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The Board of Directors
Classic Scenic Berhad
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22 September 2004

Dear Sirs

Accountants' Report

This report has been prepared by Messrs. KPMG, an approved company auditor, for inclusion in the Prospectus to be dated 30 September 2004 in connection with :

i) the public issue of 6,000,000 new ordinary shares of RM0.50 each in Classic Scenic Berhad ("CSB") at an issue price of RM1.25 per ordinary share each to the Malaysian public, eligible employees, Directors and business associates of CSB and its subsidiaries ("CSB Group");

ii) the offer for sale of 24,076,100 ordinary shares of RM0.50 each in CSB at an offer price of RM1.25 per ordinary share each to the Malaysian public, Placees and Bumiputera Investors approved by the Ministry of International Trade and Industry; and

iii) the listing of and quotation for the entire issued and paid-up share capital of CSB on the Second Board of the Bursa Malaysia Securities Berhad.

1 General Information

1.1 Background

CSB was incorporated in Malaysia on 10 November 2003 as a public limited company under the Companies Act, 1965.

The principal activity of CSB is that of an investment holding company.

1.2 Share Capital

At the date of incorporation, CSB's authorised share capital was RM100,000 comprising 100,000 ordinary shares of RM1.00 each and its issued and paid-up share capital was RM2.00 comprising two (2) ordinary shares of RM1.00 each. On 12 March 2004, CSB subdivided its authorised capital and existing issued and paid-up share capital into 200,000 and 4 ordinary shares of RM0.50 each respectively.

Pursuant to the restructuring scheme, including the listing of and quotation for the entire paid-up share capital of CSB on the Second Board of the Bursa Malaysia Securities Berhad, as set out in Section 1.3, the issued and fully paid-up share capital of CSB will be increased to RM50,000,000 comprising 100,000,000 ordinary shares of RM0.50 each as follows:

Date of allotment/ Subdivision	Number of ordinary shares	Issue price per ordinary share	Purpose	Total issued and paid-up share capital
		RM		RM
Upon incorporation	2	1	Subscribers' shares	2
12 March 2004	4	0.50	Shares split of RM1.00 each into shares of RM0.50 each	2
31 July 2004	79,999,996	0.50	Acquisition of SM, CFM, LKLT, LKLM and LKLR.	40,000,000
19 August 2004	14,000,000	0.50	Rights issue	47,000,000

Upon completion of the Public Issue, the enlarged issued and paid up share capital of CSB will be RM50,000,000 comprising 100,000,000 ordinary shares of RM0.50 each.

1.3 Restructuring scheme

In connection with and as an integral part of the listing of and quotation for the entire enlarged issued and paid-up share capital of CSB on the Second Board of the Bursa Malaysia Securities Berhad, CSB undertook the following transactions:-

1.3.1 Acquisitions by CSB

The acquisitions by CSB are as follows: -

a) Scenic Moulding (M) Sdn. Bhd. ("SM")

Acquisition of the entire issued and paid up capital of SM comprising 710,000 ordinary shares of RM1.00 each for a total consideration of RM21,471,151 which is satisfied by an issuance of 42,942,302 new ordinary shares of RM0.50 each ("Share") in CSB at an issue price of RM0.50 per Share. The purchase consideration was arrived at based on the audited net tangible assets of SM as at 31 December 2003 of RM21,471,151.

b) Classic Frame Moulding (M) Sdn. Bhd. ("CFM")

Acquisition of the entire issued and paid up capital of CFM comprising 100,000 ordinary shares of RM1.00 each for a total consideration of RM4,622,762 which is satisfied by an issuance of 9,245,524 new Shares in CSB at an issue price of RM0.50 per Share. The purchase consideration was arrived at based on the adjusted audited net tangible assets of CFM as at 31 December 2003 of RM4,622,762 after taking into account the adjustment in respect of the fair value (after deducting deferred taxation) of landed properties amounting to RM700,938 and the declaration of tax exempt dividend of RM12,000,000 and net dividend of RM6,860,317 (after tax of 28%) in respect of the financial year ending 31 December 2004 as follows:

	RM
Audited net tangible assets of CFM as at 31 December 2003	22,782,141
Add : Revaluation surplus * net of deferred tax	700,938
Less: Dividends	(18,860,317)
Adjusted net tangible assets as at 31 December 2003	4,622,762

* *The revaluation of the freehold land in CFM had resulted in a revaluation surplus amounting to RM737,829. The revaluation surplus is based on independent valuation carried out by a firm of professional valuer, HASB Consultants Sdn Bhd, on a comparative basis of valuation in January 2004.*

c) Lim Ket Leng Timber Sdn. Bhd. ("LKLT")

Acquisition of the entire issued and paid up capital of LKLT comprising 100,004 ordinary shares of RM1.00 each for a total consideration of RM1,443,354 which is satisfied by an issuance of 2,886,708 new Shares in CSB at an issue price of RM0.50 per Share. The purchase consideration was arrived at based on the audited net tangible assets of LKLT as at 31 December 2003 of RM1,443,354.

