

10. ACCOUNTANTS' REPORT

(Prepared for inclusion in this Prospectus)

 **AnuarulAzizanChew**

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12 JAN 2004

The Board of Directors
Aturmaju Resources Berhad
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Dear Sirs,

1. INTRODUCTION

This report has been prepared by Messrs Anuarul Azizan Chew & Co., an approved company auditor, for inclusion in the Prospectus of Aturmaju Resources Berhad ("ARB") to be dated **16 JAN 2004**, in connection with the public issue of 8,500,000 new ordinary shares of RM1.00 each in ARB at an issue price of RM1.20 per share payable in full on application and offer for sale of 1,554,000 new ordinary shares of RM1.00 each in ARB at an offer price of RM1.20 per shares and listing of and quotation for the entire issued and paid-up share capital of ARB on the Second Board of the Malaysia Securities Exchange Berhad ("MSEB").

2. GENERAL INFORMATION

2.1 Incorporation

ARB was incorporated in Malaysia under the Companies Act, 1965 on 3 October 1997 as a public limited company. ARB has remained dormant since the date of incorporation.

2.2 Principal activity

The principal activity of ARB is that of investment holding.

2.3 Share Capital

ARB was incorporated with an authorised and paid-up share capital of RM100,000 and RM2.00 respectively. The authorised share capital was divided into 100,000 ordinary shares of RM1.00 each and paid-up capital was divided into 2 ordinary shares of RM1.00 each.

There were no changes in the authorised and paid-up share capital since the date of incorporation.

10. ACCOUNTANTS' REPORT (Cont'd)

Details of the changes in the issued and paid-up share capital of ARB pursuant to the flotation scheme are as follows:-

No. of ordinary shares of RM1.00 each	Consideration	Cumulative total issued and paid-up share capital RM
2	Cash	2
42,599,998	To be issued pursuant to the acquisition	42,600,000
8,500,000	To be issued pursuant to the public issue/placement	51,100,000
10,000,000	To be issued pursuant to full conversion of ICPS	61,100,000

2.4 Flotation scheme

Pursuant to the listing of entire issued and paid-up share capital of ARB on the Second Board of MSEC, ARB had implemented a flotation scheme, which was approved by the Securities Commission on 19 September 2003.

The flotation scheme involves the following:-

2.4.1 Acquisition

On 14 March 2003, ARB had entered into conditional Sales and Purchase Agreement for the acquisition of 34,000,000 ordinary shares of RM1.00 each representing the entire issued and paid-up capital of Aturmaju (Sabah) Holding Sdn Bhd ("AHSB") for a purchase consideration of RM60,912,552 to be satisfied by the issuance of the following:-

- i) 42,599,998 new ordinary shares of RM1.00 each in ARB at an issue price of approximately RM1.18 per share; and
- ii) 12,000,000 Irredeemable Convertible Preference Shares ("ICPS") of RM1.00 each in ARB.

The Acquisition was completed on 1 November 2003.

10. ACCOUNTANTS' REPORT (Cont'd)

2.4.2 Public Issue/Placement

The public issue/placement involves the issuance of 8,500,000 new ordinary shares of RM1.00 each by ARB at an issue price of RM1.20 per share to be allocated as follows:-

- i) 1,000,000 new ordinary shares of RM1.00 each would be reserved for eligible directors, employees, customers and suppliers of ARB Group;
- ii) 6,000,000 new ordinary shares of RM1.00 each to Bumiputera investors approved by MITI; and
- iii) 1,500,000 new ordinary shares of RM1.00 each to the Malaysian public of which at least 30% is to be set aside for application by Bumiputera individuals, companies, societies, co-operatives and institutions.

2.4.3 Offer for Sale

The Offer for Sale involves the offer for sale by the vendor of AHSB of 1,554,000 ordinary shares in ARB (which were issued and allotted to the vendor pursuant to the acquisition of AHSB) at an offer price of RM1.20 per share to be placed out to Bumiputera investors approved by MITI.

2.4.4 Listing on the MSEB

Listing of and quotation for the entire enlarged issued and paid-up ordinary share capital of ARB, comprising 61,100,000 ordinary shares of RM1.00 each will be sought on the Second Board of the MSEB as follows:-

- i) 51,100,000 ordinary shares of RM1.00 each after the Public Issue/Placement; and
- ii) 10,000,000 ordinary shares of RM1.00 each to be issued pursuant to the conversion of the ICPS.

Listing for the ICPS will not be sought on the MSEB.

