

10. ACCOUNTANTS' REPORT

(Prepared for inclusion in the Prospectus)

JB LAU & ASSOCIATES
CHARTERED ACCOUNTANTS

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DATE : 12 March 2004

The Board of Directors
Boon Koon Group 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 19 March 2004 in connection with the Public Issue of 13,600,000 new ordinary shares of RM0.50 each and Offer for Sale of 9,396,000 ordinary shares of RM0.50 each in Boon Koon Group Berhad (hereinafter referred to as "BKG" or "Company") at an Issue/Offer Price of RM1.00 per ordinary share of RM0.50 each and the listing and quotation of 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 BKG on the Second Board of the MSEB, the Company undertook the following listing scheme which was approved by the Ministry of International Trade and Industry ("MITI"), the Foreign Investment Committee ("FIC") and the Securities Commission ("SC") on the dates set out below :

<u>Authority</u>	<u>Date of approval</u>
MITI	23 July 2003
SC/FIC	31 October 2003 and 31 December 2003

- (i) Acquisition of the entire share capital of Boon Koon Vehicles Industries Sdn. Bhd. ("BKVI") comprising 11,673,640 ordinary shares of RM1.00 each for a total consideration of RM32,402,971 satisfied by the issue of 30,568,841 new BKG ordinary shares of RM1.00 each at an issue price of approximately RM1.06 per ordinary share,
- (ii) Acquisition of the entire share capital of First Peninsula Credit Sdn. Bhd. ("FPC") comprising 299,200 ordinary shares of RM1.00 each for a total cash consideration of RM683,443,

10. ACCOUNTANTS' REPORT (Cont'd)

- (iii) Acquisition of 65% of the share capital of Boon Koon Marketing (East Malaysia) Sdn. Bhd. ("BKM") comprising 65,000 ordinary shares of RM1.00 each for a total cash consideration of RM212,085,
- (iv) A Rights Issue of 2,631,157 ordinary shares of RM1.00 each by BKG at an issue price of RM1.00 per ordinary share on the basis of approximately 86 new ordinary shares for every 1,000 ordinary shares held after the above mentioned acquisitions,
- (v) A split of the par value of ordinary shares of BKG from RM1.00 to RM0.50 each per ordinary share, which accordingly increases the enlarged share capital from 33,200,000 ordinary shares of RM1.00 each to 66,400,000 ordinary shares of RM0.50 each,
- (vi) A Public Issue of 13,600,000 new ordinary shares of RM0.50 each at an issue price of RM1.00 per ordinary share,
- (vii) An Offer for Sale of 9,396,000 ordinary shares of RM0.50 each at an offer price of RM1.00 per ordinary share, and
- (viii) An Employee Share Option Scheme of 8,000,000 new ordinary shares of RM0.50, being the 10% of the enlarged share capital of 80,000,000 ordinary shares of RM0.50 each at an assumed exercise price of RM1.00 per share ("ESOS").

3. GENERAL INFORMATION**3.1 Background**

Boon Koon Group Berhad was incorporated on 16 July 2001 as a public limited company.

The principal activity of the Company is that of 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 7 January 2004 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 on 12 February 2004.

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>Number of ordinary shares of RM1.00 * / RM0.50 each allotted</u>	<u>Total issued and paid-up share capital RM</u>
16 July 2001	Subscribers' shares	* 2	2
7 January 2004	Allotment in consideration for the acquisition of 100% equity interest in BKVI	* 30,568,841	30,568,843
11 February 2004	Rights issue on the basis of approximately 86 new ordinary shares for every 1,000 ordinary shares of RM1.00 each held at an issue price of RM1.00 each	* 2,631,157	33,200,000
12 February 2004	Subdivision of RM1.00 into RM0.50	66,400,000	33,200,000

3.3 Subsidiary Companies

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

<u>Name of company</u>	<u>Date / Place of incorporation</u>	<u>Issued and paid-up share capital as at 31 October 2003</u>	<u>Equity interest</u>	<u>Principal activities</u>
BKVI	22 November 1991 Malaysia	RM11,673,640	100%	Manufacture and assembly of commercial vehicles and the provision of its related services
FPC	21 May 1983 Malaysia	RM299,200	100%	Provision of hire purchase financing and operating as an insurance agent
BKM	19 July 1995 Malaysia	RM100,000	65%	Sale of commercial vehicles and the provision of related services

10. ACCOUNTANTS' REPORT (Cont'd)**3.4 Basis of Accounting and Accounting Policies**

This report is 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 BKG and its subsidiary companies, namely BKVI, FPC and BKM ("BKG Group" or "Group").

3.5 Financial Statements and Auditors

We have been the auditors of BKG since its date of incorporation. We have been the auditors of BKVI, FPC and BKM since the financial year ended 31 December 2000. For the financial years ended 31 December 1998 to 1999, they 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

Save as disclosed below, no other dividends have been paid or declared by the BKG Group for the financial years/period under review.

<u>Year ended 31 December</u>	<u>Issued and paid-up capital</u> RM	<u>Dividend rate (tax exempt)</u> %	<u>Type of dividend</u>	<u>Amount of dividend paid</u> RM	
BKVI					
2003	11,673,640	10	Interim	1,167,364	*

* Declared on 31 December 2003 and paid on 6 January 2004

10. ACCOUNTANTS' REPORT (Cont'd)**5. SUMMARISED INCOME STATEMENTS****5.1 PROFORMA GROUP INCOME STATEMENTS**

The summarised proforma consolidated results of BKG Group for the past five (5) financial years ended 31 December 2002 and ten (10) months period ended 31 October 2003 have been prepared based on the audited financial statements of the companies in the BKG Group for illustrative purposes after making such adjustments that we considered necessary and assuming that the BKG Group had been in existence throughout the years/period under review.