d) Lim Ket Leng Marketing Sdn. Bhd. ("LKLM")

Acquisition of the entire issued and paid up capital of LKLM comprising 10,000 ordinary shares of RM1.00 each for a total consideration of RM90,825 which is satisfied by an issuance of 181,650 new Shares in CSB at an issue price of RM0.50 per Share. The purchase consideration was arrived at based on the audited net tangible assets of LKLM as at 31 December 2003 of RM90,825.

e) Lim Ket Leng Realty Sdn. Bhd. ("LKLR")

Acquisition of the entire issued and paid up capital of LKLR comprising 750,000 ordinary shares of RM1.00 each for a total consideration of RM12,371,906 which is satisfied by an issuance of 24,743,812 new Shares in CSB at an issue price of RM0.50 per Share. The purchase consideration was arrived at based on the adjusted audited net tangible assets of LKLR as at 31 December 2003 of RM12,371,906 after taking into account the adjustment in respect of the fair value (after deducting deferred taxation) of the landed properties amounting to RM10,536,144 as follows:

	RM
Audited net tangible assets of LKLR as at 31 December 2003	1,835,762
Add: Revaluation surplus * net of deferred tax	10,536,144
Adjusted net tangible assets as at 31 December 2003	12,371,906

* *The revaluation of the freehold land and building in LKLR had resulted in a revaluation surplus amounting to RM12,536,241. The total revaluation surplus is based on independent valuation carried out by a firm of professional valuer, HASB Consultants Sdn Bhd, on a comparative basis of valuation in January 2004.*

The acquisition of the subsidiaries were completed on 31 July 2004.

1.3.2 Renounceable Rights Issue

Subsequent to the above acquisition, CSB undertook a renounceable rights issue of 14,000,000 new Shares of RM0.50 each in CSB at an issue price of RM0.50 per Share on the basis of one hundred and seventy five (175) new Shares for every one thousand (1,000) existing Shares after the acquisition as stated above. The renounceable rights issue was completed on 19 August 2004.

1.3.3 Public Issue

In connection with the above, CSB will undertake a public issue of 6,000,000 new Shares of RM0.50 each in CSB at an issue price of RM1.25 per Share to the Malaysian public, eligible employees, Directors and business association of the CSB Group.

1.3.4 Offer For Sale

Offer for sale of 24,076,100 Shares in CSB at an offer price of RM1.25 each per ordinary share to the Malaysian public, placees and bumiputera investors approved by the Ministry of International Trade and Industry.

1.3.5 Listing and Quotation

Listing of the entire enlarged issued and paid up capital of RM50,000,000 comprising 100,000,000 CSB shares on the Second Board in Bursa Malaysia Securities Berhad.

1.4 Subsidiaries

Upon completion of the restructuring scheme, the CSB Group will comprise CSB and the following subsidiaries, all of which are incorporated in Malaysia as private limited companies under the Companies Act, 1965. The details of the subsidiaries are as follows:

Company	Date of incorporation	Share Capital as at 30 June 2004 Authorised	Issued and paid-up	Effective interest	Principal activities
		RM	RM	%	
Scenic Moulding (M) Sdn Bhd ("SM")	26 January 1999	1,000,000	710,000	100	Manufacture of wooden picture frame moulding
Classic Frame Moulding (M) Sdn Bhd ("CFM")	8 March 1991	500,000	100,000	100	Property holding and rental of properties
Lim Ket Leng Timber Sdn Bhd ("LKLT")	9 March 1983	250,000	100,004	100	Manufacture of timber products
Lim Ket Leng Marketing Sdn Bhd ("LKLM")	25 April 1997	100,000	10,000	100	Marketing of timber-related products
Lim Ket Leng Realty Sdn Bhd ("LKLR")	14 June 1990	750,000	750,000	100	Property holding and rental of properties

1.5 Financial statements and auditors

The financial year end of the CSB Group is 31 December.

The financial statements of all companies within the CSB Group were audited for the relevant financial period/years under review.

KPMG is the first auditor of CSB and have been the auditors of SM, CFM, LKLT, LKLM and LKLR with effect from the financial year ended 31 December 2000.

Prior to the financial years/period mentioned above, the financial statements of the SM, CFM, LKLT, LKLM and LKLR were audited by another firm of chartered accountants.

The auditors' reports, where relevant, within the CSB Group for all the relevant financial periods/years under review were not subject to any modification or qualification.

2 Financial Performance

2.1 Proforma consolidated results

We set out below the summarised proforma consolidated results of the CSB Group for the past five (5) financial years ended 31 December 1999 to 2003 and financial period ended 30 June 2004. The proforma consolidated results are prepared based on the audited financial statements of all the companies within the Group and on the assumption that the CSB Group under restructuring scheme as detailed in Section 1.3 has been in effect throughout the years under review. The following results are to be read in conjunction with the notes thereon. The commentary for the relevant year under review has been obtained based on enquiries of management and representation made by the Directors.