10. ACCOUNTANTS' REPORT (Cont'd)**2.5 Subsidiary Companies**

Pursuant to the implementation of the flotation scheme in paragraph 2.4 the subsidiary companies of ARB are as follows:-

Name of company	Date/Place of incorporation	Authorised share capital	Issued and fully paid-up share capital	Effective interest	Principal activities
		RM	RM	%	
Aturmaju (Sabah) Holding Sdn. Bhd.	20.06.1989 Malaysia	50,000,000	34,000,000	100	Integrated wood processing complex producing plywood, fancy and decorative plywood, blackboard and sawn timber
Kalabakan Tug Boat Sdn. Bhd.	19.03.1992 Malaysia	1,000,000	610,000	100	Hiring of scows and tug boats

3. AUDITORS AND AUDITED FINANCIAL STATEMENTS

We have acted as auditors for AHSB and KTBSB since the financial year ended 31 December 2001. Prior to 2001, the financial statements of these companies were audited by other audit firm.

The financial statements of ARB for the financial year prior to 2002 were audited by other audit firm.

The financial statements of ARB and its subsidiary companies for the financial period/years under review were not subject to any audit qualification.

4. DIVIDENDS

No dividends have been paid or declared by ARB and its subsidiary companies for the financial period/years under review.

10. ACCOUNTANTS' REPORT (Cont'd)**5. SUMMARISED INCOME STATEMENTS****5.1 The Proforma Group**

The summarised proforma consolidated financial results of ARB Group for the past five (5) financial period/years ended 31 December 1998 to 2002 and eight (8) months period ended 31 August 2003, as set out below, for illustrative purpose only, have been prepared on the assumption that the flotation scheme mentioned in paragraph 2.4 of this report had been effected throughout the period/years under review.

	<-----Period/Years ended 31 December----->					8 months ended
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	31.8.2003 RM'000
Turnover	56,739	53,037	56,398	58,070	69,622	48,343
Profit before depreciation, interest and taxation	14,320	12,590	15,576	17,446	17,296	12,939
Depreciation	(3,870)	(3,688)	(3,213)	(2,860)	(3,702)	(2,968)
Interest expense	(3,717)	(2,278)	(2,712)	(4,433)	(4,602)	(2,719)
Interest income	129	36	25	37	12	-
Profit before taxation	6,862	6,660	9,676	10,190	9,004	7,252
Taxation	(288)	-	(2,416)	(3,100)	(990)	(1,919)
Profit after taxation	6,574	6,660	7,260	7,090	8,014	5,333
Number of ordinary shares of RM1.00 each ('000) #	42,600	42,600	42,600	42,600	42,600	42,600
Number of ordinary shares of RM1.00 each ('000) @	52,600	52,600	52,600	52,600	52,600	52,600
Gross earnings per share (RM)	0.16	0.16	0.23	0.24	0.21	0.17
Net earnings per share (RM)	0.15	0.16	0.17	0.17	0.19	0.13
Fully diluted Gross EPS (RM)	0.13	0.13	0.18	0.19	0.17	0.14
Fully diluted Net EPS (RM)	0.12	0.13	0.14	0.13	0.15	0.10
Gross dividend rate (%)	-	-	-	-	-	-

Assuming that the acquisitions had been taken effect throughout the years and the share capital of ARB is 42,600,000 shares.

@ Assuming that the conversion of Irredeemable Convertible Preference Shares ("ICPS") had been taken effect throughout the years and the share capital of ARB is 52,600,000 shares.

10. ACCOUNTANTS' REPORT (Cont'd)

Notes:

- a) The proforma consolidated income statements for the past financial period/years ended 31 December 1998 to 2002 and eight (8) months period ended 31 August 2003 includes the results of the ARB and its subsidiary companies which have been prepared for illustrative purposes only based on their audited financial statements after making necessary adjustments as we considered appropriate for the respective years.
- b) The effective tax rates for the financial years 1998, 2000 and 2002 were lower than the statutory tax rates due to the availability of tax incentives, under the Promotion of Investment Act, 1986 for a period of five (5) years (20 January 1996 to 19 January 2001) and extended period of another five (5) years (20 October 2001 to 19 September 2006).

No taxation has been provided for the financial year ended 31 December 1999 in line with the waiver of tax pursuant to the Income Tax (Amendment) Act 1999.

The effective tax rate of ARB Group for the financial year ended 2001 were higher than the statutory rate due to non-availability of tax exemption, under the Promotion of Investment Act, 1986, which the pioneer status from 19 January 2001 to 20 October 2001 and certain expenses disallowed for tax purposes.