	Financial year ended 31 December					1.1.2003 to
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>31.10.2003</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	24,337	29,589	39,794	47,595	59,829	62,859
Earnings before interest, depreciation, taxation and amortisation	3,327	4,146	5,844	7,036	9,428	9,623
Interest expense	(183)	(119)	(235)	(256)	(582)	(614)
Depreciation	(321)	(369)	(475)	(740)	(1,147)	(1,111)
Amortisation	(12)	(12)	(12)	(12)	(12)	(12)
Operating profit	2,811	3,646	5,122	6,028	7,687	7,886
Exceptional item	-	-	-	-	-	-
Profit before taxation	2,811	3,646	5,122	6,028	7,687	7,886
Taxation	(880)	6	(1,119)	(987)	(1,643)	(2,070)
Profit after taxation	1,931	3,652	4,003	5,041	6,044	5,816
Pre-acquisition profits	-	-	-	(9)	-	-
Minority interest	-	-	-	2	(83)	(170)
Net profit	1,931	3,652	4,003	5,034	5,961	5,646
No. of ordinary shares in issue ('000)	30,569	30,569	30,569	30,569	30,569	30,569
Gross earnings per share (sen)	9.20	11.93	16.76	19.72	25.15	30.96 *
Net earnings per share (sen)	6.32	11.95	13.09	16.47	19.50	22.16 *

10. ACCOUNTANTS' REPORT (Cont'd)

NOTES :

* Annualised

- (i) The Proforma Group Income Statement for the financial year ended 31 December 1998 comprises of BKVI only as FPC was not consolidated due to an oversight. However, no adjustments were made as the impact on the group figures is immaterial.

For the financial years ended 31 December 1999 and 31 December 2000, the Proforma Group comprises of BKVI and its subsidiary company, namely FPC.

For the financial year ended 31 December 2001 and 31 December 2002, the Proforma Group comprises of BKVI and its subsidiary companies, namely FPC and BKM.

- (ii) The Proforma Group Income Statements have been prepared based on accounting policies consistent with those currently adopted in the preparation of the audited financial statements of the BKG Group.

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

- (iv) Revenue decreased by 53.72% for the financial year ended 31 December 1998 to RM24.34 million due to the slowdown of the economy as a result of the Asian financial crisis in the previous year.

Profit before taxation improved by 1,444.51% over the previous financial year to RM2.81 million mainly due to higher margin earned from the sale of reconditioned used commercial vehicles and the reduction in expenses arising from the scale down in operations as a result of the financial crisis.

- (v) Revenue increased by 21.58% for the financial year ended 31 December 1999 to RM29.59 million due mainly to the increased in the sale of new chassis/commercial vehicles, used spare parts and hire purchase income that arose from the first year of consolidation of FPC.

Sale of new chassis/commercial vehicles comprising of prime movers and heavy duty commercial vehicles increased mainly due to an increase in sales to a few major customers. This increase is contributed by the reluctance of financial institutions to end-finance imported reconditioned prime movers.

Sale of used spare parts increased due to a higher disposal of most of the used parts accumulated over the financial years. The used spare parts were cannibalized from the unused and discarded components, which arose from its manufacturing activities.

Profit before taxation improved by 29.70% over the previous financial year to RM3.65 million mainly due to the increased revenue and the profit contribution from the consolidation of FPC.

10. ACCOUNTANTS' REPORT (Cont'd)

- (vi) Revenue increased by 34.50% for the financial year ended 31 December 2000 to RM39.79 million due mainly to the introduction of rebuilt commercial vehicles which contributed RM5.61 million to revenue, general increase in demand for bodyworks, reconditioned commercial vehicles and new chassis/commercial vehicles.

Profit before taxation improved by 40.48% over the previous financial year to RM5.12 million due to the increased revenue and improved profit margin recorded for rebuilt commercial vehicles.

- (vii) Revenue increased by 19.60% for the financial year ended 31 December 2001 to RM47.60 million due mainly to the substantial increase in rebuilt commercial vehicle sales which contributed 46.14% of total revenue for the year as a result of a shift of concentration from reconditioned commercial vehicles to rebuilt commercial vehicles. The acquisition of BKM during the financial year contributed to revenue of RM0.57 million. Sales from bodyworks also increased by 25.47% compared to previous financial year, as a result of the liberalisation of the transport/haulage industries whereby more transport companies were able to obtain the haulage licences and provide the relevant logistic services.

Profit before taxation improved by 17.69% over the previous financial year to RM6.03 million due mainly to the increased revenue.

- (viii) Revenue increased by 25.70% for the financial year ended 31 December 2002 to RM59.83 million due mainly to the increased sale of rebuilt commercial vehicle which was facilitated by the increased production capacity and the full year of operations of BKM, and used spare parts.

Profit before taxation improved by 27.52% over the previous year to RM7.69 million due to the increased revenue and the increase in profit margin from the sale of rebuilt commercial vehicles.

- (ix) Annualised revenue increased by 26.08% for the financial period ended 31 October 2003 to RM62.86 million due mainly to a substantial order from Fast Fit Motor Sdn.Bhd., a dealer in East Malaysia who secured a major contract to supply rebuilt commercial vehicles for the agriculture industry, and an overall increase in the peninsular market. The increase was also attributed to the increase in sales of reconditioned used commercial vehicles as BKVI bought more trade in of reconditioned used commercial vehicles from their customers in exchange for sale of rebuilt commercial vehicles to them.

Annualised profit before taxation improved by 23.11% over the previous year to RM7.89 million due to the increased revenue and improved profit margin as a result of the substantial order mentioned above.

10. ACCOUNTANTS' REPORT (Cont'd)

- (x) The disproportionate tax charge for the financial year ended 31 December 1998 of 31.31% was due to certain expenses disallowed as deduction for tax purposes and the omission of certain capital allowances claim for capital expenditure made by BKVI during that financial year.

There was no current taxation charge for the financial year ended 31 December 1999 as it was a tax waiver year. Taxation charge represented a reversal of deferred taxation and an under provision for tax in prior years.

The disproportionate tax charge for the financial years ended 31 December 2000 to 31 December 2002 and financial period ended 31 October 2003 is due to the claim for reinvestment allowance.

- (xi) There were no exceptional and extraordinary items for the years/period under review.
- (xii) The gross earnings per share is calculated based on the profit before taxation and on the number of ordinary shares of RM1.00 each issued for the acquisition of BKVI.
- (xiii) The net earning per share is calculated based on the net profit and on the number of ordinary shares of RM1.00 each issued for the acquisition of BKVI.

