

10. ACCOUNTANTS' REPORT

JB LAU & ASSOCIATES **CHARTERED ACCOUNTANTS**

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The Board of Directors
KBB Resources Berhad
51-8-B Menara BHL Bank
Jalan Sultan Ahmad Shah
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Lady/Gentlemen,

1. INTRODUCTION

This report has been prepared by JB Lau & Associates, an approved company auditor, for inclusion in the Prospectus to be dated 30 January 2004 in connection with the Public Issue of 12,000,000 new ordinary shares of RM0.50 each in KBB Resources Berhad (hereinafter referred to as "KRB" or "Company") at an Issue Price of RM0.90 per ordinary share of RM0.50 each and the listing of and quotation for its entire issued and paid-up share capital of 80,000,000 ordinary shares of RM0.50 each on the Second Board of Malaysia Securities Exchange Berhad ("MSEB").

2. LISTING SCHEME

In conjunction with the listing of and quotation for the entire enlarged issued and paid-up share capital of KRB on the Second Board of the MSEB, the Company undertook the following listing scheme which was approved by the Foreign Investment Committee ("FIC"), Ministry of International Trade and Industry ("MITI") and the Securities Commission ("SC") on the dates set out below :

<u>Authority</u>	<u>Date of approval</u>
FIC	30 December 2002, 25 September 2003, 8 October 2003 and 5 January 2004
MITI	14 February 2003, 9 October 2003 and 26 December 2003
SC	6 August 2003, 18 December 2003 and 13 January 2004

- (i) Acquisition of the entire issued and paid-up share capital of Kilang Bihun Bersatu Sdn. Bhd. ("KBB") comprising 17,441,860 ordinary shares of RM1.00 each for a total consideration of RM31,660,658 to be satisfied by the issue of 30,155,209 new KRB ordinary shares of RM1.00 each at an issue price of approximately RM1.05 per ordinary share of RM1.00 each,
- (ii) Acquisition of the entire issued and paid-up share capital of Kilang Bihun Bersatu (East Malaysia) Sdn. Bhd. ("KBBEM") comprising 300,000 ordinary shares of RM1.00 each for a total cash consideration of RM292,955,

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

- (iii) Acquisition of the entire issued and paid-up share capital of Bersatu Bihun & Food Manufacturing Sdn. Bhd. ("BBFM") comprising 2 ordinary shares of RM1.00 each for a total cash consideration of RM2,
- (iv) A Rights Issue of 3,844,789 ordinary shares of RM1.00 each by KRB at an issue price of RM1.00 per share on the basis of approximately 1,275 new ordinary shares of RM1.00 each for every 10,000 ordinary shares of RM1.00 each held after the above mentioned acquisitions,
- (v) A split of the par value of ordinary shares of KRB from RM1.00 to RM0.50 each per ordinary share, which accordingly increases the number of ordinary shares in issue from 34,000,000 ordinary shares of RM1.00 each to 68,000,000 ordinary shares of RM0.50 each, and
- (vi) A Public Issue of 12,000,000 new ordinary shares of RM0.50 each at an issue price of RM0.90 per ordinary share of RM0.50 each.

3. GENERAL INFORMATION

3.1 Background

KBB Resources Berhad was incorporated on 20 June 2002 as a public limited company.

The principal activity of the Company is investment holding.

3.2 Share Capital

At the date of incorporation, the authorised share capital of the Company was RM100,000 comprising 100,000 ordinary shares of RM1.00 each and its issued and paid-up share capital was RM2.00 comprising 2 ordinary shares of RM1.00 each.

Its authorised share capital was increased to RM50,000,000 on 1 October 2003 by the creation of an additional 49,900,000 ordinary shares of RM1.00 each.

The par value of RM1.00 was subdivided into RM0.50 pursuant to a members' circular resolution dated 22 December 2003.

10. ACCOUNTANTS' REPORT (Cont'd)

The changes in the Company's issued and fully paid-up share capital are summarised below :

<u>Date of allotment</u>	<u>Consideration</u>	<u>No. of ordinary shares of RM1.00 * / RM0.50 each allotted</u>	<u>Cumulative issued and paid-up share capital RM</u>
20 June 2002	Subscribers' shares	2	2
1 October 2003	Allotment in consideration for the acquisition of 100% equity interest in KBB	* 30,155,209	30,155,211
19 December 2003	Rights issue on the basis of approximately 1,275 new ordinary shares of RM1.00 each for every 10,000 ordinary shares of RM1.00 each held at an issue price of RM1.00 each	* 3,844,789	34,000,000
22 December 2003	Subdivision of RM1.00 into RM0.50	68,000,000	34,000,000

3.3 Subsidiary Companies

The details of the subsidiary companies of KRB are as follows :

<u>Name of company</u>	<u>Date / Place of incorporation</u>	<u>Issued and paid-up share capital as at 31 July 2003</u>	<u>Equity interest</u>	<u>Principal activities</u>
KBB	15 September 1988 Malaysia	RM17,441,860	100%	Manufacturing and marketing of all types of rice and sago sticks (Vermicelli)
KBBEM	18 April 2001 Malaysia	RM300,000	100%	Manufacturing and marketing of all types of sago sticks (Vermicelli)
BBFM	23 December 2000 Malaysia	RM2	100%	Dormant

10. ACCOUNTANTS' REPORT (Cont'd)

3.4 Basis of Accounting and Accounting Policies

This report is compiled based on the audited financial statements which have been prepared in accordance with applicable approved international accounting standards and/or applicable approved accounting standards issued by the Malaysian Accounting Standards Board where appropriate and is presented on a basis consistent with the accounting policies normally adopted by KRB and its subsidiary companies, namely KBB, KBBEM and BBFM ("KRB Group" or "Group").

3.5 Financial Statements and Auditors

We have been the auditors of KRB, KBB and BBFM for the financial years/period under review.

We have acted as auditors for KBBEM since the financial year ended 31 December 2002. Prior to that, the financial statements of KBBEM were audited by another firm of auditors.

The financial statements of all the companies within the Group for all the financial years/period under review have been reported without any audit qualification and modification.

