

10. ACCOUNTANTS' REPORT

(Prepared for inclusion in the Prospectus)



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The Board of Directors
Goodway Integrated Industries Berhad
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21 June 2004

Dear Sirs

Goodway Integrated Industries Berhad Accountants' Report

This report has been prepared by Messrs. KPMG, an approved company auditor, for inclusion in the Prospectus to be dated 23 June 2004 in connection with:

- i) the public issue of 16,844,000 new and offer for sale of 12,328,000 existing ordinary shares of RM0.50 each in Goodway Integrated Industries Berhad (hereinafter referred to as "GIIB" or "the GIIB Group") at issue price of RM1.25 per ordinary share;
- ii) the listing of and quotation for GIIB's entire enlarged issued and paid-up share capital on the Second Board of Bursa Malaysia Securities Berhad ("Bursa Malaysia") (formerly known as Malaysia Securities Exchange Berhad); and
- iii) the Employee Share Option Scheme ("ESOS") issue of 8,000,000 new ordinary shares of RM0.50 each at issue price of either RM1.25 or based on the five days weighted average market price.

1 General information

1.1 Background

Good Way Rubber Industries Sdn Bhd ("GWRI") was incorporated in Malaysia under the Companies Act, 1965 as a private limited company on 9 November 1985 under the name of Good Way Rubber Industries Sdn. Bhd.. The Company commenced business in January 1990. It was formed as a joint venture company between Heveama Industries Sdn Bhd (HISB) and Gummiwerk Kraiburg GmbH & Co. ("GK"), one of the leading rubber compounder in Europe to service the Pacific and Asian region.

The principal activities of GWRI are the manufacturing of masterbatch and other rubber products.



KPMG, a partnership established under the Malaysian law, is the Malaysian member firm of KPMG International, a Swiss cooperative.

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1.2 Share capital

At the date of incorporation, GWRI's authorised share capital was RM25,000 consisting of 25,000 ordinary shares of RM1.00 each. At that date, GWRI's issued and paid-up share capital was RM2 consisting of 2 ordinary shares of RM1.00 each. The present authorised share capital of GWRI is RM20,000,000, consisting of 20,000,000 ordinary shares of RM1.00 each and the issued and paid-up share capital is RM12,458,482 consisting of 12,458,482 ordinary shares of RM1.00 each.

Pursuant to the restructuring scheme including the listing of and quotation for the entire paid-up share capital of GWRI and its subsidiaries via Newco (i.e. Goodway Integrated Industries Berhad ("GIIB")) on the Second Board of Bursa Malaysia as set out in paragraph 3 below, the issued and fully paid-up share capital of GIIB are as follows:

Date of issue	Number of ordinary shares of	Par value (RM)	Issue price per ordinary share	Purpose	Issued and fully paid-up share capital (Cumulative - RM)
On incorporation	2	1.00	1.00	Incorporation	2
19 May 2004	4	0.50	0.50	Share split	2
19 May 2004	63,155,996	0.50	0.50	Acquisition of GWRI Group	31,577,998
To be allotted	16,844,000	0.50	1.25	Public Issue	40,000,000
To be allotted	8,000,000	0.50	1.25	ESOS	44,000,000

Upon completion of the public issue and ESOS, the issued and paid-up share capital of GIIB would be increased to RM44,000,000 comprising of 88,000,000 ordinary share of RM0.50 each.