- c) The gross and net earnings per share are calculated based on the profit before tax and profit after tax attributable to shareholders of the Company for the financial years respectively divided by number of ordinary shares in issue for each financial year under review.
- d) The number of ordinary shares used in computing the gross and net earnings per share is arrived after taking into account the effect of the proposed acquisition.
- e) Commentary on turnover and profitability of the subsidiary companies is set out in Section 5.2 and 5.3.
- f) There was no minority interest, extraordinary and exceptional items for the financial years/period under review.

10. ACCOUNTANTS' REPORT (Cont'd)**5.2 AHSB**

The summarised income statement based on the audited financial statements of AHSB for the past five (5) financial years/period ended 31 December 1998 to 31 August 2003 are set out below:-

	←-----Years ended 31 December----->					8 months ended
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	31.8.2003 RM'000
Turnover	56,254	52,878	56,210	57,952	69,541	48,214
Profit before depreciation, interest and taxation	13,797	12,867	15,232	16,874	17,006	12,801
Depreciation	(3,587)	(3,437)	(3,032)	(2,790)	(3,642)	(2,927)
Interest expense	(3,593)	(2,113)	(2,573)	(4,376)	(4,554)	(2,688)
Interest income	129	36	25	37	12	-
Profit before taxation	6,746	7,353	9,652	9,745	8,822	7,186
Taxation	(288)	-	(2,416)	(3,100)	(884)	(1,895)
Profit after taxation	6,458	7,353	7,236	6,645	7,938	5,291
Number of ordinary shares of RM1.00 each ('000)	24,051	24,051	34,000	34,000	34,000	34,000
Gross earnings per share (RM)	0.28	0.31	0.28	0.29	0.26	0.21
Net earnings per share (RM)	0.27	0.31	0.21	0.20	0.23	0.16
Gross dividend rate (%)	-	-	-	-	-	-

Notes:

- a) The turnover increased substantially in year 2002 due to the increase in production lines as a result of the new machinery purchased at end of 2001 and the increase in demand.
- b) Other operating income had increased significantly in year 2000 mainly due to the disposal of tractors and motor vehicles resulting in a gain on disposal of RM1.3 million.
- c) The higher interest expense in year 2001 and 2002 were mainly due to the interest on overdue account of RM1.8 million and RM0.885 million respectively and interest expense incurred for new credit facilities drawdown in year 2002.

10. ACCOUNTANTS' REPORT (Cont'd)

- d) No taxation has been provided for the financial year ended 31 December 1999 in line with the waiver of tax pursuant to the Income Tax (Amendment) Act 1999.

The effective tax rates for the financial years 1998, 2000 and 2002 were lower than the statutory tax rates due to the availability of tax incentives, under the Promotion of Investment Act, 1986 for a period of five (5) years (20 January 1996 to 19 January 2001) and extended period of another five (5) years (20 October 2001 to 19 September 2006).

The effective tax rate of AHSB for the financial year ended 2001 were higher than the statutory rate due to non-availability of tax exemption, under the Promotion of Investment Act, 1986, which the pioneer status from 19 January 2001 to 20 October 2001 and certain expenses disallowed for tax purposes.

The effective tax rate for the year ended 2000 and period ended 2003 are higher than the effective tax rate of other years due to transfer of deferred taxation to account for timing differences relating to capital allowance claimed in excess of depreciation for newly purchased machinery.

- e) There were no extraordinary or exceptional items for the financial period/years under review.

10. ACCOUNTANTS' REPORT (Cont'd)
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5.3 KTBSB

The summarised income statement based on the audited financial statements of KTBSB for the past five (5) financial years/period ended 31 December 1998 to 31 August 2003 are set out below:-

	<-----Years ended 31 December----->					8 months ended
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	31.8.2003 RM'000
Turnover	1,190	552	908	1,190	1,362	630
Profit before depreciation, interest and taxation	529	(277)	351	457	277	141
Depreciation	(283)	(252)	(181)	(69)	(60)	(41)
Interest expense	(125)	(165)	(139)	(57)	(48)	(31)
Profit/(Loss) before taxation	121	(694)	31	331	169	69
Taxation	-	-	-	-	(106)	(24)
Profit/(Loss) after taxation	121	(694)	31	331	63	45
Number of ordinary shares of RM1.00 each ('000)	610	610	610	610	610	610
Gross earnings/(loss) per share (RM)	0.20	(1.14)	0.05	0.54	0.28	0.11
Net earnings/(loss) per share (RM)	0.20	(1.14)	0.05	0.54	0.10	0.07
Gross dividend rate (%)	-	-	-	-	-	-

Notes:

- a) The gross and net earnings/(loss) per share are calculated based on the profit/(loss) before taxation and profit/(loss) after taxation attributable to shareholders of KTBSB for the financial years/period respectively divided by the weighted average number of ordinary shares in issue for each financial year/period under review.
- b) There were no extraordinary or exceptional items for the financial year/period under review.
- c) The turnover decreased significantly in 1999 when the KTBSB lower down its transportation fee to maintain its market share.
- d) No taxation has been provided for financial years ended 1998, 2000 and 2001 due to the utilisation of unutilised capital allowances and unabsorbed business losses.