4. DIVIDENDS

No dividend has been paid or declared by the KRB Group for the financial years/period under review.

10. ACCOUNTANTS' REPORT (Cont'd)

5. SUMMARISED INCOME STATEMENTS

5.1 PROFORMA GROUP INCOME STATEMENTS

The summarised proforma consolidated results of KRB Group for the past five (5) financial years ended 31 December 2002 and seven (7) months period ended 31 July 2003 have been prepared based on the audited financial statements of the companies in the KRB Group for illustrative purposes after making such adjustments that we considered necessary and assuming that the KRB Group had been in existence throughout the years under review.

	----- Financial year ended 31 December -----					1.1.2003 TO
	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000	<u>2001</u> RM'000	<u>2002</u> RM'000	<u>31.7.2003</u> RM'000
Revenue	26,722	30,243	32,061	46,930	54,676	39,268
Earnings before interest, depreciation, taxation and amortisation	6,245	7,652	8,194	12,384	13,398	9,756
Interest expense	(855)	(863)	(809)	(1,472)	(1,744)	(1,157)
Depreciation	(1,273)	(1,453)	(1,645)	(3,198)	(3,614)	(2,552)
Amortisation	-	-	-	-	(8)	(7)
Operating profit	4,117	5,336	5,740	7,714	8,032	6,040
Exceptional items	-	86	958	-	-	-
Profit before taxation	4,117	5,422	6,698	7,714	8,032	6,040
Taxation	(349)	144	(886)	(2,039)	(1,172)	(869)
Profit from ordinary activities	3,768	5,566	5,812	5,675	6,860	5,171
Extraordinary items	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-
Net profit	3,768	5,566	5,812	5,675	6,860	5,171
No. of ordinary shares in issue ('000)	30,155	30,155	30,155	30,155	30,155	30,155
Gross earnings per share (sen)	13.65	17.98	22.21	25.58	26.64	34.34 *
Net earnings per share (sen)	12.50	18.46	19.27	18.82	22.75	29.40 *

10. ACCOUNTANTS' REPORT (Cont'd)**NOTES :**

* Annualised

(i) The proforma consolidated results of KRB for the financial years ended 31 December 1998 to 31 December 2000 comprise of KBB only as KBBEM and BBFM became subsidiary companies of KBB only in the financial year ended 31 December 2001. For the financial years ended 31 December 2001 to 31 December 2002 and seven months financial period ended 31 July 2003, the proforma consolidated results of KRB comprise of the KRB Group.

(ii) The proforma consolidated results of KRB have been prepared based on accounting policies consistent with those currently adopted in the preparation of the audited financial statements of the KRB Group.

(iii) All significant inter-company transactions have been eliminated from the Group results.

(iv) Revenue increased by 13.18% for the financial year ended 31 December 1999 to RM30.24 million mainly due to the increase in average selling price arising from the increase in raw material cost.

Revenue increased marginally by 6.01% for the financial year ended 31 December 2000 to RM32.06 million due to the reduction in selling price as a result of cheaper raw material cost which was passed down to the Group's customers.

Revenue increased by 46.38% for the financial year ended 31 December 2001 to RM46.93 million due to additional production capacity as a result of the installation and commissioning of 3 additional production lines during the year.

Revenue increased by 16.51% for the financial year ended 31 December 2002 to RM54.68 million due to the revenue contribution from the commencement of KBBEM's operations in Sibü, and additional production capacity in the Group's Kuala Ketil factory. The increase in revenue was also contributed by an increase in marketing activity by the Group in order to capture more market share.

Annualised revenue increased by 23.12% for the seven months financial period ended 31 July 2003 mainly due to the revenue contribution from KBBEM as it was operating for the full seven months financial period.

(v) Profit before taxation increased by 31.70% for the financial year ended 31 December 1999 to RM5.42 million as a result of the increase in revenue and the reduction in selling expenses. Selling expenses reduced by 19.93% to RM0.79 million due to the reduction in carriage outwards and lower allowance for doubtful debts. Carriage outwards reduced because customers took delivery of the rice Vermicelli at their own cost.

10. ACCOUNTANTS' REPORT (Cont'd)

Profit before taxation increased by 23.53% for the financial year ended 31 December 2000 to RM6.70 million as a result of the increase in revenue and the exceptional gain during the year. KBB made a net gain of RM0.96 million from the disposal of property which contributed 14.30% to the profit before taxation for the year.

Profit before taxation increased by 15.17% for the financial year ended 31 December 2001 to RM7.71 million as a result of the increase in revenue.

Profit before taxation increased slightly by 4.12% for the financial year ended 31 December 2002 to RM8.03 million as a result of the increase in revenue. However, the growth rate of the Group's profit is lower than the turnover growth rate mainly due to the increase in overheads and interest expenses.

Annualised profit before taxation increased by 28.91% for the seven months financial period ended 31 July 2003 as a result of the increase in revenue and a reduction in cost of raw materials.

- (vi) The disproportionate tax charge for the financial years ended 31 December 1998, 2001 and 2002 is due to claims for reinvestment allowance.

There was no current taxation charge for the financial year ended 31 December 1999 as it was a tax waiver year. The credit taxation is in respect of deferred taxation and an over provision in prior year.

The disproportionate tax charge for the financial year ended 31 December 2000 was due to the claim for reinvestment allowance and the gain on disposal of property by KBB which was not subject to income tax.

The disproportionate tax charge for the seven months financial period ended 31 July 2003 was due to the claim for pioneer income by KBB.

- (vii) The gross earnings per share is calculated based on the profit before taxation and on the number of ordinary shares of RM1.00 each assumed in issue.

- (viii) The net earning per share is calculated based on the profit after taxation and minority interest and on the number of ordinary shares of RM1.00 assumed in issue.