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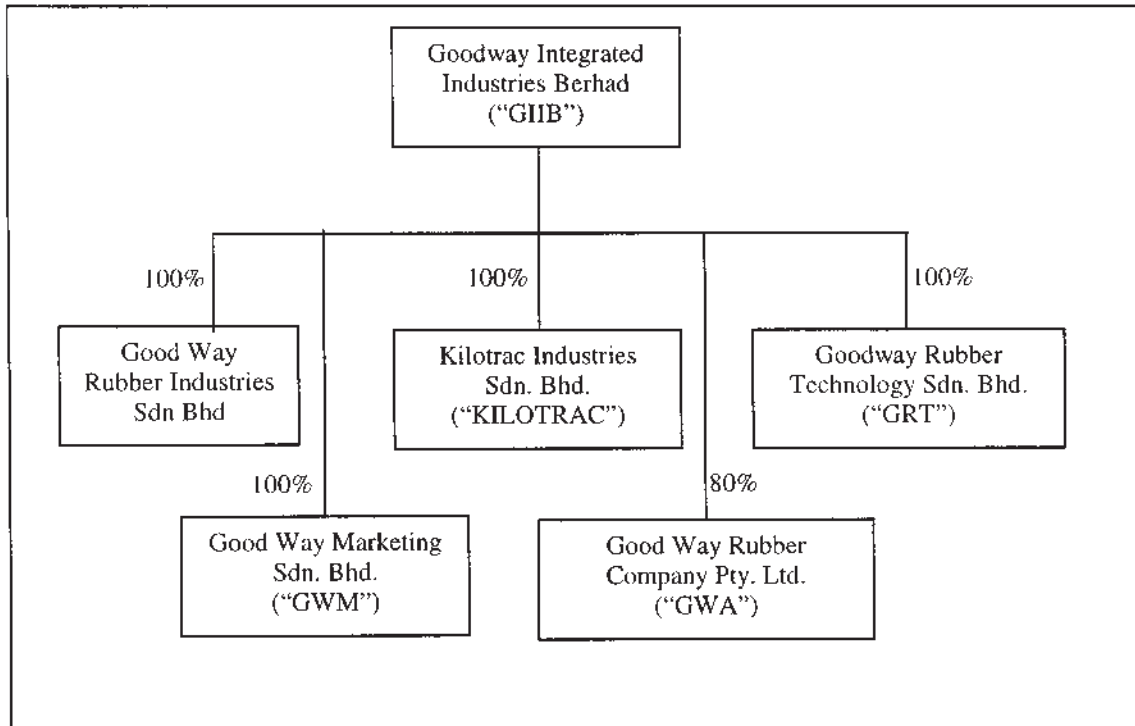


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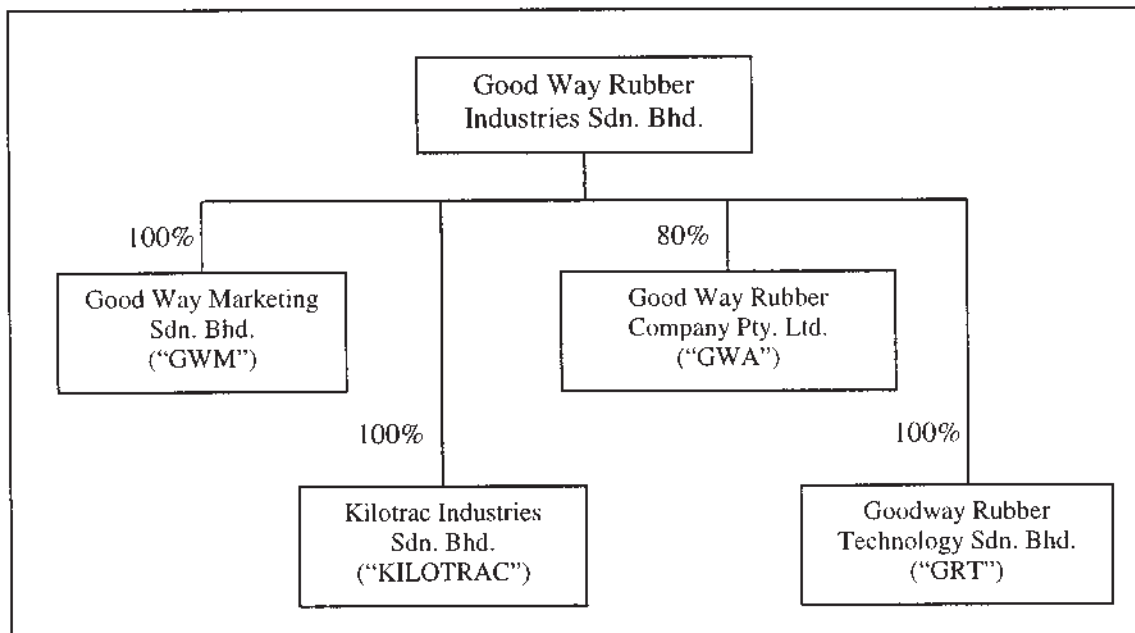
1.3 New restructuring scheme

1.3.1 Group structure

■ Existing



■ Previous



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1.3.2 Restructuring scheme

In conjunction with the listing of GIIB on the Second Board of Bursa Malaysia, GWRI is to undergo a restructuring scheme. The restructuring scheme involves the following exercises:

1.3.2.1 *Incorporation of Newco*

The incorporation of Newco involves the establishment of a new public limited company, which is to be used as an investment holding company to facilitate the restructuring of GWRI. Consequently, GIIB was incorporated under the Companies Act, 1965 on 19 June 2003 as a private limited company under the name of Prosperous Image Sdn Bhd for the said purpose. Subsequently, on 9 September 2003, it was converted to a public limited company and assumed its present name on 15 October 2003.

1.3.2.2 *Acquisition*

GIIB acquires the entire issued and paid-up share capital of GWRI on 19 May 2004.