10. ACCOUNTANTS' REPORT (Cont'd)
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6 SUMMARISED BALANCE SHEETS

As the ARB Group has not been established as at 31 August 2003, it is therefore impractical to present consolidated balance sheets of ARB Group throughout the period under review. Accordingly, we set out below the summarised audited balance sheets of ARB and its subsidiary companies for the relevant financial years/period as follows:-

6.1 ARB

The summarised balance sheets based on the audited financial statements of ARB for the past five (5) financial periods/years ended 31 December 1998 to 31 August 2003 are set out below:-

	15 months	←-----Years ended 31 December-----→				8 months
	ended 31.12.1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	ended 31.8.2003 RM'000
ASSETS EMPLOYED						
Deferred expenditure	3	4	-	-	-	0
Current assets	*	*	*	*	*	*
Current liabilities	(3)	(4)	(7)	(7)	(20)	(23)
Net current liabilities	(3)	(4)	(7)	(7)	(20)	(23)
	-	-	(7)	(7)	(20)	(23)
FINANCED BY						
Share capital	*	*	*	*	*	*
Accumulated losses	-	-	(7)	(7)	(20)	(23)
	-	-	(7)	(7)	(20)	(23)
NTL per share (RM)	-	-	(3,500)	(3,500)	(10,000)	(11,500)

* Represents RM2.

10. ACCOUNTANTS' REPORT (Cont'd)**6.2 AHSB**

The summarised balance sheets based on the audited financial statements of AHSB for the past five (5) financial years/period ended 31 December 1998 to 31 August 2003 are set out below:-

	<-----Years ended 31 December----->					8 months ended
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	31.8.2003 RM'000
ASSETS EMPLOYED						
Property, plant and equipment	44,175	41,089	54,274	55,824	55,784	52,895
Investment in subsidiaries	879	879	879	879	879	879
Investment	516	516	516	-	-	-
Current assets	32,281	36,544	38,435	57,882	68,274	76,483
Current liabilities	(35,291)	(29,744)	(15,164)	(21,799)	(25,338)	(30,733)
Net current (liabilities)/assets	(3,010)	6,800	23,271	36,083	42,936	45,750
	<u>42,560</u>	<u>49,284</u>	<u>78,940</u>	<u>92,786</u>	<u>99,599</u>	<u>99,524</u>
FINANCED BY						
Share capital	24,050	24,050	34,000	34,000	34,000	34,000
Retained profits	11,075	18,428	20,715	27,360	35,297	40,588
	<u>35,125</u>	<u>42,478</u>	<u>54,715</u>	<u>61,360</u>	<u>69,297</u>	<u>74,588</u>
Long term liabilities						
Hire purchase and lease payables	5,473	5,480	3,009	4,970	4,015	3,160
Bank borrowings	1,962	1,326	19,000	22,940	22,255	16,260
Deferred taxation	-	-	2,216	3,516	4,032	5,516
	<u>42,560</u>	<u>49,284</u>	<u>78,940</u>	<u>92,786</u>	<u>99,599</u>	<u>99,524</u>
NTA per share (RM)	<u>1.46</u>	<u>1.77</u>	<u>1.61</u>	<u>1.80</u>	<u>2.04</u>	<u>2.19</u>

10. ACCOUNTANTS' REPORT (Cont'd)**6.3 KTBSB**

The summarised balance sheets based on the audited financial statements of KTBSB for the past five (5) financial years/period ended 31 December 1998 to 31 August 2003 are set out below:-

	<-----Years ended 31 December----->					8 months ended
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	31.8.2003 RM'000
ASSETS EMPLOYED						
Property, plant and equipment	1,409	535	355	287	284	243
Current assets	649	2,369	2,384	2,434	2,472	1,460
Current liabilities	(1,095)	(2,822)	(2,639)	(2,289)	(2,203)	(1,105)
Net current (liabilities)/assets	(446)	(453)	(255)	145	269	355
	<u>963</u>	<u>82</u>	<u>100</u>	<u>432</u>	<u>553</u>	<u>598</u>
FINANCED BY						
Share capital	610	610	610	610	610	610
Retained profits/(Accumulated losses)	153	(541)	(510)	(179)	(115)	(70)
	<u>763</u>	<u>69</u>	<u>100</u>	<u>431</u>	<u>495</u>	<u>540</u>
Long term liabilities						
Lease payables	200	13	-	-	-	-
Deferred taxation	-	-	-	-	58	58
	<u>963</u>	<u>82</u>	<u>100</u>	<u>431</u>	<u>553</u>	<u>598</u>
NTA per share (RM)	<u>1.25</u>	<u>0.11</u>	<u>0.16</u>	<u>0.71</u>	<u>0.81</u>	<u>0.89</u>