10. ACCOUNTANTS' REPORT (Cont'd)

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

BKG

	16.7.2001 to <u>31.12.2002</u> RM'000	1.1.2003 to <u>31.10.2003</u> RM'000
Revenue	-	-
Loss before interest, depreciation, taxation and amortisation	(5)	(2)
Interest expense	-	-
Depreciation	-	-
Amortisation	-	-
Operating loss	(5)	(2)
Exceptional item	-	-
Loss before taxation	(5)	(2)
Taxation	-	-
Net loss	(5)	(2)
No. of ordinary shares in issue	2	2
Gross loss per share (RM)	(2,500)	(1,200) *
Net loss per share (RM)	(2,500)	(1,200) *

NOTES :

* Annualised

- (i) BKG was incorporated on 16 July 2001 and has not commenced operations as at 31 October 2003. The loss incurred for the financial period ended 31 December 2002 was in respect of preliminary and pre-operating expenses. The loss incurred for the financial period ended 31 October 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 October 2003 as BKG has no chargeable income.
- (iii) There were no exceptional and extraordinary items for the financial periods under review.

10. ACCOUNTANTS' REPORT (Cont'd)

- (iv) The gross loss per share is calculated based on the loss before taxation and on the number of ordinary shares in issue at the end of the financial periods.
- (xiii) The net loss per share is calculated based on the net loss and on the number of ordinary shares in issue at the end of the financial periods.

BKVI

	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>31.10.2003</u> RM'000
Revenue	24,337	29,394	39,492	47,270	58,067	60,128
Earnings before interest, depreciation, taxation and amortisation	3,327	3,994	5,657	6,837	8,947	8,800
Interest expense	(183)	(121)	(210)	(245)	(575)	(611)
Depreciation	(321)	(368)	(475)	(729)	(1,131)	(1,090)
Amortisation	(12)	(12)	(12)	(12)	(12)	(12)
Operating profit	2,811	3,493	4,960	5,851	7,229	7,087
Exceptional item	-	-	-	-	-	-
Profit before taxation	2,811	3,493	4,960	5,851	7,229	7,087
Taxation	(880)	6	(1,073)	(937)	(1,511)	(1,857)
Net profit	1,931	3,499	3,887	4,914	5,718	5,230
Weighted average no. of ordinary shares ('000)	500	704	7,964	10,747	11,674	11,674
Gross earnings per share (RM)	5.62	4.96	0.62	0.54	0.62	0.73 *
Net earnings per share (RM)	3.86	4.97	0.49	0.46	0.49	0.54 *

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

* Annualised

- (i) Revenue decreased by 53.72% for the financial year ended 31 December 1998 to RM24.34 million due to the slowdown of the economy as a result of the Asian financial crisis in the previous year.

Profit before taxation improved by 1,444.51% over the previous financial year to RM2.81 million mainly due to higher margin earned from the sale of reconditioned used commercial vehicles and the reduction in expenses arising from the scale down in operations as a result of the financial crisis.

- (ii) Revenue increased by 20.78% for the financial year ended 31 December 1999 to RM29.39 million due mainly to the increase in the sale of new chassis/commercial vehicles and used spare parts.

Sale of new chassis/commercial vehicles comprising of prime movers and heavy duty commercial vehicles increased mainly due to an increase in sales to a few major customers. This increase is contributed by the reluctance of financial institutions to end-finance imported reconditioned prime movers.

Sale of used spare parts increased due to a higher disposal of most of the used parts accumulated over the financial years. The used spare parts were cannibalized from the unused and discarded components, which arose from its manufacturing activities.

Profit before taxation improved by 24.26% over the previous financial year to RM3.49 million mainly due to the increased revenue.

- (iii) Revenue increased by 34.35% for the financial year ended 31 December 2000 to RM39.49 million due mainly to the introduction of rebuilt commercial vehicles, which contributed RM5.61 million to revenue and the general increase in demand for bodyworks, reconditioned commercial vehicles and new chassis/commercial vehicles.

Profit before taxation improved by 42.00% over the previous financial year to RM4.96 million due to the increased revenue and improved profit margin arising from rebuilt commercial vehicles.

- (iv) Revenue increased by 19.70% for the financial year ended 31 December 2001 to RM47.27 million due mainly to the substantial increase in rebuilt commercial vehicle sales which contributed 47.78% of total revenue for the year as a result of a shift of concentration from reconditioned commercial vehicles to rebuilt commercial vehicles. Sales from bodywork also increased by 25.47% compared to previous financial year, as a result of the liberalisation of the transport/haulage industries whereby more transport companies were able to obtain the haulage licences and provide the relevant logistic services.

Profit before taxation improved by 17.96% over the previous financial year to RM5.85 million due mainly to the increased revenue.

10. ACCOUNTANTS' REPORT (Cont'd)

- (v) Revenue increased by 22.84% for the financial year ended 31 December 2002 to RM58.07 million due mainly to the increased sale of rebuilt commercial vehicle which was facilitated by the increased production capacity and used spare parts.

Profit before taxation improved by 23.55% over the previous year to RM7.23 million due to the increased revenue and increase in profit margin from the sale of rebuilt commercial vehicles.

- (vi) Annualised revenue increased by 24.26% for the financial period ended 31 October 2003 to RM60.13 million due mainly to an increase in sales of rebuilt commercial vehicles brought about by an increase in demand from BKM and an overall increase in the peninsular market. The increase was also attributed to the increase in sales of reconditioned used commercial vehicles as BKVI bought more trade in of reconditioned used commercial vehicles from their customers in exchange for sale of rebuilt commercial vehicles to them.

Annualised profit before taxation improved by 17.64% over the previous year to RM7.09 million due to the increased revenue.

- (vii) The disproportionate tax charge for the financial year ended 31 December 1998 of 31.31% was due to certain expenses disallowed as deduction for tax purposes coupled with the omission of certain capital allowances claim for capital expenditure made by BKVI during that financial year.

There was no current taxation charge for the financial year ended 31 December 1999 as it was a tax waiver year. Taxation charge represented deferred taxation and under provision for tax in prior years.

The disproportionate tax charge for the financial years ended 31 December 2000 to 31 December 2002 and financial period ended 31 October 2003 was due to the claim for reinvestment allowance.