In this respect, GIIB had on 23 October 2003, entered into a conditional Sale and Purchase Agreement with existing shareholders of GWRI for the acquisition of the entire issued and paid-up share capital of GWRI comprising 12,458,482 shares ("GWRI shares") for a total purchase consideration of RM31,577,998 satisfied by the issuance of 63,155,996 new GIIB shares at issue price of RM0.50 per ordinary share. Subsequently, GWRI had transferred all its shares held in its subsidiaries to GIIB at a nominal cost of RM1.00 for each subsidiary satisfied in cash.

With the completion of the acquisitions, GWRI is now a wholly owned subsidiary company of GIIB. Pursuant to the acquisitions, the principal activities of GWRI are now the core business of the GIIB group of companies ("GIIB Group").

1.3.2.3 *Public issue*

Public issue of 16,844,000 new ordinary shares in GIIB to the Malaysian public at issue price of RM1.25.

1.3.2.4 *Offer for sale*

Offer for sale of 12,328,000 existing ordinary shares in GIIB to the Malaysian public at issue price of RM1.25.

1.3.2.5 *Listing*

Listing and quotation of the entire issued and paid-up share capital of GIIB on the Second Board of Bursa Malaysia.

These exercises are inter-conditional.

In addition to the above restructuring exercise, GIIB will undertake a Employee Share Option Scheme ("ESOS") of 8,000,000 new ordinary shares in GIIB for eligible employees and directors of the GIIB Group at an assumed exercise price of RM1.25 each.

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1.4 Information on subsidiary companies

The GIIB Group comprises GWRI and the following subsidiaries, all of which are incorporated in Malaysia as private limited companies under the Companies Act, 1965, other than Good Way Rubber Company Pty.Ltd. which is incorporated in Australia. The subsidiary corporations of GWRI under the restructuring scheme as at the date of this report and their principal activities are as follows:

Name of company	Date of incorporation	Effective ownership interest	Share Capital		Principal activities
			Authorised RM	Issued and fully paid-up RM	
<i><u>Subsidiary companies</u></i>					
Good Way Marketing Sdn. Bhd. ("GWM")	8 August 1995	100%	100,000	2	Dormant.
Good Way Rubber Company Pty. Ltd. ("GWA")	31 August 1993	80%	1,000,000	AUD 250,000	Distribution and selling of rubber compounds.
Kilotrak Industries Sdn. Bhd. ("KILOTRAC")	5 October 1990	100%	5,000,000	2,235,274	Retreading of tyres and idistribution of retread tyres and related products
Goodway Rubber Technology Sdn. Bhd. ("GRT")	23 July 1998	100%	100,000	2	Dormant.

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1.5 Financial statements and auditors

The financial year end of all companies in the GIIB Group is 31 December except for GWA, which is 30 June. However, GWA changed its financial year to 31 December in 2003.

The financial statements of GWRI, GWM, KILOTRAC and GRT for the financial years/period ended 31 December 1999 to 2003 are audited by KPMG.

The financial statements of GWA for the financial years ended 30 June 1999 to 2003 and financial period ended 31 December 2003 are audited by Peter Alexander Fyfe.

The auditors' reports for all the relevant financial years/period under review were not subject to any qualification.

The auditors' reports of KILOTRAC for financial years ended 31 December 1999 to 2002 had an emphasis of matter on going concern.

Prior year adjustment

The prior year adjustment relates to the effect of the adoption of MASB 25, Income Taxes by GIIB Group during the financial year ended 31 December 2002. The change in accounting policy, which was applied retrospectively, has the following effects on the proforma financial statements of GIIB Group:-

	As previously stated RM'000	Effects of change in policy RM'000	As restated RM'000
1999			
Income statement			
Tax expense	5	(151)	(146)
Profit after taxation	6,961	(151)	6,810
	=====	=====	=====
2000			
Income statement			
Tax expense	(983)	194	(789)
Profit after taxation	2,266	194	2,460
	=====	=====	=====
2001			
Income statement			
Tax expense	767	(970)	(203)
Profit after taxation	2,979	(970)	2,009
	=====	=====	=====
2002			
Income statement			
Tax expense	(1,255)	970	(285)
Profit after taxation	5,327	970	6,297
	=====	=====	=====

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1.6 Dividends

1.6.1 GIIB has not paid or declared any dividends since incorporation on 19 June 2003.

1.6.2 Except as detailed below, the Group has not paid or declared dividends for the financial years under review:-

Financial year	Company	Issued and paid up share capital of RM1.00 each ('000)	Gross dividend rate	Net dividend RM'000
31 December 1999	GWRI	12,458	16.05% tax exempt	2,000
31 December 2000	GWRI	12,458	16.05% tax exempt	2,000
31 December 2003	GWRI	12,458	16.05% tax exempt	2,000

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2 Goodway Integrated Industries Berhad and its subsidiary companies ("GIIB Group")

We set out below the summarised proforma consolidated results of GIIB Group for the past five financial years ended 31 December 2003. The proforma consolidated results are prepared for illustrative and comparability purposes, based on the audited financial statements of all companies within the GIIB Group after making the prior year adjustment in Section 1.5 and such adjustments considered necessary on the assumption that the restructuring scheme had been in existence throughout the years under review.

