

X. FINANCIAL INFORMATION

1. HISTORICAL FINANCIAL INFORMATION

1.1 Proforma Consolidated Income Statement

The table below sets out a summary of the proforma consolidated income statement of the SKRB Group for the past 5 financial years ended 31 December 2002 and the 8 month period ended 31 August 2003 prepared based on the assumption that the current structure of the SKRB Group has been in existence throughout the period under review. The proforma consolidated income statement is presented for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions included in the Accountants' Report as set out in Section XI of this Prospectus:

	< ----- Financial years ended 31 December ----- >					8 month period ended
	1998	1999	2000	2001	2002	31 August 2003
	RM 000	RM 000	RM 000	RM 000	RM 000	RM'000
Turnover	24,520	37,032	47,701	59,479	96,464	67,923
Consolidated profit before interest, depreciation and taxation	2,641	6,285	8,781	11,107	16,305	10,934
Interest income	8	9	4	-	13	13
Interest expense	(433)	(366)	(461)	(801)	(1,064)	(612)
Depreciation	(568)	(860)	(1,301)	(1,602)	(1,932)	(1,364)
Consolidated PBT	1,648	5,068	7,023	8,704	13,322	8,971
Taxation	(131)	(198)	(1,119)	(1,196)	(3,477)	(1,956)
Consolidated PAT	1,517	4,870	5,904	7,508	9,845	7,015
Weighted average no. of SKRB Shares assumed in issue (000) ⁽¹⁾	# 35,899	# 41,864	44,874	44,874	44,874	44,874
Gross EPS (sen) ⁽²⁾	4.6	12.1	15.7	19.4	29.7	*20.0
Net EPS (sen) ⁽³⁾	4.2	11.6	13.2	16.7	21.9	*15.6

Notes:

Based on the weighted average number of SKRB Shares assumed in issue before the Rights Issue and the Public Issue and after taking into consideration the bonus issue by SKRB's subsidiaries.

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

(1) Being the number of SKRB Shares assumed in issue before the Rights Issue and the Public Issue.

(2) The gross EPS is computed based on the consolidated PBT divided by the weighted average number of SKRB Shares assumed in issue.

(3) The net EPS is computed based on the consolidated PAT divided by the weighted average number of SKRB Shares assumed in issue.

(4) There were no extraordinary items or exceptional items during the financial years/period under review.

X. FINANCIAL INFORMATION (CONT'D)**Commentary:**

- (i) For the financial year ended 31 December 1998 ("FY1998"), the proforma SKRB Group recorded a turnover of RM24.520 million as compared to RM19.127 million for the financial year ended 31 December 1997. The increase was mainly due to the export sales to Australia and an increase in demand from existing customers. The effective tax rate of 7.9% was lower than the statutory tax rate mainly due to the utilisation of reinvestment allowance for set-off against taxable income.
- (ii) For the financial year ended 31 December 1999 ("FY1999"), the proforma SKRB Group recorded a turnover of RM37.032 million as compared to RM24.520 million for the FY1998. The increase of approximately RM12.512 million or 51% was mainly attributed to the increase in export sales to countries such as the US and the United Arab Emirates as a result of the Group's active participation in furniture trade fair and also the increase in the selling price of kiln-dried rubberwood. This resulted in an increase in PAT by RM3.353 million to RM4.870 million. The effective tax rate of 3.9% was lower than the statutory tax rate due to the tax waiver pursuant to the Income Tax (Amendment) Act, 1999. The taxation for FY1999 was in respect of the time apportionment of the tax expenses of certain subsidiaries due to different financial year end.
- (iii) For the financial year ended 31 December 2000 ("FY2000"), the proforma SKRB Group recorded a turnover of RM47.701 million as compared to RM37.032 million for the FY1999. The increase of approximately RM10.669 million or 28.8% was mainly due to increased orders from export customers as a result of aggressive marketing, introduction of a new range of products such as dining sets and tables which captured additional markets, the sale of kiln-dried rubberwood as a result of the operation of a new kiln drying facility in the last quarter of FY2000 and additional sales contributed by the lamination line. This resulted in an increase in PAT by RM1.034 million to RM5.904 million. The effective tax rate of 15.9% was lower than the statutory tax rate due to the utilisation of reinvestment allowance for set-off against taxable income.
- (iv) For the financial year ended 31 December 2001 ("FY2001"), the proforma SKRB Group recorded a turnover of RM59.479 million as compared to RM47.701 million for the FY2000 representing an increase of approximately RM11.778 million or 25%. In FY2001, in line with the increased demand from customers, the Group moved its operations to larger factories with a larger production area to cope with the increased orders. This resulted in the increase in PAT by RM1.604 million to RM7.508 million. The effective tax rate of 13.7% was lower than the statutory tax rate due to the utilisation of reinvestment allowance for set-off against taxable income.
- (v) For the financial year ended 31 December 2002 ("FY2002"), the proforma SKRB Group recorded a turnover of RM96.464 million as compared to RM59.479 million for the FY2001. The significant increase by approximately RM36.985 million or 62% was due to the increase in orders from its existing local and foreign customers and new export markets such as Finland and Norway. This resulted in an increase in PAT by RM2.337 million to RM9.845 million. The effective tax rate of 26.1% was lower than the statutory tax rate due to the utilisation of reinvestment allowance for set-off against taxable income.
- (vi) For the 8 month period ended 31 August 2003, the proforma SKRB Group recorded a turnover of RM67.923 million. On an annualised basis, the turnover is expected to be RM101.885 million which is higher as compared to RM96.464 million for the FY2002. Despite the effects of Iraq war which had affected the Group's sales to countries in the Middle East and the Europe region, the Group's PAT on an annualised basis for the financial year ended 31 December 2003 is expected to be RM10.523 million representing an increase of RM0.678 million from FY2002. The effective tax rate of 21.8% was lower than the statutory tax rate due to the utilisation of reinvestment allowance for set-off against taxable income.