	<----Year ended 31 December				---->	6 months period ended 30 June
	1999	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	24,982	32,986	29,637	36,007	41,571	23,838
Profit before depreciation and interest	9,566	13,413	10,195	13,923	14,911	8,312
Depreciation	(1,194)	(1,455)	(1,619)	(1,681)	(1,482)	(916)
Interest expense	(106)	(65)	(31)	(9)	-	-
Interest income	8	-	7	6	2	2
Profit before taxation	8,274	11,893	8,552	12,239	13,431	7,398
Taxation	(345)	(2,508)	(1,710)	(1,110)	(1,365)	(694)
Profit after taxation	7,929	9,385	6,842	11,129	12,066	6,704
Number of ordinary shares of RM0.50 each assumed in issue ('000)*	80,000	80,000	80,000	80,000	80,000	80,000
Earnings per share (sen)						
- Gross	10.3	14.9	10.7	15.3	16.8	18.5**
- Net	9.9	11.7	8.6	13.9	15.1	16.8**

* *The number of ordinary shares assumed in issue throughout the financial years under review is the number of ordinary shares in issue after the acquisition of its subsidiaries as detailed in Section 1.3*
** *Annualised*

Note:

i) In 2001, revenue decreased due to competition from low cost producing countries and the global economic slow down, which had resulted in reduction of the selling price.

ii) Revenue increased in 2002 to 2004 as the Group had concentrated fully on producing high quality and design driven wooden picture frame moulding. In addition, the Group had managed to secure new customers and the improved US economy had contributed to the Group's growth.

iii) Pretax profit margin increased in 2000 and 2002 mainly due to improvement in production efficiency resulting in lower wastages and rejections besides achieving economies of scale in production.

iv) Included in profit before tax in 2003 is an impairment charge amounting to RM290,000 for a property in LKLR.

v) The low taxation charge in 1999 to 2004 is mainly due to one of the Group's major subsidiary, SM was granted pioneer status for 5 years under the Promotion Investment Act 1986 from 1 October 1999 to 30 September 2004. In addition, in 1999 no provision for taxation was required as the tax payable on the chargeable income for the year has been waived under the Income Tax (Amendment) Act 1999.

2.2 Notes to the Proforma Consolidated Results

2.2.1 Basis of accounting

The proforma consolidated results of the CSB Group for the past five (5) financial years ended 31 December 1999 to 2003 and financial period ended 30 June 2004 have been prepared in compliance with applicable approved accounting standards in Malaysia.

2.2.2 Basis of consolidation

The proforma consolidated results of the CSB Group are prepared for illustrative purposes only and are based on the audited financial statements of all its subsidiaries, within the CSB Group for the years under review.

The results have been presented on the basis that the CSB Group under the restructuring scheme, as detailed in Section 1.3, has been in effect throughout the years under review.

As the financial year end of SM was not coterminous with CSB prior to the financial year ended 31 December 2000, the financial results of SM was prorated in the proforma consolidated results for the year ended 31 December 1999 and 2000.

2.2.3 Extraordinary or exceptional items

There were no extraordinary or exceptional items for the financial period under review other than an impairment loss amounting to RM290,000 relating to a piece of property in LKLR in 2003.

2.2.4 Earnings per share

The basic gross and net earnings per share are calculated based on the profit before and after taxation attributable to the shareholders of CSB respectively. CSB is assumed to have an issued and paid-up share capital of RM40,000,000 comprising 80,000,000 ordinary shares of RM0.50 each pursuant to the proposed acquisitions under restructuring scheme as mentioned in Section 1.3.

2.2.5 Dividends

CSB

CSB has not declared or paid any dividends since its date of incorporation on 10 November 2003.

Subsidiaries

Details of dividends declared and paid by the subsidiaries of CSB for the past five years are as follows:-

Financial Year ended	*Issued and paid up share capital*	*Dividend*	*Gross dividend rate %*	*Tax rate %*	*Net dividend RM*
Ordinary shares of RM 1.00 each					
SM					
31.12.03	710,000	Interim	1,155	-	8,200,000
CFM					
31.12.01	100,000	Interim	3,000	-	3,000,000
31.12.04	100,000	Interim	12,000	-	12,000,000
			9,528	28	6,860,317

None of the other subsidiaries of CSB declared or paid any dividend since 1 January 1999.

3. Proforma Consolidated Balance Sheet

As the purchase consideration for the acquisition is calculated on the net tangible asset based on the audited financial statements of the subsidiaries as at 31 December 2003, it is therefore impracticable to present the consolidated balance sheets of the CSB group throughout the period under review. Accordingly, proforma consolidated balance sheet of CSB Group has been presented in respect of 30 June 2004 as shown in Section 4 of this Report.