10. ACCOUNTANTS' REPORT (Cont'd)

5.2 We set out below the audited results of the companies in the KRB Group for the relevant periods/years under review :-

KRB

	20.6.2002 TO <u>31.12.2002</u> RM'000	1.1.2003 TO <u>31.7.2003</u> RM'000
Revenue	-	-
Loss before interest, depreciation, taxation and amortisation	(5)	(2)
Interest expense	-	-
Depreciation	-	-
Amortisation	-	-
Operating loss	(5)	(2)
Exceptional items	-	-
Loss before taxation	(5)	(2)
Taxation	-	-
Loss from ordinary activities	(5)	(2)
Extraordinary items	-	-
Minority interest	-	-
Net loss	(5)	(2)
Weighted average no. of ordinary shares in issue	2	2
Gross loss per share (RM)	(2,500)	(1,714) *
Net loss per share (RM)	(2,500)	(1,714) *

10. ACCOUNTANTS' REPORT (Cont'd)

NOTES :

- * Annualised

- (i) KRB was incorporated on 20 June 2002 and has not commenced operations as at 31 July 2003. The loss incurred for the financial period ended 31 December 2002 was in respect of preliminary and pre-operating expenses whilst the loss incurred for the seven months financial period ended 31 July 2003 was in respect of pre-operating expenses.

- (ii) There is no current taxation charge for the financial periods ended 31 December 2002 and 31 July 2003 as KRB had no chargeable income.

- (iii) The gross loss per share is calculated based on the loss before taxation and on the weighted average number of ordinary shares in issue during the financial periods under review.

- (iv) The net loss per share is calculated based on the net loss and on the weighted average number of ordinary shares in issue during the financial periods under review.

10. ACCOUNTANTS' REPORT (Cont'd)

KBB

	----- Financial year ended 31 December -----					1.1.2003 TO
	<u>1998</u> RM'000	<u>1999</u> RM'000	<u>2000</u> RM'000	<u>2001</u> RM'000	<u>2002</u> RM'000	<u>31.7.2003</u> RM'000
Revenue	26,722	30,243	32,061	46,930	54,272	33,200
Earnings before interest, depreciation, taxation and amortisation	6,245	7,652	8,194	12,395	13,275	8,396
Interest expense	(855)	(863)	(809)	(1,472)	(1,709)	(1,097)
Depreciation	(1,273)	(1,453)	(1,645)	(3,198)	(3,527)	(2,234)
Amortisation	-	-	-	-	(8)	(7)
Operating profit	4,117	5,336	5,740	7,725	8,031	5,058
Exceptional items	-	86	958	-	-	-
Profit before taxation	4,117	5,422	6,698	7,725	8,031	5,058
Taxation	(349)	144	(886)	(2,038)	(1,169)	(584)
Profit from ordinary activities	3,768	5,566	5,812	5,687	6,862	4,474
Extraordinary items	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-
Net profit	3,768	5,566	5,812	5,687	6,862	4,474
Weighted average no. of ordinary shares in issue ('000)	1,574	6,000	8,285	12,140	16,532	17,442
Gross earnings per share (RM)	2.62	0.90	0.81	0.64	0.49	0.50 *
Net earnings per share (RM)	2.39	0.93	0.70	0.47	0.42	0.44 *

JB Lau & Associates

10. ACCOUNTANTS' REPORT (Cont'd)

NOTES :

* Annualised

- (i) Revenue increased by 13.18% for the financial year ended 31 December 1999 to RM30.24 million mainly due to the increase in average selling price arising from the increase in raw material cost.

Revenue increased marginally by 6.01% for the financial year ended 31 December 2000 to RM32.06 million due to the reduction in selling price as a result of cheaper raw material cost which was passed down to its customers.

Revenue increased by 46.38% for the financial year ended 31 December 2001 to RM46.93 million due to additional production capacity as a result of the installation and commissioning of 3 additional production lines during the year.

Revenue increased by 15.64% for the financial year ended 31 December 2002 to RM54.27 million due to additional production capacity in the Kuala Ketil factory and an increase in marketing activity by the company in order to capture more market share.

Annualised revenue increased by a smaller margin of 4.87% for the seven months financial period ended 31 July 2003 as demand for local rice Vermicelli stabilises and its customers from East Malaysia are now being supplied by KBBEM.

- (ii) Profit before taxation increased by 31.70% for the financial year ended 31 December 1999 to RM5.42 million as a result of the increase in revenue and the reduction in selling expenses. Selling expenses reduced by 19.93% to RM0.79 million due to the reduction in carriage outwards and lower allowance for doubtful debts. Carriage outwards reduced because customers took delivery of the rice Vermicelli at their own cost.

Profit before taxation increased by 23.53% for the financial year ended 31 December 2000 to RM6.70 million as a result of the increase in revenue and the exceptional gain during the year. KBB made a net gain of RM0.96 million from the disposal of property which contributed 14.30% to the profit before taxation for the year.

Profit before taxation increased by 15.33% for the financial year ended 31 December 2001 to RM7.73 million as a result of the increase in revenue.

Profit before taxation increased by 3.96% for the financial year ended 31 December 2002 to RM8.03 million as a result of the increase in revenue. However, the growth rate of the company's profit is lower than the revenue growth rate mainly due to the increase in overheads and interest expenses.

Annualised profit before taxation increased by 7.97% for the seven months financial period ended 31 July 2003 as a result of the increase in revenue and a reduction in cost of raw materials.

10. ACCOUNTANTS' REPORT (Cont'd)

- (iii) The disproportionate tax charge for the financial years ended 31 December 1998, 2001 and 2002 is due to claims for reinvestment allowance.

There was no current taxation charge for the financial year ended 31 December 1999 as it was a tax waiver year. The credit taxation is in respect of deferred taxation and an over provision in prior year.

The disproportionate tax charge for the financial year ended 31 December 2000 was due to the claim for reinvestment allowance and the gain on disposal of property by KBB which was not subject to income tax.

The disproportionate tax charge for the seven months financial period ended 31 July 2003 was due to the claim for pioneer income by KBB.

- (iv) The gross earnings per share is calculated based on the profit before taxation and on the weighted average number of ordinary shares in issue during the financial years/period under review.
- (v) The net earnings per share is calculated based on the profit after taxation and on the weighted average number of ordinary shares in issue during the financial years/period under review.
- (vi) Other than the following, there has been no change in KBB's accounting policies which may materially affect its income and financial position for the financial years/period under review.