2.1 Summarised Proforma group consolidated results

	← Year ended 31 December →				
	1999	2000	2001	2002	2003
	RM'000	RM'000	RM'000	RM'000	RM'000
Turnover	60,974	63,406	66,326	77,265	110,596
Profit before depreciation and interest	11,315	7,436	9,199	11,887	14,242
Depreciation	(2,894)	(3,119)	(4,787)	(3,603)	(3,650)
Interest expense	(1,403)	(1,162)	(2,200)	(1,728)	(1,415)
Interest income	130	94	-	26	166
Share of loss of associates	(192)	-	-	-	-
Profit before taxation	6,956	3,249	2,212	6,582	9,343
Taxation	(146)	(789)	(203)	(285)	(2,803)
Profit after taxation	6,810	2,460	2,009	6,297	6,540
Minority interest	(19)	(49)	(164)	(204)	(691)
Profit attributable to shareholders	6,791	2,411	1,845	6,093	5,849
Number of ordinary shares in issue during the year ('000)	63,156	63,156	63,156	63,156	63,156
Earnings per share (sen)					
- Gross	11.0	5.1	3.2	10.1	13.7
- Net	10.8	3.8	2.9	9.6	9.3

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Notes:

- i) The lower effective tax rate for 2000 to 2002 was due to tax incentives available.

There was no tax charge for 1999 in view of the tax waiver for 1999 pursuant to the Income Tax (Amendment) Act, 1999. However, there was a deferred tax charge during the year.

The higher effective tax rate for 2003 was due to the reclassification of certain allowance for doubtful debts from general to specific in nature.

- ii) There were no extraordinary or exceptional items for the financial years under review except for the unrealised gain on foreign exchange in 2003.
- iii) All material related company transactions and balances were eliminated on consolidation.
- iv) The gross earnings per share has been calculated based on the profit before taxation and after minority interest divided by the number of share in issue of the respective years, on the assumption that the restructuring scheme had been in existence throughout the years under review.
- v) The net earnings per share has been calculated based on the profit after taxation divided by the number of share in issue of the respective years, on the assumption that the restructuring scheme had been in existence throughout the years under review.
- vi) Due to different accounting year end, the consolidation of GWA's results, except for financial year 2003, was based on a combination of audited financial statements and management accounts on a half yearly basis.

2.2 Goodway Integrated Industries Berhad – Historical performance

The summary of results of GIIB for the past five financial years ended 31 December 2003 were not presented as GIIB was only incorporated on 19 June 2003 and has not commenced operations during the period ended 31 December 2003.

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3 Proforma consolidated cash flow statement

The proforma consolidated cash flow statement of the GIIB Group is based on the audited financial statements of GWRI and its subsidiaries for the year ended 31 December 2003.

The proforma consolidated cashflow statement of the GIIB Group for the year ended 31 December 2003 set out below is for illustration purposes only, to show the effects of the restructuring scheme and on the assumption that the restructuring scheme, before the public issue and utilisation of listing proceeds, was completed on 31 December 2003. The proforma consolidated cashflow statement should be read in conjunction with the notes set out in the following paragraph.

	RM'000
Cashflow from operating activities	
Profit before taxation	9,343
Adjustments for:	
Depreciation	3,650
Gain on disposal of property, plant and equipment	(248)
Goodwill amortised	235
Interest expenses	1,415
Interest income	(166)
Unrealised gain on foreign exchange	(1,578)
Operating profit before working capital changes	<u>12,651</u>
(Increase)/Decrease in working capital:	
Inventories	491
Trade and other receivables	(5,876)
Trade and other payables	(622)
Cash generated from operations	<u>6,644</u>
Income tax paid	(553)
Interest paid	(1,415)
Interest income	166
Net cash generated from operating activities	<u>4,842</u>
Cash flows from investing activities	
Proceeds from disposal of property, plant and equipment	258
Purchase of property, plant and equipment	(2,674)
Net cash used in investing activities	<u>(2,416)</u>
Cash flows from financing activities	
Proceeds of other borrowings	8,587
Repayment of term loans	(2,298)
Repayment of finance lease/hire purchase liabilities	(264)
Dividend paid to shareholders of the Company	(2,000)
Net cash generated from financing activities	<u>4,025</u>
Net increase in cash and cash equivalents	6,451
Cash and cash equivalents at beginning of year	(2,653)
Foreign exchange differences on opening balance	219
Cash and cash equivalents at end of year (Note (i))	<u>4,017</u>