3.1 CSB

Historical Performance

The following financial information on CSB was extracted from the audited financial statements of CSB for the financial year ended 31 December 2003 and financial period ended 30 June 2004.

3.1.1 Summary of Results

	Period Ended 31 December 2003 RM'000	6 month period ended 30 June 2004 RM'000
Revenue	-	-
Loss before depreciation	9	-
Depreciation	-	-
Loss before taxation	9	-
Taxation	-	-
Loss after taxation	9	-
Number of ordinary shares of RM1.00 each in issue at period end	*	**
Weighted average number of ordinary shares	*	**
Net loss per share (RM)	(4,500)	-

* *Issued and paid up capital of RM2 comprising 2 ordinary shares of RM1.00 each.*
** *Issued and paid up capital of RM2 comprising 4 ordinary shares of RM0.50 each.*

3.1.2 Summarised balance sheet

	As at 31 December 2003 RM'000	As at 30 June 2004 RM'000
Investment in subsidiaries	-	-
Current assets	-	-
Less: Current liabilities	9	9
	(9)	(9)
Represented by:		
Share capital	*	*
Reserves	(9)	(9)
Deficit in shareholders' funds	(9)	(9)
Number of ordinary shares issued at period end	*	**
Net Tangible Liability (NTL)/ Asset (NTA) per ordinary shares (RM)	(4,500)	(2,250)

* *Issued and paid up capital of RM2 comprising 2 ordinary shares of RM1.00 each*

** *Issued and paid up capital of RM2 comprising 4 ordinary shares of RM0.50 each*

3.2 SM

Historical Performance

The following financial information of SM are based on the audited financial statements of SM for the seven months ended 31 July 1999, seventeen months ended 31 December 2000, three (3) financial years ended 31 December 2001 to 2003 and financial period ended 30 June 2004. The commentary for the relevant years under review has been obtained based on enquiries of management and representation made by the Directors.

3.2.1 Summary of Results

	7 months ended 31 July	17 months ended 31 December	<--Year ended 31 December-->			6 months ended 30 June
	1999	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	-	10,233	10,720	27,081	39,517	22,726
Profit before depreciation and interest	-	4,369	4,274	11,227	14,146	7,985
Depreciation	-	(103)	(138)	(451)	(1,177)	(772)
Interest expense	-	-	-	-	-	-
Interest income	-	-	-	-	-	2
Profit before taxation	-	4,266	4,136	10,776	12,969	7,215
Taxation	-	(365)	(483)	(900)	(1,438)	(612)
Profit after taxation	-	3,901	3,653	9,876	11,531	6,603
Number of ordinary shares of RM1.00 each in issue at year end ('000)	*	100	500	500	710	710
Weighted average number of ordinary shares of RM1.00 each in issue ('000)	*	94 #	167 ##	500	570 ###	710
Earnings per share (RM)						
Gross	-	45.4	24.8	21.6	22.8	20.3**
Net	-	41.5	21.9	19.8	20.2	18.6**

* *RM2.00*
\# *99,998 ordinary shares of RM1.00 each was issued on 28 August 1999.*
\#\# *400,000 ordinary shares of RM1.00 each was issued on 24 October 2001.*
\#\#\# *Weighted average number of ordinary shares in issue has been adjusted for the new issue of 210,000 ordinary shares of RM1.00 each on 11 September 2003.*
** *Annualised*

Notes:-

i) The increase in revenue in 2002 to 2004 was mainly due to the successful marketing of its products in the USA and the Company's effort to focus on the high end market for its high quality and design-driven wooden picture frame moulding.

ii) Pretax margin in 2003 and 2004 declined mainly due to the increase in the cost of sawn timber which could not be fully passed on to its customers.

iii) The low taxation charge in 2000 to 2004 is mainly due to the pioneer status granted to the company under the Promotion Investment Act 1986 for 5 years from 1 October 1999 to 30 September 2004.

3.2.2 Summarised Balance Sheets

	31 July	<---------	As at 31 December	------------>		30 June
	1999	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	-	832	1,236	6,310	10,280	12,171
Long term receivables	-	2,121	1,912	1,651	-	-
Current assets	22	2,390	7,723	22,602	17,662	22,113
Current liabilities	22	1,322	2,657	12,335	5,633	5,425
Net current assets	*	1,068	5,066	10,267	12,029	16,688
	*	4,021	8,214	18,228	22,309	28,859
Financed by:						
Share capital	*	100	500	500	710	710
Retained profits	-	3,901	7,554	17,430	20,761	27,364
Shareholders' funds	*	4,001	8,054	17,930	21,471	28,074
Deferred taxation	-	20	160	298	838	785
	*	4,021	8,214	18,228	22,309	28,859

* *Issued and paid up capital of RM2 comprising 2 ordinary shares of RM1.00 each.*

Number of ordinary shares of RM1.00 each in issue at period/year end ('000)	*	100	500	500	710	710
NTA per ordinary share (RM)	1.0	40.1	16.1	35.9	30.2	39.5

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3.3 CFM

Historical Performance

The following financial information of CFM was extracted from the audited financial statements of CFM for the past five (5) financial years ended 31 December 1999 to 2003 and financial period ended 30 June 2004. The commentary for the relevant years under review has been obtained based on enquiries of management and representation made by the Directors.