10. ACCOUNTANTS' REPORT (Cont'd)
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7. CONSOLIDATED CASH FLOW STATEMENT

The proforma consolidated cash flow statement of the Proforma ARB Group for the period ended 31 August 2003, has been prepared for illustrative purposes only and is based on the assumption that the flotation scheme as mentioned under paragraph 2.4 of this report had been effected as at 31 August 2003.

	Proforma Group RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before taxation	7,252
Adjustment for:-	
Depreciation of property, plant and equipment	2,968
Interest expense	2,719
Allowance for doubtful debts	94
Loss on foreign exchange	25
Operating profit before working capital changes	13,058
(Increase)/Decrease in working capital	
Inventories	(13,505)
Receivables	5,476
Payables	(917)
	(8,946)
Cash generated from operations	4,112
Interest paid	(2,719)
Taxation paid	(298)
	(3,017)
Net cash generated from operating activities	1,095
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(75)
Proceeds from disposal of property, plant and equipment	38
Cash paid for listing expenses	(1,600)
Net cash used in investing activities	(1,637)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issue of shares	10,200
Repayment of term loan	(6,156)
Repayment of hire purchase payables	(700)
Net changes in banker's acceptance	(974)
Net cash from financing activities	2,370
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,828
OPENING BALANCE OF CASH AND CAS EQUIVALENTS	6,781
CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	8,609
Closing balance of cash and cash equivalents comprises:	
Cash and bank balances	9,649
Fixed deposits placed with licensed bank	512
Bank overdraft	(1,552)
	8,609

10. ACCOUNTANTS' REPORT (Cont'd)**8. STATEMENT OF ASSETS AND LIABILITIES**

The following is the detailed statement of assets and liabilities of the Proforma ARB Group is prepared for illustrative purposes only based on the audited financial statements of the Proforma ARB Group as at 31 August 2003. The statement of assets and liabilities has been prepared as if the flotation scheme had been effected on 31 August 2003 and should be read in conjunction with the accompanying notes thereon:-

	Note	Audited ARB RM'000	Proforma I After Acquisition RM'000	Proforma II After (I) and Public Issue RM'000	Proforma III After (II) and Full Conversion of ICPS RM'000
ASSETS EMPLOYED					
PROPERTY, PLANT AND EQUIPMENT	8.2	-	53,138	53,138	53,138
CURRENT ASSETS					
Inventories	8.3	-	36,135	36,135	36,135
Trade receivables and other receivables	8.4	-	24,600	24,600	24,600
Deposits for supplies		-	9,500	9,500	9,500
Fixed deposit with licensed bank	8.5	-	512	512	512
Cash and bank balances		*	6,049	9,649	9,649
		-	76,796	80,396	80,396
LESS: CURRENT LIABILITIES					
Trade payables and other payables	8.6	23	4,816	4,816	4,816
Hire purchase payables	8.7	-	1,408	1,408	1,408
Bank borrowings	8.8	-	21,148	16,148	16,148
Provision for taxation		-	3,342	3,342	3,342
		23	30,714	25,714	25,714
NET CURRENT (LIABILITIES)/ASSETS		(23)	46,082	54,682	54,682
		(23)	99,220	107,820	107,820
FINANCED BY					
SHARE CAPITAL	8.9	*	42,600	51,100	61,100
SHARE PREMIUM	8.10	-	6,312	6,412	8,412
IRREDEEMABLE CONVERTIBLE PREFERENCE SHARES	8.11	-	12,000	12,000	-
RESERVE ON CONSOLIDATION		-	13,337	13,337	13,337
ACCUMULATED LOSSES		(23)	(23)	(23)	(23)
		(23)	74,226	82,826	82,826
LONG TERM LIABILITIES					
Hire purchase payables	8.7	-	3,160	3,160	3,160
Bank borrowings	8.8	-	16,260	16,260	16,260
Deferred Taxation	8.12	-	5,574	5,574	5,574
		-	24,994	24,994	24,994
		(23)	99,220	107,820	107,820
(NTL)/NTA per share (RM)		(11,711)	1.74	1.62	1.36

* Represents RM2

10. ACCOUNTANTS' REPORT (Cont'd)

NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES

8.1 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements of the Proforma Group and of the Company have been prepared under the historical cost convention unless otherwise indicated in the accounting policies below and comply with applicable approved accounting standards in Malaysia and the provisions of the Company Act, 1965.