X. FINANCIAL INFORMATION (CONT'D)**1.2 Segmental Analysis**

The following is segmental analysis by activities of the proforma consolidated results of the SKRB Group for the past 5 year financial years ended 31 December 2002 and the 8 month period ended 31 August 2003. The proforma consolidated results are provided for illustrative purposes only and on the assumption that the current structure of the SKRB Group has been in existence throughout the financial years/period under review:

Segmental analysis by activities

	← Financial years ended 31 December →					8 month period ended 31 August
	1998 RM 000	1999 RM 000	2000 RM 000	2001 RM 000	2002 RM 000	2003 RM 000
<i>Turnover:</i>						
- Wooden furniture	11,380	18,528	23,385	31,972	54,357	36,614
- Metal furniture	2,541	3,880	8,984	9,682	13,625	9,994
- Kiln-drying and lamination	12,884	18,171	19,390	24,578	37,944	28,224
	26,805	40,579	51,759	66,232	105,926	74,832
Less: Consolidation adjustment	(2,285)	(3,547)	(4,058)	(6,753)	(9,462)	(6,909)
Total turnover	24,520	37,032	47,701	59,479	96,464	67,923
<i>Consolidated PAT:</i>						
- Wooden furniture	613	1,827	2,113	4,469	5,050	3,581
- Metal furniture	82	216	1,636	652	1,220	876
- Kiln-drying and lamination	822	2,827	2,159	2,389	3,577	2,566
- Investment holding	-	-	(4)	(2)	(2)	(8)
Total PAT	1,517	4,870	5,904	7,508	9,845	7,015

2. WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITIES, MATERIAL CAPITAL COMMITMENTS AND MATERIAL LITIGATION**(i) Working Capital**

The Directors of SKRB are of the opinion that, after taking into account the consolidated cashflows, banking facilities available and the gross proceeds from the Rights Issue and Public Issue, the working capital available to the Group will be sufficient for a period of 12 months from the date of this Prospectus.

X. FINANCIAL INFORMATION (CONT'D)**(ii) Borrowings**

The total outstanding borrowings of the Group as at 9 January 2004 are as follows:

Outstanding borrowings	Payable within 12 months RM 000	Payable after 12 months RM 000
Hire purchase creditors	832	489
Bank overdraft	3,540	-
Bankers acceptance	11,316	-
Term loan	2,276	8,189
Total	17,964	8,678

All the aforesaid borrowings are interest-bearing and the SKRB Group does not have any foreign borrowings as at the date of this Prospectus. Save as disclosed above, the Group does not have any other loan capital outstanding or loan capital created but unissued, mortgages or charges outstanding.