3.3.1 Summary of Results

	<----Year ended 31 December				---->	6 months period ended 30 June
	1999	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	20,657	22,989	17,837	10,735	96	48
Profit before depreciation and interest	7,844	9,423	5,156	2,112	342	30
Depreciation	(806)	(975)	(1,065)	(787)	-	-
Interest expense	(61)	(35)	(19)	(6)	-	-
Interest income	7	1	7	4	2	-
Profit before taxation	6,984	8,414	4,079	1,323	344	30
Taxation	(260)	(2,130)	(1,102)	(115)	199	(8)
Profit after taxation	6,724	6,284	2,977	1,208	543	22
Number of ordinary shares of RM1.00 each in issue at year end ('000)	100	100	100	100	100	100
Weighted average number of ordinary shares of RM1.00 each in issue ('000)	100	100	100	100	100	100
Earnings per share (RM)						
Gross	69.8	84.1	40.8	13.2	3.4	0.6*
Net	67.2	62.8	29.8	12.1	5.4	0.4*

* *Annualised*

Notes :-

i) Revenue increased in 2000 mainly due to the increased in sales by its major customer in USA who was expanding its operations.

ii) In 2001, revenue started to decline as a result of strong competition from low cost producing countries like Brazil and China. The Directors shifted their focus to concentrate on marketing high quality and design-driven picture frame manufactured by SM. Also in 2002, CFM commenced winding down its operations.

iii) Revenue decreased in 2003 onwards as CFM ceased to be a wooden picture frame moulding manufacturer in 2002 and changed its principal activity to that of property holding and rental of properties in 2003.

iv) CFM's pioneer status under the Promotion Investment Act 1986 ended on 30 September 1999. Hence in 2000 the tax expense has increased because CFM's profit is taxable after the post pioneer period. However the effective tax rate is lower than the statutory tax rate due to the utilisation of reinvestment allowances.

3.3.2 Summarised Balance Sheets

	<--------------------As at 31 December-------------------->					30 June
	1999	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	4,887	6,280	7,595	6,549	2,413	2,413
Long term receivables	-	7,452	9,213	10,032	11,670	-
Current assets	11,501	11,745	9,267	10,954	8,732	20,419
Current liabilities	988	3,802	4,553	5,078	33	27
Net current assets	10,513	7,943	4,714	5,876	8,699	20,392
	15,400	21,675	21,522	22,457	22,782	22,805
Financed by:						
Share capital	100	100	100	100	100	100
Retained profits	14,671	20,955	20,932	22,139	22,682	22,705
Shareholders' funds	14,771	21,055	21,032	22,239	22,782	22,805
Borrowings	269	130	-	-	-	-
Deferred taxation	360	490	490	218	-	-
	15,400	21,675	21,522	22,457	22,782	22,805
Number of ordinary shares of RM1.00 each in issue at year end ('000)	100	100	100	100	100	100
NTA per ordinary share (RM)	147.7	210.6	210.3	222.4	227.8	228.0

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3.4 LKLT

Historical Performance

The following financial information of LKLT was extracted from the audited financial statements of LKLT for the past five (5) financial years ended 31 December 1999 to 2003 and financial period ended 30 June 2004. The commentary for the relevant years under review has been obtained based on enquiries of management and representation made by the Directors.

3.4.1 Summary of Results

	<----------------Year ended 31 December				--------------->	6 months period ended 30 June
	1999	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	2,296	2,602	2,181	1,798	1,571	814
Profit before depreciation and interest	296	390	334	95	124	77
Depreciation	(230)	(234)	(237)	(174)	(78)	(38)
Interest expense	(23)	(17)	(10)	(3)	-	-
Interest income	-	-	-	-	-	-
Profit/(Loss) before taxation	43	139	87	(82)	46	39
Taxation	13	(48)	(36)	(29)	(2)	(57)
Profit/(Loss) after taxation	56	91	51	(111)	44	(18)
Number of ordinary shares of RM1.00 each in issue at year end ('000)	100	100	100	100	100	100
Weighted average number of ordinary shares of RM1.00 each in issue ('000)	100	100	100	100	100	100
Earnings/(Loss) per share (RM)						
Gross	0.43	1.39	0.87	(0.82)	0.46	0.78*
Net	0.56	0.91	0.51	(1.11)	0.44	(0.36)*

* *Annualised*

Notes :-

i) Increased revenue in 2000 was due mainly to increase in orders from existing customers.

ii) The declining revenue from 2001 onwards was mainly due to the decrease in kiln drying and joint wood revenue from SM and CFM as they were able to perform these services in-house.

iii) Loss before taxation in 2002 was due mainly to lower absorption of cost as the company was operating below its optimal level and lower revenue from kiln drying and joint wood.