(b) Basis of Consolidation

The Proforma Group financial statements consolidate the financial statements of the Company and its subsidiary companies made up to 31 August 2003 on the assumption that the flotation scheme as stated in paragraph 2.4 of Section 2 had been effected as at 31 August 2003.

The Proforma Group financial statements include the audited financial statements of the Company and its subsidiary companies. The financial statements of the subsidiary company is consolidated using the acquisition method of accounting in which the results of subsidiary company acquired or disposed of during the period are included in the consolidated income statement from the date of acquisition or up to the date of disposal.

Inter-company balances and transactions are eliminated on consolidation and the consolidated financial statements reflect external transactions only.

(c) Reserve on consolidation

Reserve arising on consolidation represents the excess of the acquisition cost over the fair value of the net assets of the subsidiary companies at the date of acquisition.

(d) Subsidiary companies

A subsidiary company is a company in which the Company owns, directly or indirectly, more than 50% of the equity share capital and has control over its financial and operating policies so as to obtain benefits from its activities.

Investment in subsidiary companies is stated at cost unless, in the opinion of the directors, a permanent diminution in value of the investments has arisen.

10. ACCOUNTANTS' REPORT (Cont'd)**(e) Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment are depreciated on a straight line method at rates calculated to write off the cost of the assets over their estimated useful lives. The principal annual rates used are as follows:-

Building	2%
Plant and machinery	6.67%
Office equipment, furniture and fitting	10%
Tractors and motor vehicles	20%
Scows and tug boats	10%

Gains or losses on disposals are determined by comparing proceeds with carrying amount and are included in profit/(loss) from operations.

(f) Impairment of assets

The carrying values of assets are reviewed 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.

Subsequent increase in the recoverable amount of an asset is treated as 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.

(g) Inventories

Inventories of raw materials and finished goods are valued at the lower of cost and net realisable value and determined on the weighted average method. Cost of finished goods comprises raw materials, direct labour and factory overheads.

(h) Trade and other receivables

Trade and other receivables are carried at anticipated realisable value. Bad debts are written off when identified. Doubtful debts is provided based on specific review of the receivables.

10. ACCOUNTANTS' REPORT (Cont'd)**(i) Assets under hire purchase**

Assets under lease and hire purchase which in substance transfer the risks and benefits of ownership of the assets to the Proforma Group are capitalised under property, plant and equipment. The assets and the corresponding hire purchase obligations are recorded at the lower of present value of the minimum lease payments or the fair value of the hire purchase assets at the beginning of the lease terms. Such hire purchase assets are subject to depreciation consistent with that for depreciable assets which are owned.

Leases which do not meet such criteria are classified as operating lease and the related rentals are charged to income statement as incurred.

(j) Foreign currencies

Foreign currency transactions are converted into Malaysian Ringgit at the rate of exchange ruling on the transaction dates. Assets and liabilities in foreign currencies at balance sheet date are translated into Malaysian Ringgit at the rate of exchange ruling at that date.

Gains and losses arising from the current year's transactions are dealt with in the income statement.

The closing exchange rate used for the main foreign currency in the Proforma Group are as follows:-

	RM
Singapore dollar	2.163
US dollar	3.800

(k) Revenue recognition

Sales are recognised upon delivery of products and customer acceptance net of discounts.

Interest income is recognised on an accrual basis.

(l) Taxation

Provision is made on the liability method for taxation deferred by capital allowances and other timing differences, except where the effects of such timing differences are expected to be deferred indefinitely.

Future income tax benefits in respect of tax losses and other timing differences are not recognised except to the extent of net credits in the deferred tax balance, and to the extent it is reasonably probable that these benefits can be realised in the foreseeable future.

10. ACCOUNTANTS' REPORT (Cont'd)
 AnuarulAzizanChew
(m) Cash and cash equivalents

Cash and cash equivalents comprises cash in hand, bank balances, demand deposits, bank overdrafts and other short term highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

(n) Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investment, receivables, payables and borrowings. The particular recognition methods adopted are disclosed in the individual accounting policy associated with each item.