In the financial year ended 31 December 2001, KBB adopted a policy of making a general allowance of 2% on trade debtors balances at year end after deducting for bad debts written off and specific allowance for doubtful debts. The adoption of this policy had no material effect on the results for the year.

10. ACCOUNTANTS' REPORT (Cont'd)

KBBEM

	18.4.2001 TO <u>31.12.2001</u> RM'000	1.1.2002 TO <u>31.12.2002</u> RM'000	1.1.2003 TO <u>31.7.2003</u> RM'000
Revenue	-	404	6,068
(Loss)/Earnings before interest, depreciation, taxation and amortisation	(7)	131	1,363
Interest expense	-	(35)	(59)
Depreciation	-	(88)	(318)
Amortisation	-	-	-
Operating (loss)/profit	(7)	8	986
Exceptional items	-	-	-
(Loss)/Profit before taxation	(7)	8	986
Taxation	-	(3)	(285)
(Loss)/Profit from ordinary activities	(7)	5	701
Extraordinary items	-	-	-
Minority interest	-	-	-
Net (loss)/profit	(7)	5	701
Weighted average no. of ordinary shares in issue ('000)	300	300	300
Gross (loss)/earnings per share (sen)	(2.33)	2.67	563.43 *
Net (loss)/earnings per share (sen)	(2.33)	1.67	400.57 *

10. ACCOUNTANTS' REPORT (Cont'd)

NOTES :

- * Annualised

- (i) The company was incorporated on 18 April 2001 and as at 31 December 2001, it has yet to commence operations and accordingly had minimal expenses.

- (ii) The company commenced operations on 2 December 2002 and in its first month of operations it recorded revenue and profit before taxation of RM0.40 million and RM8,000 respectively for the financial year ended 31 December 2002.

- (iii) The company achieved RM6.07 million in sales for the seven months financial period ended 31 July 2003 as it was operating for the full seven months and East Malaysia has fewer local rice Vermicelli competitors. Accordingly, profit before taxation increased to RM0.99 million.

- (iv) The disproportionate tax charge for the financial year ended 31 December 2002 and the seven months financial period ended 31 July 2003 was due to certain expenses being disallowed as deductions for tax purposes.

- (v) The gross (loss)/earnings per share is calculated based on the (loss)/profit before taxation and on the weighted average number of ordinary shares in issue during the financial periods/year under review.

- (vi) The net (loss)/earnings per share is calculated based on the (loss)/profit after taxation and on the weighted average number of ordinary shares in issue during the financial periods/year under review.

- (vii) There has been no change in the company's accounting policies which may materially affect its income and financial position for the financial periods/year under review.

10. ACCOUNTANTS' REPORT (Cont'd)

BBFM

	23.12.2000 TO <u>31.12.2001</u> RM'000	1.1.2002 TO <u>31.12.2002</u> RM'000	1.1.2003 TO <u>31.7.2003</u> RM'000
Revenue	-	-	-
Loss before interest, depreciation, taxation and amortisation	(4)	(2)	(2)
Interest expense	-	-	-
Depreciation	-	-	-
Amortisation	-	-	-
Operating loss	(4)	(2)	(2)
Exceptional items	-	-	-
Loss before taxation	(4)	(2)	(2)
Taxation	-	-	-
Loss from ordinary activities	(4)	(2)	(2)
Extraordinary items	-	-	-
Minority interest	-	-	-
Net loss	(4)	(2)	(2)
Weighted average no. of ordinary shares in issue	2	2	2
Gross loss per share (RM)	2,000	1,000	1,714 *
Net loss per share (RM)	2,000	1,000	1,714 *

10. ACCOUNTANTS' REPORT (Cont'd)

NOTES :

- * Annualised

- (i) The company was incorporated on 23 December 2000 and as at 31 July 2003, it has yet to commence operations and accordingly has minimal expenses.

- (ii) The gross loss per share is calculated based on the loss before taxation and on the weighted average number of ordinary shares in issue during the financial periods/year under review.

- (iii) The net loss per share is calculated based on the loss after taxation and on the number of ordinary shares in issue during the financial periods/year under review.

- (iv) There has been no change in the company's accounting policies which may materially affect its income and financial position for the financial periods/year under review.

10. ACCOUNTANTS' REPORT (Cont'd)

6. SUMMARISED BALANCE SHEETS**6.1 PROFORMA CONSOLIDATED BALANCE SHEETS**

As the acquisition of the subsidiary companies was only completed after 31 July 2003, it is therefore impracticable to present consolidated balance sheets of the KRB Group throughout the financial years/period under review and they were not significantly affected by transactions and balances between the companies in the KRB Group except to the extent as stated in the notes below. Accordingly, the proforma consolidated statements of assets and liabilities of the KRB Group have only been presented in respect of 31 July 2003 based on the latest audited balance sheets of KRB and its subsidiary companies as at 31 July 2003 as shown in Section 7 of this Report. In addition, balances due from/to companies within the KRB Group are disclosed in Section 6.2 of this Report.

- 6.2 The summarised audited balance sheets of KRB and its subsidiary companies based on their respective audited financial statements as at the end of the financial periods/years under review are as follows :

KRB

	<u>As at</u> <u>31.12.2002</u> RM'000	<u>As at</u> <u>31.7.2003</u> RM'000
Current assets	*	*
Current liabilities	(5)	(7)
	<u>(5)</u>	<u>(7)</u>
Financed by :		
Share capital	*	*
Accumulated losses	(5)	(7)
	<u>(5)</u>	<u>(7)</u>
Net tangible liabilities per share (RM)	<u>2,500</u>	<u>3,500</u>