3.4.2 Summarised Balance Sheets

	<------As at 31 December				------>	30 June
	1999	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Plant and equipment	732	704	464	145	690	72
Long term receivables	-	300	228	192	-	-
Current assets	1,496	919	1,072	1,410	878	1,583
Current liabilities	710	382	254	331	113	228
Net current assets	786	537	818	1,079	765	1,355
	1,518	1,541	1,510	1,416	1,455	1,427
Financed by:						
Share capital	100	100	100	100	100	100
Retained profits	1,268	1,359	1,410	1,299	1,343	1,325
Shareholders' funds	1,368	1,459	1,510	1,399	1,443	1,425
Borrowings	137	69	-	-	-	-
Deferred taxation	13	13	-	17	12	2
	1,518	1,541	1,510	1,416	1,455	1,427
Number of ordinary shares of RM1.00 each in issue at year end ('000)	100	100	100	100	100	100
NTA per ordinary share (RM)	13.7	14.6	15.1	14.0	14.4	14.3

3.5 LKLM

Historical Performance

The following financial information of LKLM was extracted from the audited financial statements of LKLM for the past five (5) financial years ended 31 December 1999 to 2003 and financial period ended 30 June 2004. The commentary for the relevant years under review has been obtained based on enquiries of management and representation made by the Directors.

3.5.1 Summary of Results

	<----------------Year ended 31 December-------------->					6 months period ended 30 June
	1999	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	596	859	870	673	786	495
Profit before depreciation and interest	87	67	21	69	166	123
Depreciation	(64)	(64)	(64)	(62)	(13)	-
Interest expense	-	-	-	-	-	-
Interest income	-	-	-	-	-	-
Profit/(Loss) before taxation	23	3	(43)	7	153	123
Taxation	-	(17)	(5)	(4)	(41)	(25)
Profit/(Loss) after taxation	23	(14)	(48)	3	112	98
Number of ordinary shares of RM1.00 each in issue at year end ('000)	*	*	*	*	10	10
Weighted average number of ordinary shares of RM1.00 each in issue ('000)	*	*	*	*	0.8#	10
Earnings (loss) per share (RM)						
Gross	11,500	1,500	(21,500)	(3,500)	190.0	24.6**
Net	11,500	(7,000)	(24,000)	(1,500)	138.8	19.6**

* *Issued and paid up capital of RM2 comprising 2 ordinary shares of RM1.00 each*

\# *Weighted average number of ordinary shares in issue has been adjusted for the new issue of 9,998 ordinary shares of RM1.00 each on 16 December 2003.*

** *Annualised*

Notes :-

i) Increase in revenue in 2000 was mainly due to new customers obtained by the company.

ii) 2002 saw a decline in revenue mainly due to the general slow down in local consumer demand for picture frame.

iii) The pretax loss before taxation in 2001 was mainly due to the increase in staff cost as the staff numbers had increased from 15 to 28. Subsequently in 2002 the number of staff reduced to 2, resulting in improvement in pretax profit.

iv) Pretax profit increased in 2003 due to improved selling price and lower discounts provided to customers for the lower grade picture frame coupled with lower operating expenses arising from disposal of a car in previous year.

3.5.2 Summarised Balance Sheets

	<---	---	As at 31 December	---	--->	30 June
	1999	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Plant and equipment	245	181	117	81	1	1
Current assets	202	315	438	450	423	522
Current liabilities	414	477	584	556	333	334
Net current (liabilities)/assets	(212)	(162)	(146)	(106)	90	188
	33	19	(29)	(25)	91	189
Financed/(Represented) by:						
Share capital	*	*	*	*	10	10
Retained profits/(Accumulated loss)	28	14	(34)	(31)	81	179
Surplus/(Deficit) in Shareholders' funds	28	14	(34)	(31)	91	189
Deferred taxation	5	5	5	6	-	-
	33	19	(29)	(25)	91	189

** Issued and paid up capital of RM2 comprising 2 ordinary shares of RM1.00 each.*

Number of ordinary shares of RM1.00 each in issue at year end ('000)	*	*	*	*	10	10
NTA/(NTL) per ordinary share (RM)	14,000	7,000	(17,000)	(15,500)	9.1	18.9

3.6 LKLR

Historical Performance

The following financial information of LKLR was extracted from the audited financial statements of LKLR for the past five (5) financial years ended 31 December 1999 to 2003 and financial period ended 30 June 2004. The commentary for the relevant years under review has been obtained based on enquiries of management and representation made by the Directors.