8.2 PROPERTY, PLANT AND EQUIPMENT - Proforma Group

COST	At	Additions	Disposals	At	
	1.1.2003			31.8.2003	
	RM'000	RM'000	RM'000	RM'000	
Land and buildings	16,158	43	-	16,201	
Plant and machinery	60,283	16	-	60,299	
Tractors and motor vehicles	1,083	-	(82)	1,001	
Tug boats and scow	1,203	-	-	1,203	
Office equipment, furniture and fittings	441	16	-	457	
	<u>79,168</u>	<u>75</u>	<u>(82)</u>	<u>79,161</u>	

ACCUMULATED DEPRECIATION	At	Change for the period	Disposal	At	Net book value at
	1.1.2003	RM'000	RM'000	31.8.2003	31.8.2003
	RM'000	RM'000	RM'000	RM'000	RM'000
Land and buildings	2,857	317	-	3,174	13,027
Plant and machinery	18,142	2,527	-	20,669	39,630
Tractors and motor vehicles	905	60	(44)	921	80
Tug boats and scow	932	40	-	972	231
Office equipment, furniture and fittings	263	24	-	287	170
	<u>23,099</u>	<u>2,968</u>	<u>(44)</u>	<u>26,023</u>	<u>53,138</u>

8.3 INVENTORIES

	Proforma Group RM'000
Raw materials	17,791
Work-in progress	5,201
Finished goods	10,557
Stores and supplies	2,586
	<u>36,135</u>

10. ACCOUNTANTS' REPORT (Cont'd)
 AnuarulAzizanChew
8.4 TRADE AND OTHER RECEIVABLES

	Proforma Group RM'000
Trade receivables	20,088
Other receivables	4,623
Deposits	32
	<u>24,743</u>
Less : Allowance for doubtful debts	(143)
	<u>24,600</u>

8.5 FIXED DEPOSITS - Proforma Group

These have been pledged to a financial institution for obtaining the banking facilities as mentioned in 8.8.

8.6 TRADE AND OTHER PAYABLES

	Proforma Group RM'000
Trade payables	2,155
Other payables	2,302
Amount due to directors	359
	<u>4,816</u>

Amount due to directors is interest free, unsecured and has no fixed terms of repayment.

8.7 HIRE PURCHASE PAYABLES

	Proforma Group RM'000
Future minimum payments	
Payable within one year	1,788
Payable after one year	3,410
	<u>5,198</u>
Less : Unexpired interest	(630)
	<u>4,568</u>
Present value representing hire purchase	
Repayable within one year	1,408
Repayable after one year	3,160
	<u>4,568</u>

10. ACCOUNTANTS' REPORT (Cont'd)**8.8 BANK BORROWINGS**

	Proforma Group RM'000
Term loan	17,732
Revolving credits	10,000
Bankers' acceptance	3,124
Bank overdrafts	1,552
	<u>32,408</u>
Repayable within twelve months	16,148
Repayable after twelve months	16,260
	<u>32,408</u>

The above credit facilities obtained from licensed financial institutions are secured on the following:-

- (i) fixed charge on the leasehold lands of the AHSB;
- (ii) a fixed debenture over the present and future fixed and floating assets of the AHSB;
- (iii) personal guarantee by a director of the AHSB; and
- (iv) a pledge of fixed deposits of the AHSB.

The term loan is repayable by 110 monthly instalments commencing from August 2001. This term loan has been rescheduled subsequent to the financial year and it is repayable by 85 monthly instalments commencing 1 June 2002 at RM286,700 and the last instalments at a predetermined amount agreed by the bank.

Interests on the above facilities are charged at rates of between 1.5% and 2.5% above the financial institutions' base lending rates per annum.

10. ACCOUNTANTS' REPORT (Cont'd)**8.9 SHARE CAPITAL**

	Proforma Group RM'000
Ordinary shares of RM1.00 each Authorised	75,000
Issued and fully paid	
As at 31 August 2003	*
Issued pursuant to ARB acquisition	42,599
As shown in Proforma I	42,600
Issued pursuant to Public Issue/Placement	8,500
As shown in Proforma II	51,100
Issued pursuant to Full Conversion of ICPS	10,000
As shown in Proforma III	61,100

* Represents RM2.

8.10 SHARE PREMIUM

	Proforma Group RM'000
Arising pursuant to ARB Acquisition (As shown in Proforma I)	6,312
Arising pursuant to Public Issue/Placement	1,700
Less : Listing expenses written off	(1,600)
(As shown in Proforma II)	6,412
Arising pursuant to Full Conversion of ICPS	2,000
(As shown in Proforma III)	8,412

10. ACCOUNTANTS' REPORT (Cont'd)**8.11 IRREDEEMABLE CONVERTIBLE PREFERENCE SHARES**

	Proforma Group RM'000
Irredeemable Convertible preference shares of RM1.00 each Authorised	25,000
Issued and fully paid	
Issued pursuant to ARB acquisition As shown in Proforma I	12,000
Pursuant to Full Conversion of ICPS As shown in Proforma III	(12,000) -

The RM12,000,000 of nominal value of RM1.00 each of Irredeemable Convertible Preference Shares ("ICPS") are issued as part of the purchase consideration for the ARB acquisition under the proposed flotation scheme.