There has been no default by the SKRB Group on payments of either interest and/or principal sums in respect of its borrowings throughout the past financial year and the subsequent financial period thereof, immediately preceding the date of this Prospectus.

(iii) Contingent Liabilities

As at 9 January 2004, the Directors are not aware of any contingent liabilities which, upon becoming enforceable, may have a material impact on the profit or net assets value of the Group.

(iv) Material Capital Commitments

As at 9 January 2004, the Directors are not aware of any material capital commitments which, upon becoming enforceable, may have a material impact on the profit or net assets value of the Group.

(v) Material Litigation

As at 9 January 2004, neither SKRB nor its subsidiaries are engaged in any litigation and/or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of SKRB or its subsidiaries and the Directors do not know of any proceedings pending or threatened or of any fact likely to give rise to any proceedings which might materially and adversely affect the position or business of SKRB or its subsidiaries.

X. FINANCIAL INFORMATION (CONT'D)

3. REPORTING ACCOUNTANTS' LETTER ON THE CONSOLIDATED PROFIT ESTIMATE AND FORECAST

(Prepared for inclusion in this Prospectus)



Horwath AF No 1018
Kuala Lumpur Office
Chartered Accountants

14 January 2004

Level 16 Tower C
Megan Avenue II
12 Jalan Yap Kwan Seng
50450 Kuala Lumpur

The Board of Directors
Sern Kou Resources Berhad
C15-1, Level 15, Tower C
Megan Avenue II
12, Jalan Yap Kwan Seng
50450 Kuala Lumpur

603.2166.0000 Main
603.2166.1000 Fax

www.horwath.com.my
horwath@po.jaring.my

Dear Sirs

**SERN KOU RESOURCES BERHAD ("SKRB")
CONSOLIDATED PROFIT ESTIMATE FOR THE FINANCIAL YEAR ENDED 31 DECEMBER
2003 AND CONSOLIDATED PROFIT FORECAST FOR THE FINANCIAL YEAR ENDING 31
DECEMBER 2004**

We have reviewed the presentation of the consolidated profit estimate for the financial year ended 31 December 2003 and consolidated profit forecast for the financial year ending 31 December 2004 of SKRB and its subsidiaries ("SKRB Group" or "the Group"), as set out in the accompanying statements (initialed by us for the purpose of identification only) in accordance with International Standard on Auditing 810 applicable to the review of estimate and forecast. The estimate and forecast have been prepared for inclusion in the Prospectus of SKRB to be dated 19 January 2004 in connection with the following transactions and should not be relied on for any other purposes:-

- (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;

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X. FINANCIAL INFORMATION (CONT'D)



(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.

- (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 Malaysia Securities Exchange Berhad ("MSEB").

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X. FINANCIAL INFORMATION (CONT'D)



Our review has been undertaken to enable us to form an opinion as to whether the estimate and forecast, in all material respects, is properly prepared on the basis of the assumptions made by the Directors and is presented on a basis consistent with the accounting policies adopted and disclosed by SKRB Group in their audited financial statements for the financial period ended 31 August 2003. The Directors of SKRB are solely responsible for the preparation and presentation of the estimate and forecast and the assumptions on which the estimate and forecast are based.

Estimate and forecast, in this context, mean prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions which management expects to take as of the date the information is prepared (best-estimate assumptions). While information may be available to support the assumptions on which estimate and forecast are based, such information is generally future oriented and therefore uncertain. Thus, actual results are likely to be different from the estimate and forecast since anticipated events frequently do not occur as expected and the variation could be material.

Subject to the matters stated in the preceding paragraphs:-

- (i) nothing has come to our attention which causes us to believe that the assumptions made by the Directors, as set out in the accompanying statements, do not provide a reasonable basis for the preparation of the profit estimate and forecast; and
- (ii) in our opinion, the profit estimate and forecast, so far as the calculations are concerned, are properly prepared on the basis of the assumptions made by the Directors and are presented on a basis consistent with the accounting policies adopted and disclosed by SKRB Group in their audited financial statements for the financial period ended 31 August 2003.