3.6.1 Summary of Results

	<----------------Year ended 31 December				-------------->	6 month period ended 30 June
	1999	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	348	398	540	558	636	318
Profit before depreciation and interest	247	255	410	420	133	98
Depreciation	(68)	(104)	(116)	(207)	(214)	(107)
Interest expense	(22)	(13)	(1)	-	-	-
Interest income	1	-	-	2	-	-
Profit/(Loss) before taxation	158	138	293	215	(81)	(9)
Taxation	(7)	(38)	(84)	(62)	(83)	(41)
Profit/(Loss) after taxation	151	100	209	153	(164)	(50)
Number of ordinary shares of RM1.00 each in issue at year end ('000)	750	750	750	750	750	750
Weighted average number of ordinary shares of RM1.00 each in issue ('000)	750	750	750	750	750	750
Earnings/(Loss) per share (RM)						
Gross	0.21	0.18	0.39	0.29	(0.11)	(0.02)*
Net	0.20	0.13	0.28	0.20	(0.22)	(0.14)*

* *Annualised*

Note:
In 2003, the pre-tax loss was mainly due to an impairment loss charged of RM290,000 on a property.
In 2004, the pre-tax loss was mainly due to additional expenses incurred relating to application of credit facilities.

3.6.2 Summarised Balance Sheets

	<-----As at 31 December----->					30 June
	1999	2000	2001	2002	2003	2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	10,627	11,297	15,632	19,079	18,575	18,651
Current assets	293	1,917	45	192	268	120
Current liabilities	9,273	1,571	15	152	10	16,637
Net current (liabilities)/assets	(8,980)	346	30	40	258	(16,517)
	1,647	11,643	15,662	19,119	18,833	2,134
Financed by:						
Share capital	750	750	750	750	750	750
Retained profits	788	888	1,097	1,250	1,086	1,036
Shareholders' funds	1,538	1,638	1,847	2,000	1,836	1,786
Borrowings	15	-	-	-	-	-
Long term payables	-	9,873	13,652	16,894	16,690	-
Deferred taxation	94	132	163	225	307	348
	1,647	11,643	15,662	19,119	18,833	2,134
Number of ordinary shares of RM1.00 each in issue at year end ('000)	750	750	750	750	750	750
NTA per ordinary share (RM)	2.1	2.2	2.5	2.7	2.4	2.4

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4 Proforma Statement of Assets and Liabilities

The following statement of assets and liabilities of CSB and the Proforma CSB Group as at 30 June 2004 are prepared for illustrative purposes only and are based on the audited financial statement of CSB and its subsidiaries as at 30 June 2004, on the assumption that the proposed restructuring scheme as detailed in Section 1.3 had been effected on 30 June 2004. These proforma statements should be read in conjunction with the notes thereto.

	Note	*Company* RM'000	*Proforma Group* RM'000
Property, plant and equipment	4.1.2	-	48,081
Investment in subsidiaries		-	-
Current assets			
Inventories	4.1.3	-	13,882
Trade and other receivables	4.1.4		7,672
Tax recoverable		-	1,202
Cash and cash equivalents	4.1.5	-	14,431
		-	37,187
Current liabilities			
Trade and other payables	4.1.6	9	3,427
Amount due to Shareholders	4.1.7	-	18,860
Provision for taxation		-	13
		9	22,300
Net current (liabilities)/assets		(9)	14,887
		(9)	62,968
Represented/Financed by:			
Capital and reserves			
Share capital	4.1.8	*	50,000
Share premium	4.1.9	-	3,100
Accumulated loss		(9)	(9)
(Deficit)/Surplus in shareholders' funds		(9)	53,091
Negative goodwill		-	6,705
Deferred liabilities			
Deferred taxation		-	3,172
		(9)	62,968

* *RM2 comprising 4 ordinary shares of RM0.50 each.*

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4.1 Notes to the proforma statement of assets and liabilities

4.1.1 Summary of significant accounting policies

a) Basis of accounting

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

b) Basis of consolidation

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.

A subsidiary is excluded from consolidation when control is intended to be temporary if the subsidiary is acquired and held exclusively with a view of its subsequent disposal in the near future and it has not previously been consolidated or it operates under severe long term restrictions which significantly impair its ability to transfer funds to the Company. Subsidiaries excluded on these grounds are accounted for as investments.

Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of 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 negative goodwill 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.

c) Property, plant and equipment

Freehold land and capital work in progress are stated at cost. All other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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4.1.1 Summary of significant accounting policies (continued)

Depreciation

Freehold land and construction in-progress is not amortised. 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:

Buildings	2%
Furniture and fittings, office equipment and renovation	8% to 20%
Motor vehicles	16% to 20%
Computer equipment	33 1/3%
Plant and machinery and testing equipment	10% to 20%

(d) Long term investment

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

(e) Inventories

Inventories are stated at the lower of cost and net realisable value and are determined on a first-in-first-out basis. In arriving at net realisable value, provision is made, where necessary, for obsolete and slow moving items.

The cost of raw materials and indirect materials comprises the original purchase price plus incidentals in bringing these inventories to their present location and condition. The cost of work-in-progress and finished goods includes cost of raw materials, indirect materials, direct labour and an appropriate allocation of manufacturing overheads.