* Represents RM2

10. ACCOUNTANTS' REPORT (Cont'd)

KBB

	As at 31 December					As at
	1998	1999	2000	2001	2002	31.7.2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	13,235	24,395	25,740	40,558	40,023	43,377
Investment in subsidiary companies	-	-	-	300	300	300
Investment	-	-	-	-	-	500
Trade marks	-	-	-	-	242	234
Current assets	6,828	6,329	9,977	14,608	31,095	36,264
Current liabilities	(7,487)	(9,002)	(10,894)	(16,426)	(21,588)	(27,296)
Net current (liabilities)/assets	(659)	(2,673)	(917)	(1,818)	9,507	8,968
	12,576	21,722	24,823	39,040	50,072	53,379
Financed by :						
Share capital	6,000	6,000	12,000	15,000	17,442	17,442
Share premium	-	-	-	-	2,244	2,244
Retained profits	3,917	9,483	9,295	11,982	18,844	23,318
Shareholders' funds	9,917	15,483	21,295	26,982	38,530	43,004
Deferred taxation	459	534	1,140	2,875	3,715	3,870
Long term liabilities	2,200	5,705	2,388	9,183	7,827	6,505
	12,576	21,722	24,823	39,040	50,072	53,379
Net tangible assets per share (RM)	1.65	2.58	1.77	1.80	2.20	2.45

The balances due from the related companies of KBB after the acquisitions and included in the current assets are as follows :

Due from :

KBBEM	-	-	-	2,200	7,311	7,452
BBFM	-	-	-	3	5	6

10. ACCOUNTANTS' REPORT (Cont'd)

KBBEM

	--- As at 31 December ---		As at
	<u>2001</u>	<u>2002</u>	<u>31.7.2003</u>
	RM'000	RM'000	RM'000
Property, plant and equipment	-	7,643	7,819
Current assets	2,530	1,756	3,138
Current liabilities	(2,237)	(8,068)	(8,715)
Net current assets/(liabilities)	293	(6,312)	(5,577)
	293	1,331	2,242
Financed by :			
Share capital	300	300	300
(Accumulated losses)/Retained profits	(7)	(2)	698
Shareholders' funds	293	298	998
Deferred taxation	-	3	289
Long term liabilities	-	1,030	955
	293	1,331	2,242
Net tangible assets per share (RM)	0.97	0.99	3.33

The balances due to the related company of KBBEM after the acquisitions and included in the current liabilities are as follows :

Due to :

KBB	(2,200)	(7,311)	(7,452)
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10. ACCOUNTANTS' REPORT (Cont'd)

BBFM

	--- As at 31 December ---		As at
	<u>31.12.2001</u>	<u>31.12.2002</u>	<u>31.7.2003</u>
	RM'000	RM'000	RM'000
Current liabilities	<u>(4)</u>	<u>(6)</u>	<u>(8)</u>
Financed by :			
Share capital	*	*	*
Accumulated losses	<u>(4)</u>	<u>(6)</u>	<u>(8)</u>
	<u>(4)</u>	<u>(6)</u>	<u>(8)</u>
Net tangible liabilities per share (RM)	<u>2,000</u>	<u>3,000</u>	<u>4,000</u>

* Represents RM2

The balances due to the related company of BBFM after the acquisitions and included in the current liabilities are as follows :

Due to :

KBB	(3)	(5)	(6)
-----	-----	-----	-----

10. ACCOUNTANTS' REPORT (Cont'd)

7. DETAILED STATEMENTS OF ASSETS AND LIABILITIES

The statements of assets and liabilities of KRB and the Proforma KRB Group are provided for illustrative purposes only and are prepared based on the audited financial statements of the companies in the KRB Group as at 31 July 2003 and on the assumption that the listing scheme as mentioned in Section 2 was effected on 31 July 2003.

	Note	----- Proforma Group -----			
		Audited KRB as at 31.7.2003 RM'000	After the Acquisitions RM'000	After the Acquisitions, Share Split and Rights Issue RM'000	After the Acquisitions, Share Split, Rights and Public Issues RM'000
Property, plant and equipment	8.2	-	51,197	51,197	51,197
Investment	8.3	-	500	500	500
Trade marks	8.4	-	234	234	234
Current assets					
Inventories	8.5	-	11,372	11,372	11,372
Trade debtors	8.6	-	13,329	13,329	13,329
Other debtors, deposits and prepayments		-	1,010	1,010	1,010
Fixed deposits with licensed banks	8.7	-	5,696	5,696	5,696
Cash and bank balances	8.8	**	537	4,382	537
		**	31,944	35,789	31,944
Current liabilities					
Trade creditors		-	983	983	983
Other creditors and accruals		7	1,892	1,892	1,892
Bank borrowings	8.9	-	24,691	24,691	16,894
Provision for taxation		-	672	672	672
		7	28,238	28,238	20,441
Net current (liabilities)/assets		(7)	3,706	7,551	11,503
		(7)	55,637	59,482	63,434
Financed by :					
Share capital	8.10	*	30,155	34,000	40,000
Share premium	8.11	-	1,505	1,505	4,805
Reserve on consolidation	8.12	-	12,034	12,034	12,034
Accumulated losses		(7)	(7)	(7)	(7)
Shareholders' funds		(7)	43,687	47,532	56,832
Deferred taxation	8.13	-	4,159	4,159	4,159
Long term liabilities	8.14	-	7,791	7,791	2,443
		(7)	55,637	59,482	63,434
Net tangible (liabilities)/assets per ordinary share (RM)		(3,500.00)	1.44 ⁽¹⁾	0.70 ⁽²⁾	0.71 ⁽²⁾

* Represents RM2 comprising 2 ordinary shares of RM1 each

** Represents RM2

(1) Per ordinary share of RM1

(2) Per ordinary share of RM0.50

10. ACCOUNTANTS' REPORT (Cont'd)

8. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES**8.1 SIGNIFICANT ACCOUNTING POLICIES**

The following accounting policies are adopted by the Group and the Company and are consistent with those adopted in the previous financial years except for the adoption of the following accounting standards for the first time during the financial year :

- i. MASB 22 – Segment Reporting
- ii. MASB 25 – Income Taxes

The adoption of the above MASB Standards did not give rise to any adjustments to the opening balances of retained profits of the prior and current year or to changes in the comparative figures.