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Notes to proforma consolidated cash flow statement	RM'000
i) Cash and cash equivalents comprise :-	
Cash and bank balances	4,867
Bank overdrafts	<u>(850)</u>
	<u>4,017</u>

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3.1 Proforma statements of assets and liabilities

The following proforma statement of assets and liabilities of the GIIB Group is prepared for illustrative purposes only based on the audited financial statement of GWRI and its subsidiaries as at 31 December 2003. The proforma statement of assets and liabilities of the GIIB Group have been prepared using accounting principles and bases consistent with those normally adopted in the preparation of the audited financial statements except that adjustments have not been made to account for the fair value of the assets and liabilities of GWRI upon acquisition by GIIB. The proforma statement of assets and liabilities of the GIIB Group has been prepared on the assumption that the restructuring scheme, before the public issue and utilisation of listing proceeds, was completed on 31 December 2003. The proforma statement of assets and liabilities should be read in conjunction with the notes thereon.

		Audited balance sheet at 31.12.2003	Proforma consolidated balance sheet after acquisition of subsidiaries
	Note	RM'000	RM'000
Property, plant and equipment	3.3	-	38,464
Goodwill	3.4	-	1,648
Deferred tax assets	3.11	-	563
Current assets			
Inventories	3.5	-	12,687
Trade and other receivables	3.6	-	30,149
Tax recoverable		-	373
Cash and cash equivalents	3.7	*	4,867
		*	48,076
Current liabilities			
Trade and other payables	3.8	-	10,504
Borrowings	3.9	-	35,021
Taxation		-	979
		-	46,504
Net current assets		*	1,572
		*	42,247
Financed by:			
Capital and reserves			
Share capital	3.10	*	31,578
Reserves		-	5,270
Shareholders' funds		*	36,848
Minority interests		-	722
Long term and deferred liabilities			
Deferred tax	3.11	-	2,917
Borrowings	3.9	-	1,760
		-	4,677
		*	42,247
NTA per share (RM)		0.50	0.56

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3.2 Notes to the proforma statement of assets and liabilities**3.2.1 Basis of accounting**

The proforma financial statements of the GIIB Group are prepared on the historical cost basis except as disclosed in the notes to the financial statement and in compliance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia.

The GIIB Group's proforma financial statements are prepared on the basis that the GIIB Group is in existence as at 31 December 2003.

3.2.2 Basis of consolidation

The GIIB Group's proforma financial statements have been prepared based on the audited financial statements of GWRI and its subsidiaries as at 31 December 2003. All material related company transactions and balances have been eliminated on consolidation. The acquisition of GWRI and its subsidiaries is accounted for under the acquisition of GWRI and its subsidiaries is accounted for under the acquisition method of accounting.

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the acquisition method of accounting.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed off during the year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Group financial statements. The difference between the acquisition cost and the fair values of the subsidiaries' net assets is reflected as goodwill or reserve on consolidation as appropriate.

Intragroup transactions and balances and the resulting unrealised profits are eliminated on consolidation. Unrealised losses resulting from intragroup transactions are also eliminated unless cost cannot be recovered.

3.2.3 Affiliated company

An affiliated company is a company which shares common Directors with the Company or where certain Directors and shareholders of the Company have an interest.

3.2.4 Property, plant and equipment

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

Property, plant and equipment retired from active use and held for disposal are stated at the lower of net book value and net realisable value.

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3.2.4 Property, plant and equipment (continued)***Depreciation***

Long term leasehold land is amortised in equal instalments over the period of the lease. The straight-line method is used to write off the cost of the other assets over the term of their estimated useful lives at the following principal annual rates:

Long term leasehold land	97 - 99 years
Building	2%
Plant and machinery	5% and 10%
Furniture and fittings	10%
Equipment	20%
Motor vehicles	20%

3.2.5 Intangible asset***Goodwill***

Goodwill represents the excess of the cost of acquisition over the fair values of the net identifiable assets acquired and is stated at cost less accumulated amortisation and accumulated impairment losses.

Goodwill is amortised from the date of initial recognition over its estimated useful life of not more than 20 years.

3.2.6 Finance leases

Leases in which the GIBB Group assume substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses.

