowings	10.10	-	14,437
Provision for taxation		-	255
Total current liabilities		17	26,999
Net current assets		(14)	21,374
		(14)	54,177
Financed by:			
Share capital	10.11	2	45,000
Share premium	10.12	-	5,174
Negative goodwill	10.13	-	1,023
Accumulated losses		(16)	(16)
Shareholders' equity		(14)	51,181
Non-current liabilities			
Long term borrowings	10.14	-	1,666
Deferred taxation	10.15	-	1,330
		(14)	54,177
Number of ordinary shares in issue ('000)		2	90,000
NTA per ordinary share (RM)		N/A	0.57

Horwath

10. PROFORMA STATEMENTS OF ASSETS AND LIABILITIES (CONT'D)

Notes to the Proforma Statements of Assets and Liabilities:-

10.1 PROPERTY, PLANT AND EQUIPMENT

	Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
Long leasehold land	5,519	(187)	5,332
Factory buildings	12,479	(602)	11,877
Plant and machinery, factory equipment, tools and equipment	18,110	(4,328)	13,782
Office equipment and furniture and fittings	845	(272)	573
Motor vehicles	3,285	(2,046)	1,239
	40,238	(7,435)	32,803

The net book value of plant and equipment of the Group acquired under hire purchase terms at the balance sheet date are as follows:-

	RM'000
Plant and machinery	2,723
Motor vehicles	255
	2,978

All the property, plant and equipment of the Group have been pledged to licensed banks as securities for banking facilities granted to the Group.

10.2 INVENTORIES

	RM'000
At cost:-	
Raw materials	2,924
Work-in-progress	6,145
Finished goods	3,204
	12,273

There were no inventories stated at net realisable value at the balance sheet date.

Horwath

10.3 TRADE RECEIVABLES

	RM'000
Gross trade receivables	12,856
Allowance for doubtful debts	(458)
Net trade receivables	12,398

The Group's normal credit terms of trade receivables range from 30 to 60 days. Other credit terms are assessed and approved on a case-by-case basis.

The foreign currency exposure profile of trade receivables of the Group is as follows:

	RM'000
RM equivalent of trade receivables denominated in United States Dollar	6,908

10.4 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Included in other receivables, deposits and prepayments was a trade advance made to a supplier amounting to RM2,761,801.

10.5 FIXED DEPOSITS WITH LICENSED BANKS

The fixed deposits have been pledged as security for banking facilities granted to a subsidiary.

The fixed deposits bore interest at an effective rate of 4% per annum and had an average maturity period of 365 days.

10.6 TRADE PAYABLES

The Group's normal credit terms of trade payables range from 30 to 60 days.

10.7 AMOUNT OWING TO DIRECTORS

The amount owing is unsecured, interest-free and not subject to fixed terms of repayment.

Horwath

10.8 DIVIDEND PAYABLE

	RM'000
Interim tax-exempt dividends:-	
- SKFI (64 sen per ordinary share)	3,200
- SK (10 sen per ordinary share)	250
- VPM (51 sen per ordinary share)	2,550
	6,000

10.9 HIRE PURCHASE PAYABLES

	RM'000
Future minimum hire purchase payables:-	
- Not later than one year	1,067
- Later than one year and not later than five years	293
	1,360
Future finance charges	(76)
Present value of hire purchase liabilities	1,284

The net hire purchase payables are repayable as follows:-

Current:	
- not later than one year	1,005
Non-current:	
- later than one year but not later than five years (Note 10.14)	279
	1,284

The effective interest rates for hire purchase payables of the Group range from 6.6% to 12.4% per annum.