- (viii) There were no exceptional and extraordinary items for the years/period under review.
- (ix) The gross earnings per share is calculated based on the profit before taxation and on the weighted average number of ordinary shares in issue of BKVI.
- (x) The net earning per share is calculated based on the net profit and on the weighted average number of ordinary shares in issue of BKVI.

10. ACCOUNTANTS' REPORT (Cont'd)

FPC

	----- Financial year ended 31 December -----					1.1.2003 to
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>31.10.2003</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	89	194	305	382	406	385
Earnings before interest, depreciation, taxation and amortisation	9	155	238	280	321	305
Interest expense	-	-	(77)	(96)	(85)	(122)
Depreciation	-	(1)	-	(11)	(15)	(13)
Amortisation	-	-	-	-	-	-
Operating profit	9	154	161	173	221	170
Exceptional item	-	-	-	-	-	-
Profit before taxation	9	154	161	173	221	170
Taxation	(2)	-	(46)	(49)	(59)	(45)
Net profit	7	154	115	124	162	125
Weighted average no. of ordinary shares ('000)	210	299	299	299	299	299
Gross earnings per share (RM)	0.04	0.52	0.54	0.58	0.74	0.68 *
Net earnings per share (RM)	0.03	0.52	0.38	0.41	0.54	0.50 *

NOTES :

* Annualised

10. ACCOUNTANTS' REPORT (Cont'd)

(i) The financial year ended 31 December 1998 was the first year of operations under the management of BKVI and FPC recorded revenue of RM0.09 million and profit before taxation of RM0.01 million.

(ii) Revenue increased by 117.98% for the financial year ended 31 December 1999 to RM0.19 million due mainly to the reluctance of finance companies to finance reconditioned commercial vehicles in weak market condition resulting from the financial crisis in the previous financial year.

Profit before taxation improved by 1,611.11% over the previous financial year to RM0.15 million due to increased revenue.

(iii) Revenue increased by 57.22% for the financial year ended 31 December 2000 to RM0.31 million due mainly to the introduction of rebuilt commercial vehicles and the increased sale of bodyworks from BKVI, which led to increased hire purchase financing revenue for FPC coupled with commission earned as a sub insurance agent.

However, profit before taxation increased by a lower margin by 4.55% over the previous financial year to RM0.16 million due to finance cost imposed by BKVI on its working capital advances to FPC.

(iv) Revenue increased by 25.25% for the financial year ended 31 December 2001 to RM0.38 million due mainly to the increased hire purchase interest and insurance commission earned as it obtained the licence to act as a general insurance agent.

Profit before taxation improved by 7.45% over the previous financial year to RM0.17 million due mainly to increased revenue.

(v) Revenue increased by 6.28% for the financial year ended 31 December 2002 to RM0.41 million due mainly to the increase in hire purchase interest income in line with the improved revenue performance of BKVI.

Profit before taxation improved by 27.75% over the previous year to RM0.22 million due to the increase in revenue and lower expenses and interest expense.

(vi) Annualised revenue increased by 13.79% for the financial period ended 31 October 2003 to RM0.39 million due mainly to the increase in hire purchase interest in line with the improved revenue performance of BKVI.

Annualised profit before taxation decreased by 7.69% over the previous year to RM0.17 million despite the increased revenue due to lower competitive interest income rate charged to customers in order to remain competitive in the industry while interest expense increased due to additional financing taken to meet demand.

10. ACCOUNTANTS' REPORT (Cont'd)

- (vii) The disproportionate tax charge for the financial year ended 31 December 1998 was due to the non-provision for deferred taxation.

There was no current taxation charge for the financial year ended 31 December 1999 as it was a tax waiver year.

The effective tax rate for the financial years ended 31 December 2000 and 31 December 2001 approximates the statutory income tax rate.

The effective tax rate for the financial year ended 31 December 2002 was slightly lower than the statutory tax rate due to a slight under provision of deferred tax.

The effective tax rate for the financial period ended 31 October 2003 represents a rate lower than the statutory income tax rate due to the reduced tax rate on chargeable income for the first RM0.1 million.

- (viii) There were no exceptional and extraordinary items for the years/period under review.
- (ix) The gross earnings per share is calculated based on the profit before taxation and on the weighted average number of ordinary shares in issue of FPC.
- (x) The net earning per share is calculated based on the net profit and on the weighted average number of ordinary shares in issue of FPC.

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

	----- Financial year ended 31 December -----					1.1.2003 to
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>31.10.2003</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	-	-	-	567	10,381	15,984
(Loss)/Earnings before interest, depreciation, taxation and amortisation	(2)	(1)	(5)	3	339	672
Interest expense	-	-	-	-	-	-
Depreciation	-	-	-	-	(1)	(7)
Amortisation	-	-	-	-	-	-
Operating (loss)/profit	(2)	(1)	(5)	3	338	665
Exceptional item	-	-	-	-	-	-
(Loss)/Profit before taxation	(2)	(1)	(5)	3	338	665
Taxation	-	-	-	(1)	(102)	(178)
Net (loss)/profit	(2)	(1)	(5)	2	236	487
Weighted average no. of ordinary shares	3	3	3	10,962	100,000	100,000
Gross (loss)/earnings per share (RM)	(666.67)	(333.33)	(1,666.67)	0.27	3.38	7.98 *
Net (loss)/earnings per share (RM)	(666.67)	(333.33)	(1,666.67)	0.18	2.36	5.84 *

NOTES :