In calculating the present value of the minimum lease payments, the discount rate is the interest rate implicit in the lease, if this is practicable to determine; if not, the Group's incremental borrowing rate is used.

3.2.7 Investment

Long term investments in subsidiaries are stated at cost less impairment loss where applicable.

3.2.8 Trade and other receivables

Trade and other receivables are stated at cost less allowance for doubtful debts.

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3.2.9 Employee benefits**(i) Short term employee benefits**

Wages, salaries and bonuses are recognised as expenses in the year in which the associated services are rendered by employees of the GII B Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined contribution plans

Obligations for contribution to defined contribution plans are recognised as an expense in the income statement as incurred.

3.2.10 Liabilities

Borrowings and trade and other payables are stated at cost.

3.2.11 Inventories

Raw materials, work-in-progress and manufactured inventories are stated at the lower of cost and net realisable value with weighted average cost being the main basis for cost for raw materials. For work-in-progress and manufactured inventories, cost consists of materials, direct labour and an appropriate proportion of fixed and variable production overheads.

3.2.12 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts.

3.2.13 Impairment

The carrying amount of assets, other than inventories, deferred tax assets and financial assets (other than investments in subsidiaries), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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3.2.13 Impairment (continued)

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised. The reversal is recognised in the income statement.

3.2.14 Income tax

Tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

3.2.15 Foreign currency**(i) Foreign currency transactions**

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

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3.2.15 Foreign currency (continued)**(ii) Financial statements of foreign operations**

The GIIB Group's foreign operations are not considered an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Ringgit Malaysia at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Ringgit Malaysia at average exchange rates applicable throughout the period. Foreign exchange differences arising on translation are recognised directly in equity.

The closing rates used in the translation of foreign currency monetary assets and liabilities and the financial statements of foreign operations are as follows:

AUD	RM2.85
USD	RM3.80
NZD	RM2.49
SGD	RM2.24
EUR	RM4.79

3.2.16 Derivative financial instruments

The GIIB Group uses derivative financial instruments, including forward foreign exchange contracts, to hedge its exposure to foreign exchange rates risk arising from operational, financing and investment activities.

Derivative financial instruments used for hedging purposes are accounted for on an equivalent basis as the underlying assets, liabilities or net positions. Any profit or loss arising is recognised on the same basis as that arising from the related assets, liabilities or net positions.

Derivatives that do not qualify for hedge accounting are accounted for as trading instruments and marked to market at balance sheet date. Any profit or loss is recognised in the income statement.

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3.3 Property, plant and equipment

	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
Long term leasehold land	4,092	340	3,752
Buildings	14,823	1,556	13,267
Plant and machinery	31,466	14,972	16,494
Furniture and fittings	1,249	880	369
Equipment	11,455	7,789	3,666
Motor vehicles	3,131	2,313	818
Capital work-in-progress	98	-	98
	66,314	27,850	38,464

3.3.1 Security

Certain leasehold land and buildings costing RM18,568,000 (31.12.2002 - RM18,066,000) are charged to banks as security for borrowings.

3.3.2 Assets under lease

The net book values of property, plant and equipment acquired under hire is as follows:

	RM'000
Motor vehicles	479
	479

3.4 Goodwill

	RM'000
Cost at 1 January 2003	2,484
Amortisation charge	(836)
Net book value at 31 December 2003	1,648

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3.5 Inventories

	RM'000
<i>At cost</i>	
Raw materials	2,627
Work-in-progress	3,949
Finished goods	2,610
Goods in transit	1,838
	<u>11,024</u>
<i>At net realisable value</i>	
Raw materials	35
Finished goods	1,628
	<u>12,687</u>

3.6 Trade and other receivables

	RM'000
Trade receivables	32,131
Less: Allowance for doubtful debts	(3,599)
	<u>28,532</u>
Other receivables, deposits and prepayments	1,617
	<u>30,149</u>

3.7 Cash and cash equivalents

	RM'000
Cash and bank balances	<u>4,867</u>

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Goodway Integrated Industries Berhad
Accountants' Report

3.8 Trade payable and other payable

	RM'000
Trade payables	6,568
Other payables and accrued expenses	3,936
	<u>10,504</u>

3.9 Borrowings

	RM'000
<i>Current:</i>	
Term loan	4,752
Overdrafts	850
Revolving credit	4,000
Bills payable	25,145
Lease and hire purchase creditors	274
	<u>35,021</u>
<i>Non-current:</i>	
Term loan	1,595
Lease and hire purchase creditors	165
	<u>1,760</u>

10. ACCOUNTANTS' REPORT (Cont'd)

Goodway Integrated Industries Berhad
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3.9 Borrowings (continued)**3.9.1 Debt repayment schedule**