Yours faithfully

A handwritten signature in black ink, appearing to be "J. Kien Hoe".

Horwath
Firm No : AF 1018
Chartered Accountants

A handwritten signature in black ink, appearing to be "Onn Kien Hoe".

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

Horwath Offices in Malaysia:

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X. FINANCIAL INFORMATION (CONT'D)**4. CONSOLIDATED PROFIT ESTIMATE AND FORECAST***(Prepared for inclusion in this Prospectus)***SERN KOU RESOURCES BERHAD ("SKRB")****A. Consolidated Profit Estimate For The Financial Year Ended 31 December 2003 And Profit Forecast For The Financial Year Ending 31 December 2004**

The Directors of SKRB estimate and forecast that, barring unforeseen circumstances and on the bases and assumptions set out below, the consolidated profit after taxation of SKRB and its subsidiaries ("SKRB Group" or "the Group") for the financial year ended 31 December 2003 and for the financial year ending 31 December 2004 will be as follows:-

	Estimate Financial Year Ended 2003 RM'000	Forecast Financial Year Ending 2004 RM'000
Revenue	<u>104,293</u>	<u>111,490</u>
Consolidated profit after taxation	10,904	11,820
Less: Pre-acquisition profit	(10,179)	-
Consolidated profit after taxation attributable to shareholders of SKRB	<u>725</u>	<u>11,820</u>

B. Principal Bases And Assumptions Relating To The Consolidated Profit Estimate And Forecast

1. There will be no significant changes in the principal activities and the existing structure of the Group.
2. There will not be any loss of the Group's existing customers and business alliances that will materially affect the revenue of the Group.
3. There will be no significant changes in the estimated selling prices for the Group's products, or major changes in the expected market demand for the Group's products.
4. There will be no significant changes in the prices of major raw materials, labour and other operating costs other than those as provided. Any significant increase in the cost of products will be compensated through an equivalent increase in the selling prices.
5. There will be sufficient manpower and there will be no major breakdown in manufacturing facilities as well as industrial disputes or disruptions in the supply of raw materials by the major suppliers or any other abnormal factors which will adversely affect the operations of the Group.
6. There will be no significant changes in the key management and operating structure of the Group.

X. FINANCIAL INFORMATION (CONT'D)



SERN KOU RESOURCES BERHAD ("SKRB")

B. Principal Bases And Assumptions Relating To The Consolidated Profit Estimate And Forecast (Cont'd)

7. Inflation and foreign currency exchange rates will not fluctuate significantly from the present and forecast level. The Malaysia Ringgit will continue to be pegged to the United States Dollar ("USD") at a rate of RM3.80/USD1.00.
8. There will be no significant changes to the prevailing political conditions in Malaysia and the foreign markets in which the Group operates and intends to penetrate into that may have an adverse effect on the activities and performance of the Group.
9. The Malaysian economy will perform in line with the government's projections during the forecast year without any unfavourable global economic impact.
10. There will be no significant changes in the present legislation or government regulations, direct or indirect taxes and duties, which will adversely affect the activities of the Group. The income tax rate in Malaysia will remain at 28% with no significant changes in the bases of taxation.
11. There will be no major proceedings against the Group which will adversely affect the activities or performance of the Group or give rise to any contingent liabilities which will materially affect the financial position or business of the Group.
12. There will be no significant changes in the accounting policies presently adopted by the Group. The results of the subsidiaries will be consolidated using the acquisition method of accounting.
13. There will be no material acquisition or disposal of property, plant and equipment or investments other than those planned and incorporated in the profit estimate and forecast. The proposed investment in plant and equipment in respect of the new lamination line of approximately RM5 million will be implemented and incurred in the financial year ending 31 December 2004. The new lamination line is expected to be ready and commence operations by early July 2004.
14. The Group will continue to enjoy the existing credit and financing facilities and that additional credit and financing facilities will be obtained as required. Interest rates on the existing and additional credit and financing facilities will not vary significantly from the present and forecast level.
15. The restructuring and subsequent listing of SKRB involves the following transactions:-
 - (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 acquisitions 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;

X. FINANCIAL INFORMATION (CONT'D)**SERN KOU RESOURCES BERHAD ("SKRB")****B. Principal Bases And Assumptions Relating To The Consolidated Profit Estimate And Forecast (Cont'd)****(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.