10.10 SHORT TERM BORROWINGS

	RM'000
Bankers' acceptances	10,574
Bank overdrafts	2,375
Term loans	1,488
	14,437

The bank overdrafts of the Group bear an average interest rate of 7.5% per annum whilst the weighted average effective interest rate of the bankers' acceptances is 3.3% per annum. The term loans bear interest rates ranging from 4.3% to 7.5% per annum. These banking facilities are secured as follows:-

(i) by legal charges over the long leasehold land and buildings belonging to the subsidiaries;

(ii) by a pledge of fixed deposits belonging to one of the subsidiaries;

(iii) by a debenture incorporating a fixed and floating charge over the assets of the subsidiaries; and

(iv) by the joint and several guarantee of certain directors of the subsidiaries.

10.11 SHARE CAPITAL

At the date of this report, SKRB has an authorised share capital of RM200,000,000 comprising 400,000,000 ordinary shares of RM0.50 each and an issued and paid-up share capital of RM38,660,000 comprising 77,320,000 ordinary shares of RM0.50 each.

The movements in the issued and paid-up share capital of SKRB are as follows:-

	Number of Ordinary Shares	RM'000
At 1 January 2003	2	#
Allotment during the period	1,998	2
Split of par value	2,000	-
Ordinary shares issued pursuant to:		
- Acquisitions	44,870,000	22,435
- Rights Issue	32,446,000	16,223
Public Issue	12,680,000	6,340
Per Group Proforma	90,000,000	45,000

- *RM2*

10.12 SHARE PREMIUM

	RM'000
At 1 January 2003	-
Arising from Acquisitions	2,002
Arising from Public Issue	5,072
Estimated listing expenses written off	(1,900)
Per Group Proforma	5,174

10.13 NEGATIVE GOODWILL

	RM'000
At 1 January 2003	-
Negative goodwill arising from Acquisitions	1,023
Per Group Proforma	1,023

10.14 LONG TERM BORROWINGS

	RM'000
Hire purchase payables (Note 10.9)	279
Term loans	1,387
	1,666

10.15 DEFERRED TAXATION

The deferred taxation balance consists of the tax effects of temporary differences arising from the following items:-

	RM'000
Accelerated capital allowances	1,439
General allowance for doubtful debts	(77)
Allowance for slow-moving inventories	(28)
Other deductible temporary differences	(4)
	1,330

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11. PROFORMA CONSOLIDATED CASH FLOW STATEMENT

The proforma consolidated cash flow statement of SKRB Group set out below is based on the audited financial statements of SKRB, SKFI, SK and VPM for the financial period from 1 January 2003 to 31 August 2003, and is presented on the basis that the SKRB Group had been in existence throughout the Relevant Financial Period.

	Notes	Period from 1.1.2003 to 31.8.2003 RM'000
Cash Flows From Operating Activities		
Profit before taxation		8,971
Adjustments for:-		
Allowance for doubtful debts		408
Depreciation of property, plant and equipment		1,364
Interest expense		612
Interest income		(13)
Operating profit before working capital changes		11,342
Increase in inventories		(3,208)
Increase in trade and other receivables		(3,535)
Decrease in trade and other payables		(80)
Cash From Operations		4,519
Interest paid		(612)
Income tax paid		(2,576)
Net Cash From Operating Activities		1,331
Cash Flows For Investing Activities		
Purchase of property, plant and equipment	11.1	(4,849)
Interest received		13
Net Cash For Investing Activities		(4,836)
Cash Flows For Financing Activities		
Dividend paid		(3,400)
Increase in bankers' acceptances		5,660
Repayment of hire purchase obligations		(795)
Repayment of term loans		(930)
Proceeds from issuance of shares		2
Net Cash For Financing Activities		537
Net decrease In Cash And Cash Equivalents		(2,968)
Cash And Cash Equivalents At Beginning Of The Financial Period		1,814
Cash And Cash Equivalents At End Of The Financial Period	11.2	(1,154)

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11. PROFORMA CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

Notes to the Proforma Consolidated Cash Flow Statement:-

11.1 PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

	RM'000
Cost of property, plant and equipment purchased	5,149
Amount financed through hire purchase	(300)
Cash disbursed for the purchase of property, plant and equipment	4,849