	Total RM'000	Under 1 year RM'000	1 – 2 years RM'000	– 5 years RM'000	Over 5 years RM'000
Overdrafts	850	850	-	-	-
Bills payable	25,145	25,145	-	-	-
Revolving credit	4,000	4,000	-	-	-
Unsecured term loan 2	2,200	2,200	-	-	-
Secured term loan 3	2,609	2,125	484	-	-
Secured term loan 4	607	84	84	253	186
Secured term loan 5	931	343	343	245	-
Lease and hire purchase creditors	439	274	154	11	-
	36,781	35,021	1,065	509	186

3.9.2 Security

Term loan 3, the bank overdraft facilities, bills payable and revolving credit are secured by way of charges over the GWRI's leasehold land and buildings (see Note 3.3.1), various residential properties, a debenture covering all assets and a personal guarantee from a Director. Term loan 3 is a USD loan of USD2.5 million.

Term loans 4 and 5 of subsidiary companies are secured by way fixed charges over the subsidiary company's leasehold land and factory building and a personal guarantee from a Director.

3.9.3 Finance lease and hire purchase liabilities

Finance lease and hire purchase liabilities are subject to interest at rates ranging from 3.3% to 10.0% per annum.

Finance lease and hire purchase liabilities are payable as follows:

	Payments RM'000	Interest RM'000	Principal RM'000
Less than one year	331	57	274
Between one and five years	201	36	165
	532	93	439

10. ACCOUNTANTS' REPORT (Cont'd)

Goodway Integrated Industries Berhad
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3.10 Share capital

	RM'000
Authorised	50,000
At 31 December 2003	*
63,155,996 new ordinary shares at an issue price of RM0.50 per ordinary shares for the acquisition of the entire issued and paid-up capital of GWRI Group	31,578
	<u>31,578</u>

* Four (4) ordinary shares of RM0.50 each

3.11 Deferred tax

The amounts, determined after appropriate offsetting, are as follows:

	RM'000
Deferred tax liabilities	2,917
Deferred tax assets	(563)
	<u>2,354</u>

Deferred tax liabilities and assets are offset above where there is a legally enforceable right to set off current tax assets against current tax liabilities and where the deferred taxes relate to the same taxation authority.

The recognised deferred tax assets and liabilities (before offsetting) are as follows:

	RM'000
Property, plant and equipment – capital allowances	3,592
Provisions	(957)
Unabsorbed capital allowances	(175)
Unutilised tax losses	(547)
Other items	441
	<u>2,354</u>

The GIIB Group has tax losses carried forward of RM1,954,000 which give rise to the recognised deferred tax assets in respect of unutilised tax losses above.

The GIIB Group have unutilised reinvestment allowance amounting to RM7,888,000.

10. ACCOUNTANTS' REPORT (Cont'd)

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3.12 Financial instruments**Financial risk management objectives and policies**

Exposure to credit, interest rate, currency and liquidity risk arises in the normal course of the Group and the Company's business. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Derivative financial instruments are used to reduce exposure to fluctuations in foreign exchange rates. While these are subject to the risk of market rates changing subsequent to acquisition, such changes are generally offset by opposite effects on the items being hedged.

The Group and the Company's accounting policies in relation to derivative financial instruments are set out in note 3.2.16.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount

At balance sheet date, there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset and in respect of derivatives, amounted to RM9,676,000.

Interest rate risk

In the current low interest rate scenario, the Group borrows for operations at variable rates using its overdrafts facilities, bills payables, hire purchases and fixed rate term loans.

Foreign currency risk

The Group incurs foreign currency risk on sales and purchases that are denominated in a currencies other than Ringgit Malaysia. The currencies giving rise to this risk is primarily Australian Dollars, New Zealand Dollars, Singapore Dollars and Euro Dollars.

The Group hedge for trade receivables and trade payables denominated in foreign currency on an adhoc basis. The amounts of any deferred or unrecognised gain or loss associated with anticipated future transactions are a loss of RM1,016,000 and the expected timing of recognition as income or expense is over the next six months. Where necessary, the forward exchange contracts are rolled over upon maturity at market rates.

In respect of other monetary assets and liabilities held in currencies other than Ringgit Malaysia, the Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short term imbalances.

10. ACCOUNTANTS' REPORT (Cont'd)

Goodway Integrated Industries Berhad
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3.12 Financial instruments (continued)**Liquidity risk**

The Group monitors and maintains a level of cash and cash equivalents and bank facilities deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

Effective interest rates

In respect of interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or mature, whichever is earlier.