* Annualised

10. ACCOUNTANTS' REPORT (Cont'd)

- (i) For the financial years ended 31 December 1998 to 2000, BKM remained dormant and accordingly had minimal expenses.
- (ii) BKM commenced operations on 3 December 2001 and recorded revenue and profit before taxation of RM0.57 million and RM3,000 respectively.
- (iii) Due to the short period of operation in the previous financial year of 1 month, there is no significant basis of comparison except that the overall performance has improved. Revenue increased significantly for the financial year ended 31 December 2002 to RM10.38 million due to the full year of operations of BKM and the strong demand of its products in East Malaysia.
- Profit before taxation improved by 11,166.67% over the previous year to RM0.34 million due to its full year of operations.
- (iv) Annualised revenue increased by 84.77% for the financial period ended 31 October 2003 to RM15.98 million due mainly to a substantial order from Fast Fit Motor Sdn.Bhd., a dealer in East Malaysia who secured a contract to supply rebuilt commercial vehicles for the agriculture industry.
- Annualised profit before taxation improved by 136.09% over the previous year to RM0.66 million due to the increase in revenue and improved profit margin as a result of the substantial order mentioned above.
- (iv) There was no current taxation charge for the financial years ended 31 December 1998 to 31 December 2000 as BKM had no chargeable income.
- The disproportionate tax charge for the financial years ended 31 December 2001 and 2002 was due to certain expenses disallowed as deduction for tax purposes.
- The effective tax rate for the financial period ended 31 October 2003 represents a rate lower than the statutory income tax rate due to the reduced tax rate on chargeable income for the first RM0.1 million.
- (v) There were no exceptional and extraordinary items for the years/period under review.
- (vi) 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 of BKM.
- (vii) The net (loss)/earnings per share is calculated based on the net (loss)/profit and on the weighted average number of ordinary shares in issue of BKM.

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

6.2 The summarised audited balance sheets of BKG 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 :

BKG

	<u>As at</u> <u>31.12.2002</u> RM	<u>As at</u> <u>31.10.2003</u> RM
Current assets	*	*
Current liabilities	(5)	(8)
	<u>(5)</u>	<u>(8)</u>
Financed by :		
Share capital	*	*
Accumulated losses	(5)	(8)
	<u>(5)</u>	<u>(8)</u>
Net tangible liabilities per share (RM)	<u>(2,500.00)</u>	<u>(4,000.00)</u>

* Represents RM2

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

	----- As at 31 December -----					As at
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>31.10.2003</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	1,972	9,780	15,775	23,005	26,364	26,743
Investment in subsidiary companies	118	118	118	181	181	181
Goodwill	272	260	248	236	224	214
Current assets	11,563	16,581	26,039	29,029	30,368	40,449
Current liabilities	(11,046)	(12,971)	(21,466)	(25,607)	(24,237)	(28,439)
Net current assets	517	3,610	4,573	3,422	6,131	12,010
	2,879	13,768	20,714	26,844	32,900	39,148
Financed by :						
Share capital	500	7,949	10,744	11,674	11,674	11,674
Retained profits	2,293	5,793	9,680	14,593	20,311	25,541
Shareholders' funds	2,793	13,742	20,424	26,267	31,985	37,215
Deferred taxation	20	-	113	500	703	795
Long term liabilities	66	26	177	77	212	1,138
	2,879	13,768	20,714	26,844	32,900	39,148
Net tangible assets per share (RM)	5.04	1.70	1.88	2.23	2.72	3.17

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

Due from :

FPC	93	349	943	1,104	1,364	2,184
BKM	-	-	-	546	2,264	4,532

10. ACCOUNTANTS' REPORT (Cont'd)

FPC

	As at 31 December					As at
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>31.10.2003</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	4	4	233	306	291	311
Current assets	1,089	1,531	2,146	2,353	1,877	2,722
Current liabilities	(966)	(1,254)	(1,983)	(2,061)	(1,470)	(2,218)
Net current assets	123	277	163	292	407	504
	127	281	396	598	698	815
Financed by :						
Share capital	299	299	299	299	299	299
(Accumulated losses) / Retained profits	(172)	(18)	97	222	384	509
Shareholders' funds	127	281	396	521	683	808
Deferred taxation	-	-	-	7	1	7
Long term liabilities	-	-	-	70	14	-
	127	281	396	598	698	815
Net tangible assets per share (RM)	0.42	0.94	1.32	1.74	2.28	2.70

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

Due to :

BKVI	93	349	943	1,104	1,364	2,184
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10. ACCOUNTANTS' REPORT (Cont'd)**BKM**

	As at 31 December					As at
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>31.10.2003</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	-	-	-	6	13	55
Expenditure carried forward	4	4	-	-	-	-
Current assets	17	17	17	806	2,942	5,997
Current liabilities	(27)	(28)	(29)	(722)	(2,628)	(5,236)
Net current (liabilities) / assets	(10)	(11)	(12)	84	314	761
	(6)	(7)	(12)	90	327	816
Financed by :						
Share capital (Accumulated losses) / Retained profit	*	*	*	100	100	100
Shareholders' funds	(6)	(7)	(12)	(10)	226	713
	(6)	(7)	(12)	90	326	813
Deferred taxation	-	-	-	-	1	3
	(6)	(7)	(12)	90	327	816
Net tangible (liabilities) / assets per share (RM)	(3,333.33)	(3,666.67)	(4,000.00)	0.90	3.26	8.13

* Represents RM3

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

Due to :

BKVI	-	-	-	546	2,264	4,532
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10. ACCOUNTANTS' REPORT (Cont'd)**7. DETAILED STATEMENTS OF ASSETS AND LIABILITIES**

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

	Note	Proforma Group				
		(I)	(II)	(III)	(IV)	
		Audited BKG as at 31.10.2003 RM'000	After the Acquisitions RM'000	After (I) and Rights Issue RM'000	After (II) Share Split, Public Issue and Utilisation of Proceeds RM'000	After (III) and ESOS RM'000
Property, plant and equipment	8.3	-	27,110	27,110	27,110	27,110
Goodwill	8.4	-	214	214	214	214
Current assets						
Inventories	8.5	-	22,703	22,703	22,703	22,703
Trade debtors	8.6	-	12,995	12,995	12,995	12,995
Other debtors, deposits and prepayments	8.7	-	762	762	762	762
Tax recoverable		-	6	6	6	6
Fixed deposits with licensed banks	8.8	-	3,776	3,776	3,776	3,776
Cash and bank balances	8.9	*	2,074	4,705	6,476	14,476
		*	42,316	44,947	46,718	54,718
Current liabilities						
Trade creditors		-	3,608	3,608	3,608	3,608
Other creditors and accruals	8.10	8	2,736	2,736	2,736	2,736
Amount due to directors	8.11	-	144	144	144	144
Dividend payable		-	1,167	1,167	1,167	1,167
Bank borrowings	8.12	-	21,992	21,992	12,592	12,592
Provision for taxation		-	707	707	707	707
		8	30,354	30,354	20,954	20,954
Net current (liabilities) / assets		(8)	11,962	14,593	25,764	33,764
		(8)	39,286	41,917	53,088	61,088
Financed by :						
Share capital	8.13	(a)	30,569	33,200	40,000	44,000
Share premium	8.14	-	1,834	1,834	7,034	11,034
Reserve on consolidation	8.15	-	4,702	4,702	4,702	4,702
Accumulated losses		(8)	(8)	(8)	(8)	(8)
Shareholders' funds		(8)	37,097	39,728	51,728	59,728
Minority interest			284	284	284	284
Deferred taxation	8.16	-	767	767	767	767
Long term liabilities	8.17	-	1,138	1,138	309	309
		(8)	39,286	41,917	53,088	61,088
No. of ordinary shares in issue		(a)	30,569 ^(b)	33,200 ^(b)	80,000 ^(c)	88,000 ^(c)
Net Tangible (Liabilities) / Assets		(8)	36,883	39,514	51,514	59,514
Net tangible (liabilities) / assets per ordinary share (RM)		(4,000.00)	1.21	1.19	0.64	0.68