- (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;

X. FINANCIAL INFORMATION (CONT'D)**SERN KOU RESOURCES BERHAD ("SKRB")****B. Principal Bases And Assumptions Relating To The Consolidated Profit Estimate And Forecast (Cont'd)**

- (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 MASEB.
16. The Parting of Dividend, Share Split and the Acquisitions were completed in November 2003. The proceeds from the Rights Issue were received on 9 January 2004 whilst the proceeds from the Public Issue will be received by mid February 2004. The estimated listing expenses of RM1.9 million are to be set-off against the share premium account.
17. The total proceeds from the Rights Issue and the Public Issue will be utilised as follows:-

Purpose	RM'000
Investment into lamination line	5,000
Repayment of bank 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.

X. FINANCIAL INFORMATION (CONT'D)

5. DIRECTORS' ANALYSIS AND COMMENTARY ON THE CONSOLIDATED PROFIT ESTIMATE AND FORECAST**5.1 Consolidated profit estimate for the financial year ended 31 December 2003 ("FY2003")**

The SKRB Group's turnover is estimated to increase from RM96.464 million in the financial year ended 31 December 2002 ("FY2002") to RM104.293 million in FY2003, representing an increase of approximately 8% or RM7.829 million. The sale of rubberwood and metal furniture products are estimated to contribute approximately 54% and 13% respectively to the Group's turnover whilst the sale of dry rubberwood is estimated to contribute 33% to the proforma group turnover of the SKRB Group.

The PBT margin for FY2002 is 13.81% compared to the estimated PBT margin for FY2003 of 14.34%. This marginal increase in PBT margin is mainly due to the expected increase in labour and production efficiency leading to lower average unit production costs. The PAT for FY2003 is estimated to increase by RM1.059 million to RM10.904 million whilst the PAT margin is expected to improve marginally to 10.46% from 10.21% in FY2002. The effective tax rate of 21.8% is marginally lower than the statutory tax rate of 28% mainly due to the availability of reinvestment allowances and the unutilised reinvestment allowances brought forward.

The Directors of SKRB do not expect any extraordinary or exceptional items during FY2003.

5.2 Consolidated profit forecast for the financial year ending 31 December 2004 ("FY2004")

The SKRB Group's turnover is forecast to increase by 7% or RM7.2 million from RM104.293 million in FY2003 to RM111.490 million in FY2004. The increase in turnover is mainly due to an increase in the selling price of rubberwood and metal furniture products by approximately 5% which is intended to absorb the expected increase in the average costs of raw materials and direct labour of 5% and the increase in the sale of laminated boards as the new lamination line is expected to be commissioned and put into commercial operations by the middle of FY2004.

The overall PBT margin for FY2004 is expected to decrease marginally by 0.57% from 14.34% in FY2003 to 13.77% in FY2004. The marginal decrease is mainly due to the anticipated lower efficiency, resulting from initial set-up costs incurred and raw materials wastage during the gestation period, in relation to the new lamination line to be commissioned and put into commercial use by mid-FY2004.

The marginal decrease in PBT margin and the marginal increase in operating overheads are expected to be mitigated by the interest savings on early settlement of term loans via the utilisation of the proceeds from the Rights Issue and Public Issue. The SKRB Group forecast to achieve a PBT of RM15.354 million, representing an increase of 2.7% as compared to FY2003.

The SKRB Group's PAT for FY2004 is forecast to be RM11.820 million. The effective tax rate of 23% is lower than the statutory tax rate of 28% mainly due to the availability of reinvestment allowances available for set-off against taxable income for FY2004.

The Directors of SKRB do not expect any extraordinary or exceptional items during FY2004.

X. FINANCIAL INFORMATION (CONT'D)**5.3 Trade debtors ageing analysis and commentary on recoverability of trade debts exceeding credit period**

The SKRB Group's trade receivables balances and ageing analysis as at 31 August 2003 are set out below:

	Current	31 – 60 days	< -----Exceeding Credit Period ---- >			Total
			60 days	61 - 90 days	> 90 days	
Trade receivables (RM 000)	8,112	1,170	1,600	1,168	348	12,398
Percentage of total trade receivables (%)	65.43	9.44	12.90	9.42	2.81	100.00

For the 8 month period ended 31 August 2003, the total trade receivables exceeding the credit period granted amounted to RM3.116 million or 25.13% of the total trade receivables. The Directors of SKRB have made an allowance for doubtful debts of RM0.407 million for those trade receivables exceeding credit period for which legal action has been taken or where the balances are in dispute.