(a) Basis of Accounting

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

(b) Basis of Consolidation

The financial statements of the Group include the audited financial statements of the Company and all its subsidiary companies made up to the end of the financial year/period. Subsidiary companies are those companies in which the Group has a long term power to exercise control over their financial and operating policies so as to obtain benefit therefrom. Subsidiary companies are consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, the results of the subsidiary companies 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 subsidiary companies' net assets are determined and these values are reflected in the consolidated financial statements. The difference of the cost of acquisition over the fair value of the Group's share of the subsidiary companies' identifiable net assets at the date of acquisition is reflected as goodwill/reserve on consolidation. Goodwill on consolidation is reviewed at each balance sheet date and will be written down for impairment where it is considered necessary.

Inter-company balances and transactions are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Where necessary, adjustments are made to the financial statements of the subsidiary companies to ensure consistency of accounting policies with those of the Group.

Minority interest is measured at the minorities' share of acquisition fair values of the identifiable assets and liabilities of the acquiree. Separate disclosure is made of minority interest.

10. ACCOUNTANTS' REPORT (Cont'd)

(c) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Property, plant and equipment are depreciated over their estimated useful lives on the straight line method at the following annual rates :

Long leasehold land	amortised over its lease period of 60 years
Short leasehold land	amortised over its lease period of 49 years
Factory buildings and freehold shophouse	2%
Plant and machinery	10%
Furniture, fittings and office equipment	10%
Motor vehicles	10%
Building improvement	2%

Long leasehold land is in respect of land with remaining lease period in excess of 50 years whilst short leasehold land refers to land with remaining lease period of less than 50 years, determined as at balance sheet date.

Depreciation on capital expenditure in progress commences when the assets are ready for their intended use.

(d) Investment

Long term investment is stated at cost less accumulated impairment losses.

The policy for the recognition and measurement of impairment losses is in accordance with the accounting policy as set out in (l) below.

(e) Hire Purchase

Property, plant and equipment financed under hire purchase are capitalised in the financial statements and are depreciated in accordance with the accounting policy as set out in (c) above. Outstanding obligations due under hire purchase after deducting finance costs are included as liabilities in the financial statements. The finance costs are charged to the income statement on the straight line basis over the period of the respective agreements.

(f) Investment in Subsidiary Companies

Investment in subsidiary companies which is eliminated on consolidation is stated at cost less accumulated impairment losses in the Company's financial statements. The policy for the recognition and measurement of impairment losses is in accordance with the accounting policy as set out in (l) below.

On disposal of investment in subsidiary companies, the difference between net disposal proceeds and their carrying amount is charged or credited to the income statement.

10. ACCOUNTANTS' REPORT (Cont'd)

(g) Trade Marks

Trade marks are stated at cost and amortised over a period of 20 years. The carrying amount of trademarks are reviewed annually and written down for impairment where deemed appropriate.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in first-out basis. Cost in the case of work-in-progress and finished goods includes direct materials, labour and attributable production overheads. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(i) Debtors**Trade debtors**

Known bad debts are written off and specific allowance is made for any debts considered to be doubtful of collection. In addition, a general allowance of 2% is made for doubtful debts on the total trade debtors at the year/period end.

Other debtors

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

(j) Provisions for Liabilities

Provisions for liabilities are recognised when the Group and the Company have a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(k) Revenue Recognition

Revenue from sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

10. ACCOUNTANTS' REPORT (Cont'd)

(l) Impairment of Assets

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

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

(m) Taxation

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

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

Deferred taxation is measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred taxation 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 to equity, or when it arises from a business combination that is an acquisition, in which case the deferred taxation is included in the resulting goodwill or reserve on consolidation.

In the previous financial years, deferred taxation was recognised for timing differences except where it is thought reasonably probable that the tax effects of such deferrals will continue in the foreseeable future.

10. ACCOUNTANTS' REPORT (Cont'd)

(n) **Cash and Cash Equivalents**

Cash comprises cash in hand and balances with banks (including bank overdrafts) while cash equivalents comprise short term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(o) **Financial Instruments**

Financial instruments are recognised in the balance sheet when the Group and the Company have become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of the financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group and/or the Company have 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 carried on the balance sheet include investment, cash and cash equivalents, debtors, creditors and bank borrowings. The particular recognition methods adopted are disclosed in the individual accounting policy associated with each item.

10. ACCOUNTANTS' REPORT (Cont'd)

8.2 PROPERTY, PLANT AND EQUIPMENT

----- PROFORMA GROUP -----

	<u>Cost</u> RM'000	<u>Accumulated depreciation</u> RM'000	<u>Net book value</u> RM'000
Long leasehold land	1,278	55	1,223
Short leasehold land	885	13	872
Factory buildings	19,635	925	18,710
Freehold shophouse	162	15	147
Plant and machinery	38,597	12,083	26,514
Furniture, fittings and equipment	1,562	707	855
Motor vehicles	2,564	724	1,840
Building improvement	647	6	641
Capital expenditure in progress	395	-	395
	<u>65,725</u>	<u>14,528</u>	<u>51,197</u>

Included in the net book value are the following being acquired under hire purchase loans :

	<u>PROFORMA GROUP</u> RM'000
Plant and machinery	620
Motor vehicles	1,437
	<u>2,057</u>

The following net book value of property, plant and equipment are charged to financial institutions for banking facilities granted to the Group :

	<u>PROFORMA GROUP</u> RM'000
Long leasehold land	1,223
Short leasehold land	872
Factory buildings	18,710
Freehold shophouse	147
	<u>20,952</u>

10. ACCOUNTANTS' REPORT (Cont'd)

8.3	INVESTMENT	PROFORMA GROUP RM'000
	Quoted unit trust, at cost	500
		<u>500</u>
	Market value	510
		<u>510</u>
8.4	TRADE MARKS	PROFORMA GROUP RM'000
	At cost	250
	Less : Accumulated amortisation	(16)
		<u>234</u>
8.5	INVENTORIES	PROFORMA GROUP RM'000
	<u>At Cost</u>	
	Raw materials	5,055
	Work-in-progress	144
	Finished goods	5,853
	Consumables	320
		<u>11,372</u>
8.6	TRADE DEBTORS	PROFORMA GROUP RM'000
	Total trade debtors	14,096
	Less : Allowance for doubtful debts	(767)
		<u>13,329</u>

10. ACCOUNTANTS' REPORT (Cont'd)**8.7 FIXED DEPOSITS WITH LICENSED BANKS****PROFORMA GROUP**

Fixed deposits amounting to RM4.96 million are pledged to licensed banks for banking facilities granted to the Group.