* Represents RM2.00

(a) Represents RM2.00 comprising 2 ordinary shares of RM1.00 each.

(b) Ordinary shares of RM1.00 each.

(c) Ordinary shares of RM0.50 each.

10. ACCOUNTANTS' REPORT (Cont'd)

8. NOTES TO THE STATEMENTS OF ASSETS AND LIABILITIES**8.1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards issued by the Malaysian Accounting Standards Board.

8.2 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 MASB 25 – Income Taxes for the first time during the financial period.

The adoption of MASB 25 did not give rise to any adjustments to the opening balances of retained profits of the prior and current period or to changes in the comparative figures.

(a) Accounting Convention

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 period/year. Subsidiary companies are those companies in which the Group has a long term equity interest and where it has power to exercise control over the financial and operating activities so as to obtain benefits 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 either as goodwill or reserve on consolidation, as appropriate. 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, transactions and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered. Where necessary, adjustments are made to the financial statements of the subsidiary companies to ensure consistency of accounting policies with those of the Group.

10. ACCOUNTANTS' REPORT (Cont'd)

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

(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 a straight line basis at the following annual rates :

Building and shophouse	2%
Machinery and factory equipment	10% - 20%
Office equipment, furniture and fittings	8% - 20%
Motor vehicles	20%

Freehold land is not amortised as it has an infinite life.

During the financial period, long leasehold land with lease period ranging from 880 to 882 years was converted by the land office to freehold land.

(d) 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.

(e) Goodwill

Goodwill arising on purchase of partnership business represents the excess of the purchase consideration over the share of the fair values of the identifiable net assets of partnership business at the date of acquisition.

Goodwill is recognised as an asset and is amortised evenly over a period of twenty five years.

(f) Inventories

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

Cost is determined on the first-in first-out basis.

10. ACCOUNTANTS' REPORT (Cont'd)

(g) Debtors

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

(h) Creditors

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

(i) 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.

(j) 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 over the period of the respective agreements using the straight line method.

(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.

Revenue arising from the provision of services is recognised on the dates the services are rendered and completed.

Interest on hire purchase is recognised evenly over the period of financing on the straight line method.

Insurance commission is recognised on the accrual basis.

(l) Impairment of Assets

At each balance sheet date, the Group and the Company review the carrying amounts of their 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.

10. ACCOUNTANTS' REPORT (Cont'd)

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 principle, 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 utilized. 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.

(n) Cash and Cash Equivalents

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

(o) Financial Instruments

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

10. ACCOUNTANTS' REPORT (Cont'd)

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 intend 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 cash and bank balances, debtors and creditors. The particular recognition methods adopted are disclosed in the individual accounting policy associated with each item.

8.3 PROPERTY, PLANT AND EQUIPMENT

	----- PROFORMA GROUP -----		
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
	RM'000	RM'000	RM'000
Freehold land	11,570	-	11,570
Factory building and shophouse	11,272	526	10,746
Machinery and factory equipment	4,255	1,717	2,538
Office equipment, furniture and fittings	2,014	673	1,341
Motor vehicles	2,220	1,305	915
	<u>31,331</u>	<u>4,221</u>	<u>27,110</u>

PROFORMA GROUP

Included in the net book value of property, plant and equipment are motor vehicles with a net book value of **RM0.59 million** being acquired under hire purchase loans.

The following net book value of property, plant and equipment are charged to financial institutions for banking facilities granted to the Group as stated in Note 8.12 and 8.17 :

	PROFORMA GROUP RM'000
Freehold land	10,939
Factory building and shophouse	<u>10,746</u>
	<u>21,685</u>

10. ACCOUNTANTS' REPORT (Cont'd)**8.4 GOODWILL**

	PROFORMA GROUP RM'000
<u>Goodwill on purchase of partnership business</u>	
Arising from the acquisition of subsidiary company	<u>214</u>

8.5 INVENTORIES

	PROFORMA GROUP RM'000
<u>At cost</u>	
Raw materials	7,924
Work-in-progress	5,467
Finished goods	<u>9,312</u>
	<u>22,703</u>

8.6 TRADE DEBTORS

	PROFORMA GROUP RM'000
Hire purchase debtors	3,225
Unearned interest income	<u>(579)</u>
	2,646
Other trade debtors	10,472
Allowance for doubtful debts	<u>(123)</u>
	<u>12,995</u>
Receivable :	
Within one year	12,065
More than one year and less than five years *	<u>930</u>
	<u>12,995</u>

* Represents portion of hire purchase debtors which is due after twelve months.

10. ACCOUNTANTS' REPORT (Cont'd)

Included herein are amounts due from the following related parties :

	PROFORMA GROUP RM'000
Angkasa Barisan Sdn. Bhd.	2
Austnet Computer Sdn. Bhd.	1

Please refer to Note 8.21 for related party relationship.

8.7 OTHER DEBTORS, DEPOSITS AND PREPAYMENTS**PROFORMA GROUP**

Included herein is an amount of **RM0.001 million** due from Austnet Computer Sdn. Bhd..
Please refer to Note 8.21 for related party relationship.