As at 9 January 2004, the Group collected RM12.205 million out of the outstanding trade receivables of RM12.398 million of which approximately RM3.098 million of the collection was in respect of the trade receivables balance of RM3.116 million exceeding the credit period granted. The Directors of SKRB also made an additional allowance for bad and doubtful debts of approximately RM24,000.

The Directors of SKRB are of the opinion that the remaining trade receivables of RM0.169 million which remain outstanding as at 9 January 2004 are recoverable based on the track record of those trade debtors, the long term business relationship with these customers and the existing credit control measures implemented by the Group to monitor the collectibility of those outstanding trade receivables.

X. FINANCIAL INFORMATION (CONT'D)**6. DIVIDEND FORECAST**

It is the policy of the Directors of SKRB in recommending dividends to allow shareholders to participate in the profits of the Company as well as leaving adequate reserves for the future growth of the Group.

Based on the forecast consolidated PAT of RM11.820 million for the financial year ending 31 December 2004, the Directors of SKRB anticipate that the Company will be in a position to propose a gross dividend of 2.5 sen for the financial year ending 31 December 2004, based on the enlarged issued and paid-up share capital of 90,000,000 SKRB Shares.

The intended appropriation of the forecast consolidated PAT for the financial year ending 31 December 2004 will be as follows:

	RM 000
Consolidated PBT	15,354
Taxation	(3,534)
Consolidated PAT	<u>11,820</u>
Less: Proposed dividend	<u>1,620</u>
Consolidated retained profits	<u>10,200</u>
Gross dividend per share	2.5 sen
Gross dividend yield	2.8 %
<i>(based on the issue/offer price of RM0.90 per Issue/Offer Share)</i>	
Net dividend per share	1.8 sen
Net dividend yield	2.0 %
<i>(based on the issue/offer price of RM0.90 per Issue/Offer Share)</i>	
Net dividend cover	7.3 times

Future dividends may be waived in the event of the following circumstances:

- (i) insufficient retained profits to declare as dividends;
- (ii) insufficient tax exempt profits to declare as dividends and/or insufficient tax credits to frank its dividends; or
- (iii) insufficient cashflows to pay dividends.

X. FINANCIAL INFORMATION (CONT'D)**7. SENSITIVITY ANALYSIS**

The principal bases and assumptions upon which the sensitivity analysis of the Group's profit estimate and forecast has been made are as follows:

- (i) The selected variable item will vary $\pm 5\%$ and $\pm 10\%$;
- (ii) The variable operating expenses will vary with the change in selling prices; and
- (iii) Except for the selected variable items, the same assumptions for the other items as for the base case shall apply.

The following scenarios attempt to show the impact on the estimate and forecast consolidated PAT resulting from changes in selling price and cost of sales.

(i) Variation in Selling Price

A sensitivity analysis on the SKRB Group's estimate and forecast consolidated PAT for the financial year ended 31 December 2003 and the financial year ending 31 December 2004, respectively, based on a deviation of $\pm 5\%$ to $\pm 10\%$ on the SKRB Group's selling prices are set out below:

	<-----2003----->		<-----2004----->	
	RM 000	%	RM 000	%
PAT	10,904		11,820	
Deviation				
Up 10%	18,823	72.62	20,827	76.20
Up 5%	14,864	36.31	16,467	39.32
Down 5%	6,945	(36.31)	7,172	(39.32)
Down 10%	2,985	(72.62)	2,474	(79.07)

(ii) Variation in Materials Costs

A sensitivity analysis on the SKRB Group's estimate and forecast consolidated PAT for the financial year ended 31 December 2003 and the financial year ending 31 December 2004, respectively, based on a deviation of $\pm 5\%$ to $\pm 10\%$ on the SKRB Group's materials costs are set out below:

	<-----2003----->		<-----2004----->	
	RM 000	%	RM 000	%
PAT	10,904		11,820	
Deviation				
Up 10%	6,074	(44.30)	5,674	(51.99)
Up 5%	8,489	(22.15)	8,747	(26.00)
Down 5%	13,320	22.15	14,892	26.00
Down 10%	15,735	44.30	17,945	51.83

The Board of Directors has reviewed and analysed the bases and assumptions used upon which the sensitivity analysis of the Group's profit estimate and forecast have been made and is of the opinion that the sensitivity analysis on the Group's profit estimate and forecast is fair and reasonable.