11.2 ANALYSIS OF CASH AND CASH EQUIVALENTS

	RM'000
Fixed deposits with licensed banks	315
Cash and bank balances	905
Bank overdrafts	(2,374)
	(1,154)

12. NET TANGIBLE ASSETS PER ORDINARY SHARE

The net tangible assets cover of SKRB based on the Proforma Group's statements of assets and liabilities as at 31 August 2003 as set out in Paragraph 10 above is illustrated below:-

	RM'000
Net tangible assets of the SKRB Group before the Rights Issue and Public Issue	25,446
Increase in net tangible assets arising from:	
- Right issue (par value)	16,223
- Public Issue (par value)	6,340
- Share premium on the public issue	5,072
- Less: Estimated listing expenses	(1,900)
Proforma Net Tangible Assets	51,181

Horwath

12. NET TANGIBLE ASSETS PER ORDINARY SHARE (CONT'D)

Number of ordinary shares of RM0.50 each in SKRB that are in issue:-

	Number of ordinary shares '000
Existing ordinary shares in issue	2
Ordinary shares issued/to be issued pursuant to:	
- Split of par value	2
- Acquisitions	44,870
- Rights issue	32,446
- Public Issue	12,680
Enlarged share capital after the Public Issue	90,000

On the basis of the enlarged issued and paid-up share capital of 90,000,000 ordinary shares of RM0.50 each in SKRB, the Group net tangible assets cover per ordinary share of SKRB is approximately RM0.57.

13. SUBSEQUENT EVENTS

There were no significant subsequent events between the date of the last financial statements used in the preparation of this report and the date of this report which will affect materially the content of this report.

14. AUDITED FINANCIAL STATEMENTS

As of the date of this report, no audited financial statements have been prepared in respect of any period subsequent to 31 August 2003 for the SKRB Group.

Yours faithfully

Horwath
Firm No : AF 1018
Chartered Accountants

Onn Kien Hoe
Approval No : 1772/11/04 (J/PH)
Partner

XII. DIRECTORS' REPORT

(Prepared for inclusion in this Prospectus)

SERN KOU RESOURCES BERHAD
(Company No.519103-X)
Lot PTD 6019 (Lot 8804) Jalan Perindustrian 1, Kawasan Perindustrian Bukit Bakri,
Mukim Bakri, 84200 Muar, Johor, Malaysia.
Tel: 606 - 986 5562 , 986 4104 Fax: 606 - 986 0961 , 986 5569
URL http://sernkou.com E-mail : sernkou@sernkou.com

Registered Office:

C15-1, Level 15, Tower C
Megan Avenue II
12 Jalan Yap Kwan Seng
50450 Kuala Lumpur

14 January 2004

The Shareholders
Sern Kou Resources Berhad

Dear Sir/Madam,

On behalf of the Directors of Sern Kou Resources Berhad ("SKRB"), I report after due inquiry that during the period from 31 August 2003 (being the date to which the last consolidated audited financial statements of SKRB and its subsidiaries ("Group") have been made up) to 9 January 2004 (being a date not earlier than fourteen days before the issue of this Prospectus):

(a) the business of the Group, in the opinion of the Board of Directors, has been satisfactorily maintained;

(b) in the opinion of the Board of Directors, no circumstances have arisen subsequent to the last consolidated audited financial statements of the Group which have adversely affected the trading or the value of the assets of the Group;

(c) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;

(d) save as disclosed in this Prospectus, no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Company or any of its subsidiaries; and

(e) there have been, since the last audited financial statements of the SKRB Group, no 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) save as disclosed in Sections X(8) and XI of this Prospectus, there have been no changes in published reserves or any unusual factors affecting the profit of the Group since the last audited financial statements of the Group.

Yours faithfully
For and on behalf of
the Board of Directors of SKRB

Koh Kun Chuan
Managing Director