8.8 FIXED DEPOSITS WITH LICENSED BANKS**PROFORMA GROUP**

The fixed deposits are pledged to licensed banks for banking facilities granted to the Group.

The average effective interest rate of fixed deposits for the Group at balance sheet is 4.00% - 4.05% per annum.

8.9 CASH AND BANK BALANCES

	PROFORMA GROUP RM'000
Balance as at 31 October 2003	*
Arising from the Acquisitions of subsidiary companies	2,074
Proceeds from Rights Issue	2,631
After Acquisitions and Rights Issue	4,705
Proceeds from Public Issue	13,600
Repayment of bank borrowings	(10,229)
Payment of listing expenses	(1,600)
Proceeds from ESOS	8,000
After Acquisitions, Rights Issue , Share Split, Public Issue, utilisation of proceeds and ESOS	<u>14,476</u>

* Represents RM2

10. ACCOUNTANTS' REPORT (Cont'd)**8.10 OTHER CREDITORS AND ACCRUALS****PROFORMA GROUP**

Included herein is an amount of **RM0.002 million** due to Austnet Computer Sdn. Bhd.. Please refer to Note 8.21 for related party relationship.

8.11 AMOUNT DUE TO DIRECTORS

	<u>PROFORMA GROUP</u> RM'000
<u>Directors of the Company</u>	
Goh Boon Koon	14
Lee Teoh Kee	30
<u>Director of a subsidiary company</u>	
Tan Poo Chuan	100
	<u>144</u>

The amount due to certain directors of the Company is non-trade related, unsecured, interest free and has no fixed terms of repayment.

8.12 BANK BORROWINGS

	----- PROFORMA GROUP -----		
	After the Acquisitions, Rights Issue, Share Split and Public <u>Issue</u> RM'000	<u>Repayment</u> RM'000	After <u>Utilisation</u> RM'000
Bank overdrafts	343	-	343
Bankers' acceptance	21,588	(9,400)	12,188
Term loans (Note 8.17)	61	-	61
	<u>21,992</u>	<u>(9,400)</u>	<u>12,592</u>

The bank borrowings are repayable within one year.

10. ACCOUNTANTS' REPORT (Cont'd)

The average effective rates of bank borrowings (excluding term loans) per annum at balance sheet date are as follows :

	%
Bank overdrafts	7.25 – 7.50
Bankers acceptance	2.35 – 3.14

The bank borrowings except term loans are secured by way of :

- (i) legal charges over certain landed properties of the Group,
- (ii) pledged of certain fixed deposits of the Group and
- (iii) joint and several guarantee of certain directors of the Group.

The bank overdrafts bear interest at the rate of 1.25% to 1.50% per annum above the lenders' base lending rate while interest for bankers' acceptance is charged at the lenders' prevailing discount rate.

The details of security and interest rate for the term loans are stated in Note 8.17.

RM9.40 million of the proceeds from the Rights and Public Issues is utilised to reduce the bankers' acceptances.

8.13 SHARE CAPITAL

	<u>COMPANY</u> RM'000	<u>PROFORMA</u> <u>GROUP</u> RM'000
Authorised Ordinary shares of RM1.00 each	<u>100</u>	<u>50,000</u>
Issued and fully paid : Ordinary shares of RM1.00 each		
As at 31 October 2003	*	*
Issued as consideration for the Acquisition of BKVI	-	30,569
Rights Issue	-	2,631
Public Issue	-	6,800
ESOS	-	4,000
	<u>*</u>	<u>44,000</u>

* Represents RM2

10. ACCOUNTANTS' REPORT (Cont'd)**8.14 SHARE PREMIUM**

	PROFORMA GROUP RM'000
Share premium from :	
Issue of shares for the acquisition of BKVI at a premium of approximately RM0.06 per share	1,834
Public issue of 13,600,000 ordinary shares of RM0.50 each at a premium of RM0.50 per share	6,800
Less : Estimated listing expenses	(1,600)
ESOS of 8,000,000 ordinary shares of RM0.50 each at a premium of RM0.50 per share	<u>4,000</u>
After the Acquisitions, Rights Issue, Share Split, Public Issue, utilisation of proceeds and ESOS	<u>11,034</u>

8.15 RESERVE ON CONSOLIDATION

	PROFORMA GROUP RM'000
Arising from the acquisition of subsidiary company	<u>4,702</u>

8.16 DEFERRED TAXATION

	PROFORMA GROUP RM'000
Arising from the acquisition of subsidiary companies	<u>767</u>

Deferred taxation is represented by the excess of capital allowances over depreciation.

10. ACCOUNTANTS' REPORT (Cont'd)**8.17 LONG TERM LIABILITIES**

	----- PROFORMA GROUP -----		
	After the Acquisitions, Rights Issue, Share Split and Public <u>Issue</u> RM'000	<u>Repayment</u> RM'000	After <u>Utilisation</u> RM'000
Term loans			
Principal sum	1,003	(829)	174
Less : Repayable within twelve months included under bank borrowings (Note 8.12)	(61)	-	(61)
	<u>942</u>	<u>(829)</u>	<u>113</u>
Hire purchase creditors			
Total amount payable	435	-	435
Interest in suspense	(41)	-	(41)
	<u>394</u>		<u>394</u>
Less : Payable within twelve months included under other creditors and accruals	(198)	-	(198)
	<u>196</u>	<u>-</u>	<u>196</u>
Repayable within a period of more than one year and less than five years	<u>1,138</u>	<u>(829)</u>	<u>309</u>

The average effective interest rates of term loans and hire purchase creditors per annum at balance sheet date are as follows :

	%
Term loans	7.25 – 7.45
Hire purchase creditors	6.05 – 7.40

The term loans are secured by way of :

- (i) legal charge over freehold land, factory building and shophouse of the Group and
- (ii) the joint and several guarantee of certain directors of the Company.

10. ACCOUNTANTS' REPORT (Cont'd)**8.18 CAPITAL COMMITMENTS**

	PROFORMA GROUP RM'000
Authorised but not contracted	
For the purchase of property, plant and equipment	<u>2,709</u>

8.19 NUMBER OF EMPLOYEES**PROFORMA GROUP**

The number of employees excluding executive directors at balance sheet date is 277.