X. FINANCIAL INFORMATION (CONT'D)

8. REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED BALANCE SHEETS

(Prepared for inclusion in this Prospectus)



14 January 2004

The Board of Directors
Sern Kou Resources Berhad
C15-1, Level 15, Tower C
Megan Avenue II
12, Jalan Yap Kwan Seng
50450 Kuala Lumpur

Horwath AF No 1018
Kuala Lumpur Office
Chartered Accountants

Level 16 Tower C
Megan Avenue II
12 Jalan Yap Kwan Seng
50450 Kuala Lumpur

603.2166.0000 Main
603.2166.1000 Fax

www.horwath.com.my
horwath@po.jaring.my

Dear Sirs

**SERN KOU RESOURCES BERHAD ("SKRB")
PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 AUGUST 2003**

We have reviewed the presentation of the Proforma Consolidated Balance Sheets of SKRB and its subsidiaries ("SKRB Group" or "the Group") as at 31 August 2003 together with the accompanying notes thereto, for which the Directors are solely responsible, as set out in the accompanying statements (initialed by us for the purpose of identification only) for inclusion in the Prospectus of SKRB to be dated 19 January 2004 in connection with the following:-

- (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;

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X. FINANCIAL INFORMATION (CONT'D)**(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.

- (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 Malaysia Securities Exchange Berhad ("MSEB").

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X. FINANCIAL INFORMATION (CONT'D)



In our opinion,

- (i) the Proforma Consolidated Balance Sheets, which are prepared for illustrative purposes only, have been properly compiled on the bases as set out in the notes to the Proforma Consolidated Balance Sheets;
- (ii) the bases are consistent with the accounting policies normally adopted by the Group; and
- (iii) the adjustments are appropriate for the purposes of the Proforma Consolidated Balance Sheets.

Yours faithfully

A handwritten signature in black ink, appearing to be "J. Tan".

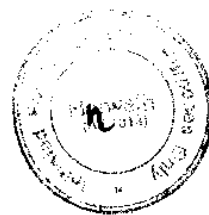
Horwath
Firm No : AF 1018
Chartered Accountants

A handwritten signature in black ink, appearing to be "Onn Kien Hoe".

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

X. FINANCIAL INFORMATION (CONT'D)**9. PROFORMA CONSOLIDATED BALANCE SHEETS***(Prepared for inclusion in this Prospectus)***SERN KOU RESOURCES BERHAD ("SKRB")****PROFORMA CONSOLIDATED BALANCE SHEETS**

	Audited as at 31 August 2003 RM'000	Proforma I After Share Split RM'000	Proforma II After Acquisitions and Rights Issue and Proforma I RM'000	Proforma III After Public Issue and Offer for Sale and Proforma II RM'000
Property, plant and equipment	-	-	27,803	32,803
Current assets				
Inventories	-	-	12,273	12,273
Trade receivables	-	-	12,398	12,398
Other receivables, deposits and prepayments	2	2	4,009	4,009
Tax recoverable	-	-	312	312
Fixed deposits with licensed banks	-	-	315	315
Cash and bank balances	1	1	17,129	19,066
Total current assets	3	3	46,436	48,373
Current liabilities				
Trade payables	-	-	3,601	3,601
Other payables and accruals	-	-	1,684	1,684
Amount owing to directors	17	17	17	17
Dividend payable	-	-	6,000	6,000
Hire purchase payables	-	-	1,005	1,005
Short term borrowings	-	-	14,437	14,437
Provision for taxation	-	-	255	255
Total current liabilities	17	17	26,999	26,999
Net current (liabilities)/assets	(14)	(14)	19,437	21,374
	<u>(14)</u>	<u>(14)</u>	<u>47,240</u>	<u>54,177</u>
Financed by:				
Share capital	2	2	38,660	45,000
Share premium	-	-	2,002	5,174
Negative goodwill	-	-	1,023	1,023
Accumulated losses	(16)	(16)	(16)	(16)
Shareholders' equity	(14)	(14)	41,669	51,181
Long term borrowings	-	-	4,241	1,666
Deferred taxation	-	-	1,330	1,330
	<u>(14)</u>	<u>(14)</u>	<u>47,240</u>	<u>54,177</u>
Number of ordinary shares in issue	<u>2</u>	<u>4</u>	<u>77,320</u>	<u>90,000</u>
NTA per ordinary share (RM)	<u>N/A</u>	<u>N/A</u>	<u>0.54</u>	<u>0.57</u>