The average effective interest rate of fixed deposits for the Group during the financial period is 3.00% - 4.00% per annum.

8.8 CASH AND BANK BALANCES

	PROFORMA GROUP RM'000
Balance as at 31 July 2003	*
Arising from the Acquisition of subsidiary companies	537
Proceeds from Rights Issue	3,845
	<hr/>
After Acquisitions, Share Split and Rights Issue	4,382
Proceeds from Public Issue	10,800
Repayment of bank borrowings	(13,145)
Payment of listing expenses	(1,500)
	<hr/>
After Acquisitions, Share Split, Rights and Public Issues	<u>537</u>

* Represents RM2

8.9 BANK BORROWINGS**----- PROFORMA GROUP -----**

	After the Acquisitions, Share Split, Rights and Public Issues RM'000	Repayment RM'000	After Utilisation RM'000
Bank overdraft	1,538	-	1,538
Bankers acceptance	19,633	(6,570)	13,063
Islamic acceptance bills	1,998	-	1,998
Term loans (Note 8.14)	1,522	(1,227)	295
	<hr/>	<hr/>	<hr/>
	<u>24,691</u>	<u>(7,797)</u>	<u>16,894</u>

10. ACCOUNTANTS' REPORT (Cont'd)

RM7.80 million of the proceeds from the rights and public issues is utilised to reduce part of the bankers acceptance and short term portion of term loans included in bank borrowings.

The bank borrowings of the subsidiary companies are secured by way of :

- (i) a debenture over the fixed and floating assets of a subsidiary company, both present and future;
- (ii) legal charges over certain subsidiary companies' long and short leasehold land, factory buildings and freehold shophouse;
- (iii) pledge of fixed deposits; and
- (iv) joint and several guarantee of certain directors of the Company.

Interest for bankers acceptance and Islamic acceptance bills is charged at the lenders' prevailing discount rate while interest for bank overdraft is charged at **2.50%** per annum above the lender's base lending rate.

The term loan interest is charged at a range of **1.25%** to **2.25%** per annum above the lenders' base lending rate.

The average effective rates of bank borrowings (excluding term loans) per annum during the financial period are as follows :

	%
Bank overdraft	8.50
Bankers acceptance	3.00 – 5.30
Islamic acceptance bills	3.50 – 3.60

10. ACCOUNTANTS' REPORT (Cont'd)**8.10 SHARE CAPITAL**

	<u>COMPANY</u> RM'000	<u>PROFORMA</u> <u>GROUP</u> RM'000
Authorised :		
Ordinary shares of RM1.00/RM0.50** each	<u>100</u>	<u>50,000**</u>
Issued and fully paid :		
Ordinary shares of RM1.00/RM0.50 each		
As at 31 July 2003	#	*
Issued as consideration for the acquisition of 100% equity of KBB	-	30,155
Rights issue	-	3,845
Public issue	-	6,000
	<u>#</u>	<u>40,000</u>

Represents 2 ordinary shares of RM1.00 each

* Represents 4 ordinary shares of RM0.50 each

8.11 SHARE PREMIUM

	<u>PROFORMA</u> <u>GROUP</u> RM'000
Share premium from :	
Issue of shares for acquisition of 100% of KBB at a premium of approximately RM0.05 per share	1,505
Public issue of 12,000,000 ordinary shares of RM0.50 each at a premium of RM0.40 per share	4,800
	<u>6,305</u>
Less : Estimated listing expenses	<u>(1,500)</u>
After the Acquisitions, Share Split, Rights and Public Issues	<u>4,805</u>

10. ACCOUNTANTS' REPORT (Cont'd)

8.12 RESERVE ON CONSOLIDATION

**PROFORMA
GROUP
RM'000**

Arising from the acquisition of
subsidiary companies

12,034

8.13 DEFERRED TAXATION

**PROFORMA
GROUP
RM'000**

Arising from the acquisition of
subsidiary companies

4,159

8.14 LONG TERM LIABILITIES

----- PROFORMA GROUP -----

	<u>After the Acquisitions Rights and Public Issues RM'000</u>	<u>Repayment RM'000</u>	<u>After Utilisation RM'000</u>
Term loans			
Total amount repayable	8,396	(6,575)	1,821
Repayable within the next twelve months included under bank borrowings (Note 8.9)	(1,522)	1,227	(295)
	<u>6,874</u>	<u>(5,348)</u>	<u>1,526</u>
Hire purchase creditors			
Total amount payable	2,035	-	2,035
Interest in suspense	(383)	-	(383)
Net amount payable	1,652	-	1,652
Payable within the next twelve months included under other creditors and accruals	(735)	-	(735)
	917	-	917
	<u>7,791</u>	<u>(5,348)</u>	<u>2,443</u>

JB Lau & Associates

10. ACCOUNTANTS' REPORT (Cont'd)

RM5.35 million of the proceeds from the rights and public issues is utilised to reduce part of the long term portion of term loans included in long term liabilities.

The term loans are repayable by equal instalments over periods ranging from 72 months to 120 months and interest is charged at a range of 1.25% to 2.25% per annum above the lenders' base lending rate.

The average effective interest rates of term loans and hire purchase creditors per annum during the financial period are as follows :

	%
Term loans	7.25 – 8.25
Hire purchase creditors	3.90 – 8.50

8.15 CAPITAL COMMITMENTS

**PROFORMA
GROUP
RM'000**

Authorised and contracted

For the purchase of :

- Property, plant and equipment

499

8.16 NUMBER OF EMPLOYEES**PROFORMA GROUP**

The number of employees excluding executive directors at balance sheet date is 323.

8.17 SEGMENTAL INFORMATION

The Proforma Group is principally engaged in the manufacturing and marketing of all types of rice sticks (vermicelli). Business segmental information has therefore not been prepared as the Proforma Group's revenue, operating profit, assets employed, liabilities, capital expenditure, depreciation and non cash expenses are mainly confined to one business segment.