	Effective interest rates %	Total RM'000	Within 1 year RM'000	1 – 5 years RM'000	After 5 years RM'000
<i>Financial liabilities</i>					
Secured bank overdrafts	7.35	850	850	-	-
Secured bills payable	3.76	25,145	25,145	-	-
Secured revolving credit	4.40	4,000	4,000	-	-
Unsecured – RM fixed term loans	8.50	2,200	2,200	-	-
Secured – USD variable term loans	3.05	2,609	2,609	-	-
Secured – AUD fixed term loans	9.22	607	84	337	186
Secured – RM variable term loans	7.76	931	931	-	-

Fair values*Recognised financial instruments*

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

10. ACCOUNTANTS' REPORT (Cont'd)

Goodway Integrated Industries Berhad
Accountants' Report

3.12 Financial instruments (continued)

The aggregate fair values of financial assets and liabilities carried on the balance sheet as at 31 December 2003 are represented in the following table:

	Carrying amount RM'000	Fair value RM'000
<i>Financial liabilities</i>		
Secured bank overdrafts	850	850
Secured bills payable	26,145	25,145
Secured revolving credit	4,000	4,000
Unsecured – RM fixed term loans	2,200	2,028
Secured – USD variable term loans	2,609	2,639
Secured – AUD fixed term loans	607	542
Secured – RM variable term loans	931	931

Unrecognised financial instruments

The valuation of financial instruments not recognised in the balance sheet reflects their current market rates at the balance sheet date.

The contracted amount and fair value of financial instruments not recognised in the balance sheet as at 31 December 2003 are:

	RM'000
Forward foreign exchange contracts	
- Contractual value	
- Bought	9,591
- Sold	85
	<u>9,676</u>
- Unrealised losses	(1,016)
Fair value	<u>8,660</u>

10. ACCOUNTANTS' REPORT (Cont'd)

Goodway Integrated Industries Berhad
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3.13 Proforma net tangible assets cover

Based on the proforma statement of assets and liabilities of the GIIB Group as at 31 December 2003, and after adjusting for the public issue, ESOS and estimated listing expenses, the net tangible assets cover per ordinary share is calculated as follows:

	RM'000
Proforma net tangible assets as at 31 December 2003	35,200
Add : Proceeds from Public Issue	21,055
Proceeds from ESOS	10,000
Less : Estimated listing expenses	(1,900)
Adjusted balance at 31 December 2003	<u>64,355</u>
Number of ordinary shares of RM0.50 each in issue as per proforma statement of assets and liabilities as at 31 December 2003	63,156
Add : Public issue	16,844
ESOS	8,000
Number of ordinary shares of RM0.50 each in issue after the public issue	<u>88,000</u>
Proforma net tangible assets per ordinary share (RM)	<u>0.73</u>

3.14 Events subsequent to the balance sheet date as at 31 December 2003

No events have arisen subsequent to the balance sheet date which requires disclosure in this report.

3.15 Audited financial statements

No audited financial statements have been drawn up for any period subsequent to 31 December 2003.

Yours faithfully

KPMG
Firm Number: AF 0758
Chartered Accountants

Siew Chin Kiang @ Seow Chin Kiang
Partner
Approval Number: 2012/11/04(J)

11. DIRECTORS' REPORT

(Prepared for inclusion in the Prospectus)



21 JUN 2004

Registered Office:
Suite 13A-2, Menara Uni.Asia
1008 Jalan Sultan Ismail
50250 Kuala Lumpur

The Shareholders
Goodway Integrated Industries Berhad

Dear Sir/Madam,

On behalf of the Board of Directors, I wish to report after making due enquiries that during the period from 31 December 2003, being the date to which the last audited accounts of Goodway Integrated and its subsidiaries ("the Group") has been made, up to the date hereof, being a date not earlier than 14 days before the issuance of this Prospectus that: -

- (a) the business of the Group has, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited accounts of the Group which have adversely affected the trading or the value of the assets of the Group;
- (c) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in Section 9.4 of this Prospectus, there are no contingent liabilities have arisen by reason of any guarantees or indemnities given by the Group;
- (e) there have not been, since the last audited accounts of the Group and including all corporations which form part of the Group, any default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings in which we are aware of; and
- (f) since the last audited accounts of the Group, save as disclosed in the Accountants' Report and Proforma Consolidated Balance Sheets as set out in Section 10 and 9.10 of this Prospectus, there has been no changes in the published reserves or any unusual factors affecting the profits of the Group.

Yours faithfully,
For and on behalf of the Board of Directors
GOODWAY INTEGRATED INDUSTRIES BERHAD

Tai Boon Wee
CEO

GOODWAY INTEGRATED INDUSTRIES BERHAD (618972-T)
(Formerly known as Prosperous Image Berhad)

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