X. FINANCIAL INFORMATION (CONT'D)**SERN KOU RESOURCES BERHAD ("SKRB")****NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS****1. Basis of Preparation**

The Proforma Consolidated Balance Sheets have been prepared based on the audited balance sheet of SKRB and its subsidiaries ("SKRB Group" or "the Group") as at 31 August 2003, solely for illustrative purposes, to show the effects of the Share Split, Acquisitions, Rights Issue, Offer for Sale, Public Issue and the utilisation of proceeds from the Rights Issue and Public Issue as though they were effected as of that date.

1.1 Proforma I

Proforma I incorporates the 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.

1.2 Proforma II

Proforma II incorporates the effects of Proforma I, the Acquisitions and the Right Issue, details of which are as follows:-

(a) 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.

X. FINANCIAL INFORMATION (CONT'D)**SERN KOU RESOURCES BERHAD ("SKRB")****NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)****1. Basis of Preparation (Cont'd)****1.2 Proforma II (Cont'd)****(a) Acquisition by SKRB (Cont'd)**

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

(b) 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.

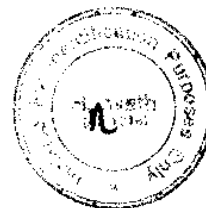
1.3 Proforma III

Proforma III incorporates the effects of Proforma II, the Public issue of 12,680,000 new ordinary shares of RM0.50 each in SKRB to the Malaysian public at an issue price of RM0.90 per new ordinary share and the utilisation of the total gross proceeds arising from the Rights Issue and Public Issue of RM27,635,000 as follows:-

Purpose	RM'000
Investment in new lamination line	5,000
Repayment of bank 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 estimated listing expenses of RM1,900,000 have been set-off against the share premium account.

X. FINANCIAL INFORMATION (CONT'D)**SERN KOU RESOURCES BERHAD ("SKRB")****NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (CONT'D)****2 Share Capital**

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

Issued and Fully Paid-up Share Capital	Number of ordinary shares '000	Amount of share capital RM'000
Ordinary shares of RM1.00 each as at 31 August 2003	2	2
Ordinary Shares of RM0.50 each:		
Share Split	4	2
As per Proforma I	4	2
Acquisitions	44,870	22,435
Rights Issue	32,446	16,223
As per Proforma II	77,320	38,660
Public Issue	12,680	6,340
As per Proforma III	<u>90,000</u>	<u>45,000</u>

3 Share Premium Account

The estimated listing expenses of RM1.9 million, have been set-off against the share premium account under Proforma III. The movements in the share premium account are as follows:-

	Share Premium Account RM'000
As at 31 August 2003	-
Share Split	-
As per Proforma I	-
Premium arising from the Acquisitions	2,002
Rights Issue	-
As per Proforma II	2,002
Premium arising from the Public Issue	5,072
Estimated listing expenses	(1,900)
As per Proforma III	<u>5,174</u>

4 Negative Goodwill

The negative goodwill arising from the acquisition by SKRB of SKFI, SK and VPM represents the excess of the fair value of the net assets acquired based on the audited balance sheets of SKFI, SK and VPM as at 31 August 2003 over the fair value of the purchase consideration. The calculation of the negative goodwill is as follows:-

	RM'000
Fair value of net assets acquired	25,460
Fair value of purchase consideration	24,437
Negative goodwill as per Proforma II/III	<u>1,023</u>