The salient terms of the ICPS are as follows:-

- (a) The ICPS are non-redeemable for cash and non-transferable.
- (b) The nominal value of the ICPS is equivalent to the Public Issue price for every ordinary share of RM1.00 each;
- (c) Each ICPS shall be entitled to fixed cumulative annual dividend at one percent (1%) per annum which shall be paid in preference to any dividend declared over the shares of the Company. The ICPS shall rank *pari passu* in all respects with one another;
- (d) The ICPS shall be for a period of two (2) years from the date of issue and shall mature upon the expiry of the two (2) years' period;
- (e) Each holder of ICPS shall have the right ("Conversion Right") at any time after the first (1st) anniversary of the Issue Date to convert fifty percent (50%) of the ICPS and the remaining fifty percent (50%) upon the expiry of second (2nd) anniversary of the Issue Date into fully paid new shares of RM1.00 each in the Company at the Conversion Price to be adjusted from time to time by the Directors of the Company in consultation with the Approved Merchant Bank and certified by the Auditors and/or the Approved Merchant Bank

10. ACCOUNTANTS' REPORT (Cont'd)
 AnuarulAzizanChew
8.12 DEFERRED TAXATION

	Proforma Group RM'000
As at 1 January 2003	4,090
Transfer from income statement	1,484
As at 31 August 2003	<u>5,574</u>

8.13 CONTINGENT LIABILITIES

	Proforma Group RM'000
Corporate guarantees given to banks for credit facilities granted to companies in which certain directors of the Company have substantial financial interest	13,465
Banker's guarantee	20
	<u>13,485</u>

8.14 FINANCIAL INSTRUMENTS**(a) Financial risk management objectives and policies**

The Proforma Group's financial risk management policy is to ensure that adequate financial resources are available for the development of the Company's operations whilst managing its financial risks, including foreign currency exchange risk, interest rate risk, credit risk, liquidity and cash flow risk.

(b) Foreign currency exchange risk

AHSB is exposed to foreign currency risk on sales, purchases and borrowings that are primarily denominated in US dollars and Singapore dollars. AHSB maintains a natural hedge to minimise the exposure by matching foreign currency income with foreign currency costs.

(c) Interest rate risk

The Proforma Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from the Proforma Group's borrowings and deposits. The Proforma Group does not hedge the interest rate risk.

10. ACCOUNTANTS' REPORT (Cont'd)**(d) Credit risk**

The Proforma Group's exposure to credit risk arises mainly from receivables. Receivables are monitored on an ongoing basis via Company management reporting procedure and action will be taken for long outstanding debts.

At balance sheet date, there were no significant concentration of credit risk. The maximum exposure to credit risk for the Proforma Group is the carrying amount of the financial assets shown in the balance sheet.

(e) Liquidity and cash flow risk

The Proforma Group seeks to achieve a flexible and cost effective borrowing structure to ensure that the projected net borrowing needs are covered by available committed facilities. Debt maturities are structured in such a way to ensure that the amount of debt maturing in any one year is within the Proforma Group's ability to repay and refinance.

The Proforma Group maintains the availability of funding through the continuous financial support from the shareholders and committed credit facilities.

(f) Fair values

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and short term borrowings approximate fair value due to the relatively short term nature of these financial instruments.

The aggregate fair values of the other financial liabilities carried on the balance sheet approximates their carrying value and the Proforma Group does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would eventually be settled.

9. NET TANGIBLE ASSETS FOR ORDINARY SHARE

Based on the Proforma statement of assets and liabilities of the ARB Group as at 31 August 2003, the net tangible assets cover per ordinary share after the flotation scheme is calculated as follows :-

Proforma consolidation NTA as at 31 August 2003 (RM'000)	<u>82,826</u>
Number of ordinary shares of RM1.00 each in issue (RM'000)	<u>61,100</u>
Proforma consolidation NTA per share (RM)	<u>1.36</u>

10. ACCOUNTANTS' REPORT (Cont'd)

10. AUDITED FINANCIAL STATEMENTS

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

Yours faithfully,



ANUARUL AZIZAN CHEW & CO
Firm Number : AF 0791
Chartered Accountants



TEE GUAN PIAN
Approved Number : 1886/05/04 (J/PH)
Partner of Firm