8.20 FINANCIAL INSTRUMENTS

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

Liquidity Risk

The 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 Group maintains sufficient levels of cash and cash equivalents to meet its working capital requirements.

Interest Rate Risk

The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The 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.

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 Group's associates to business partners with high creditworthiness. Trade debtors are monitored on an ongoing basis via the Group's management reporting procedures.

The 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.

10. ACCOUNTANTS' REPORT (Cont'd)

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.

Fair values

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

8.21 RELATED PARTY TRANSACTIONS

	PROFORMA GROUP RM'000
Rental income from a related party	
- Austnet Computer Sdn. Bhd.	5
Sales to related parties	
- Angkasa Barisan Sdn. Bhd.	8
- Austnet Computer Sdn. Bhd.	43
Purchase of raw material from a related party	
- Sweet Home Furniture Sdn. Bhd.	82
Purchase of property, plant and equipment from related parties	
- Austnet Computer Sdn. Bhd.	52
- Sweet Home Furniture Sdn. Bhd.	3

Related party relationship

<u>Related party</u>	<u>Relationship</u>
Angkasa Barisan Sdn. Bhd.	: A company in which certain directors of the Company, namely Encik Abd. Ghani Bin Ali Kadir and Mr. Goh Boon Leong have substantial financial interests.
Sweet Home Furniture Sdn. Bhd.	: A company in which Madam Lee Teoh Kee, a director of the Company has substantial financial interest.
Austnet Computer Sdn. Bhd.	: A company in which Mr. Goh Boon Leong and Madam Lee Teoh Kee, directors of the Company and Mr. Goh Chin Aun, a director of a subsidiary company and a person connected to Messrs Goh Boon Koon, Goh Ho Seng, Goh Boon Siew, Goh Boon Leong and Madam Lee Teoh Kee have substantial financial interests.

The directors of the Company are of the opinion that the above transactions have been entered into in the normal course of business based on negotiated and mutual terms.

10. ACCOUNTANTS' REPORT (Cont'd)**8.22 PROFORMA NET TANGIBLE ASSETS PER ORDINARY SHARE**

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

Proforma net tangible assets (RM'000)	<u><u>59,514</u></u>
Total number of ordinary shares of RM0.50 in issue ('000)	<u><u>88,000</u></u>
Proforma net tangible assets per ordinary share of RM0.50 each (RM)	<u><u>0.68</u></u>

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10. ACCOUNTANTS' REPORT (Cont'd)**9. PROFORMA CONSOLIDATED CASH FLOW STATEMENTS**

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

	Proforma Group			
	(I)	(II)	(III)	(IV)
Audited BKG as at 31.10.2003 RM'000	After the Acquisitions RM'000	After (I) and Rights Issue RM'000	After (II) Share Split, Public Issue and Utilisation of Proceeds RM'000	After (III) and ESOS RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating loss before working capital changes	(2)	(2)	(2)	(2)
Creditors	2	2	2	2
Net cash movement in operating activities	-	-	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
** Acquisition of subsidiary companies, net of cash acquired	-	1,731	1,731	1,731
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of listing expenses	-	-	(1,600)	(1,600)
Proceeds from ESOS at premium	-	-	-	8,000
Proceeds from public issue at premium	-	-	13,600	13,600
Proceeds from rights issue	-	2,631	2,631	2,631
Repayment of bank borrowings	-	-	(10,229)	(10,229)
Net cash from financing activities	-	-	2,631	4,402
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	1,731	4,362	6,133
CASH AND CASH EQUIVALENTS AT BEGINNING	*	-	-	-
CASH AND CASH EQUIVALENTS AT END	*	1,731	4,362	6,133
Represented by :				
Cash and bank balances	*	2,074	4,705	6,476
Bank overdrafts	-	(343)	(343)	(343)
	*	1,731	4,362	6,133

* Represents RM2

10. ACCOUNTANTS' REPORT (Cont'd)

	----- Proforma Group -----			
	(I)	(II)	(III)	(IV)
Audited BKG as at 31.10.2003 RM'000	After the Acquisitions RM'000	After (I) and Rights Issue RM'000	After (II) Share Split, Public Issue and Utilisation of Proceeds RM'000	After (III) and ESOS RM'000
** Acquisition of subsidiary companies, net of cash acquired				
Property, plant and equipment	-	27,110	27,110	27,110
Goodwill	-	214	214	214
Inventories	-	22,703	22,703	22,703
Debtors	-	13,757	13,757	13,757
Tax recoverable	-	6	6	6
Creditors	-	(7,843)	(7,843)	(7,843)
Fixed deposits	-	3,776	3,776	3,776
Cash and bank balances	-	2,074	2,074	2,074
Borrowings	-	(22,934)	(22,934)	(22,934)
Provision for taxation	-	(707)	(707)	(707)
Minority interest	-	(284)	(284)	(284)
Deferred taxation	-	(767)	(767)	(767)
Share of net assets acquired	-	37,105	37,105	37,105
Reserve on consolidation	-	(4,702)	(4,702)	(4,702)
Total purchase consideration	-	32,403	32,403	32,403
Less : Consideration satisfied by shares	-	(32,403)	(32,403)	(32,403)
Add : Cash and cash equivalents acquired	-	1,731	1,731	1,731
Cash flow on acquisition of subsidiary companies	-	1,731	1,731	1,731

10. EVENT SUBSEQUENT TO BALANCE SHEET DATE OF 31 OCTOBER 2003

Other than the completion of the Acquisitions of subsidiary companies by BKG, Rights Issue and Share Split as referred to in Section 2(i) to (v), the following event has arisen subsequent to the balance sheet date which requires disclosure in this Report as follows :

- i. BKVI declared and paid an interim tax exempt dividend of 10% each amounting to RM1.17 million on 31 December 2003 and 6 January 2004 respectively.

10. ACCOUNTANTS' REPORT (Cont'd)

11. FINANCIAL STATEMENTS

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

Yours faithfully,



JB LAU & ASSOCIATES
NO. AF : 0042
CHARTERED ACCOUNTANTS



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