No geographical segment information has been presented as the Proforma Group's activities and customers are primarily based in Malaysia.

10. ACCOUNTANTS' REPORT (Cont'd)

8.18 FINANCIAL INSTRUMENTS**Financial Risk Management Objectives and Policies**

The Proforma Group's financial risk management policy seeks to ensure that adequate resources are available for the development of the Proforma Group's business whilst managing its liquidity, interest rate, market and credit risks. The Board reviews regularly the policies in place to manage these risks as summarised below.

Liquidity Risk

The Proforma Group actively manages its debt maturity profile, operating cash flows and availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Proforma Group maintains sufficient levels of cash and cash equivalents to meet its working capital requirements.

Interest Rate Risk

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

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

Market Risk

The Proforma Group has in place policies to manage the Proforma Group's exposure to fluctuation in the prices of the key raw materials used in operations.

Credit Risk

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

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

The normal credit terms for trade debtors and creditors are 30 to 150 days. Other credit terms are assessed and approved on a case-by-case basis.

10. ACCOUNTANTS' REPORT (Cont'd)

Fair values

The carrying amounts of financial assets and financial liabilities of the Proforma Group and the Company as at balance sheet date approximate their fair values.

9. PROFORMA NET TANGIBLE ASSETS PER ORDINARY SHARE

Based on the proforma statement of assets and liabilities of the Proforma KRB Group as at 31 July 2003, the proforma net tangible assets per share after the Acquisitions, Share Split, Rights Issue and Public Issue is calculated as follows :

Proforma net tangible assets (RM'000)	56,598
	<u> </u>
Total number of ordinary shares of RM0.50 each in issue ('000)	80,000
	<u> </u>
Proforma net tangible assets per ordinary share of RM0.50 each (RM)	0.71
	<u> </u>

10. ACCOUNTANTS' REPORT (Cont'd)

10. PROFORMA CONSOLIDATED CASH FLOW STATEMENTS

The consolidated cash flow statements of KRB and the Proforma KRB Group are provided for illustrative purposes only and are prepared based on the audited financial statements of the companies in the KRB Group as at 31 July 2003 and on the assumption that the listing scheme as mentioned in Section 2 was effected on 31 July 2003.

	----- PROFORMA GROUP -----			
	<u>Audited</u> <u>KRB as at</u> <u>31.7.2003</u> RM'000	<u>After the</u> <u>Acquisitions</u> RM'000	<u>After the</u> <u>Acquisitions,</u> <u>Share Split and</u> <u>Rights Issue</u> RM'000	<u>After the</u> <u>Acquisitions,</u> <u>Share Split,</u> <u>Rights and</u> <u>Public Issues</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
(Loss)/Profit before taxation	(2)	6,040	6,040	6,040
Pre-acquisition profit of subsidiary companies	-	(6,042)	(6,042)	(6,042)
Operating loss before working capital changes	(2)	(2)	(2)	(2)
Creditors	2	2	2	2
Net cash from operating activities	-	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
** Acquisition of subsidiary companies, net of cash acquired	-	(261)	(261)	(261)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of listing expenses	-	-	-	(1,500)
Proceeds from issuance of shares	*	*	*	*
Proceeds from public issue at premium	-	-	-	10,800
Proceeds from rights issue	-	-	3,845	3,845
Repayment of bank borrowings	-	-	-	(13,145)
Net cash from financing activities	-	-	3,845	-
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	-	(261)	3,584	(261)
CASH AND CASH EQUIVALENTS AT BEGINNING	-	-	-	-
CASH AND CASH EQUIVALENTS AT END	*	(261)	3,584	(261)

10. ACCOUNTANTS' REPORT (Cont'd)

	----- PROFORMA GROUP -----			
	<u>Audited KRB as at 31.7.2003 RM'000</u>	<u>After the Acquisitions RM'000</u>	<u>After the Acquisitions, Share Split and Rights Issue RM'000</u>	<u>After the Acquisitions, Share Split, Rights and Public Issues RM'000</u>
Represented by :				
Cash and bank balances	*	537	4,382	537
Bank overdrafts	-	(1,538)	(1,538)	(1,538)
Fixed deposits with licensed banks	-	740	740	740
	*	(261)	3,584	(261)

* Represents RM2

** Acquisition of subsidiary companies, net of cash acquired

Property, plant and equipment	-	51,197	51,197	51,197
Investment	-	500	500	500
Trade marks	-	234	234	234
Inventories	-	11,372	11,372	11,372
Debtors	-	14,339	14,339	14,339
Creditors	-	(2,132)	(2,132)	(2,132)
Fixed deposits	-	5,696	5,696	5,696
Cash and bank balances	-	537	537	537
Bank borrowings	-	(33,217)	(33,217)	(33,217)
Provision for taxation	-	(672)	(672)	(672)
Deferred taxation	-	(4,159)	(4,159)	(4,159)
Share of net assets acquired	-	43,695	43,695	43,695
Reserve on consolidation	-	(12,034)	(12,034)	(12,034)
Total purchase consideration	-	31,661	31,661	31,661
Less : Consideration satisfied by shares	-	(31,661)	(31,661)	(31,661)
Less : Cash and cash equivalents acquired	-	(261)	(261)	(261)
Cash flow on acquisition of subsidiary companies	-	(261)	(261)	(261)

11. EVENTS SUBSEQUENT TO BALANCE SHEET DATE OF 31 JULY 2003

Based on the audited financial statements for the year ended 31 July 2003 and other than the completion of the Acquisitions of subsidiary companies by KRB, Share Split and the Rights Issue as referred to in Section 2(i) to (v), no events have arisen subsequent to the balance sheet date which requires disclosure in this Report.

10. ACCOUNTANTS' REPORT (Cont'd)

12. FINANCIAL STATEMENTS

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

Yours faithfully,



JB LAU & ASSOCIATES
NO. AF: 0042
CHARTERED ACCOUNTANTS



JOHN LAU TIANG HUA
NO. 1107/03/04 (J)