(f) Trade and other receivables

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

g) Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, balances and deposits with banks.

h) Impairment

The carrying amount of assets, other than inventories, deferred tax assets and financial assets (others than investment 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.

4.1.1 Summary of significant accounting policies (continued)

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.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and it 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 had been recognised.

i) Liabilities

Trade and other payables are stated at cost.

j) Negative goodwill

Negative goodwill represents the excess of the fair values of the net identifiable assets acquired over the cost of acquisition.

Negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of those assets that are depreciable/ amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement.

To the extent that negative goodwill relates to expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which are not identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised.

k) 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 period, 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 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.

4.1.1 Summary of significant accounting policies (continued)

l) Foreign currency

Transactions in foreign currencies are translated into Ringgit Malaysia at rates approximating those ruling at transaction dates. Monetary assets and liabilities in foreign currencies are translated into Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising from translation are recognised in the income statement.

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

1 USD	RM3.80
1 SGD	RM2.21
1 YEN	RM0.04
1 EURO	RM4.59

m) Revenue

Revenue from the sale of goods is measured at the fair value of the consideration receivable and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

n) Employee benefits

i) *Short term benefits*

Wages, salaries, bonuses and social security contributions are recognised as an expense in the period in which the associated services are rendered by employees of the Group.

ii) *Defined contribution plans*

Obligations for contributions to the state pension scheme, the Employers Provident Fund ("EPF") are recognized as an expense in the Income Statement as incurred.

o) Financing costs

All interest and costs incurred in connection with borrowings are expensed as incurred.

4.1.2 Property, plant and equipment

Proforma Group	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
Freehold land	18,513	-	18,513
Construction in-progress	1,632	-	1,632
Buildings	17,219	1,056	16,163
Furniture and fittings, office equipment and renovation	887	344	543
Motor vehicles	3,173	631	2,542
Computer equipment	209	117	92
Plant and machinery and testing equipment	9,375	2,279	7,096
Audited as at 30 June 2004	51,008	4,427	46,581
Add: Capital expenditure	1,500	-	1,500
	52,508	4,427	48,081

4.1.3 Inventories

	Proforma Group RM'000
Raw materials	8,840
Work-in-progress	3,312
Finished goods	1,730
	13,882

4.1.4 Trade and other receivables

	Proforma Group RM'000
Trade receivables	5,454
Other receivables, deposits and prepayments	2,218
	7,672

Included in other receivables are the following balances:

i) an amount due from a director amounting to RM433,350. This amount has been settled subsequent to 30 June 2004; and

ii) advance payment to suppliers amounting to RM 815,070.

4.1.5 Cash and cash equivalents

	Proforma Group RM'000
Deposits with a licenced bank	500
Cash and bank balances	13,931
	14,431

4.1.6 Trade and other payables

	Proforma Group RM'000
Trade payables	695
Other payables and accrued expenses	2,732
	3,427

Included in other payables and accrued expenses are advances received from customers of RM1,027,211.

4.1.7 Amount due to shareholders

The amount due to shareholders is unsecured, interest free and has no fixed terms of repayments.

4.1.8 Share capital

	Company RM'000	Proforma Group RM'000
Ordinary shares of RM0.50 each: Authorised	100	100,000
Issued and fully paid:		
Balance as at 30 June 2004	*	*
• 79,999,996 new ordinary shares at an issue price of RM0.50 per share issued for the]acquisition of the entire issued and paid up capital of CSB subsidiaries	-	40,000
• Renounceable rights issue of 14,000,000 new ordinary shares at an issue price of RM0.50 per share on the basis of 175 new ordinary shares for every 1,000 existing shares	-	7,000
• Public Issue of 6,000,00 new ordinary shares at an issue price of RM1.25 per share	-	3,000
	*	50,000

* *RM 2.00*

4.1.9 Share premium

	Proforma Group RM'000
Public Issue of 6,000,00 new ordinary shares (par value RM 0.50) at issue price of RM 1.25	4,500
Less: Estimated share issue expenses	(1,400)
	3,100

4.1.10 Capital commitments

	Proforma Group RM'000
Property, plant and equipment:	
Contracted but not provided for in the financial statements	2,682

4.1.11 Financial instruments

Financial risk management objectives and policies

The Group's activities are exposed to various types of financial risks, including credit risk, liquidity risk and foreign currency risk. The Group's overall financial risk management objective is to attain the optimum returns for its shareholders. The management monitors these risks by reviewing all significant transactions.

Credit risk

In mitigating this risk, the management carries out a continuing review over the Group's exposure to credit risk, which is monitored on an ongoing basis via credit management procedures. In addition, advances from sales order are collected from customers in order to reduce the credit risk arising there from.

As at 30 June 2004, approximately 23% of the Group's trade receivables were due from a major customer. The Group does not view the credit risk exposure to these customers to be significant as the customer generally settle the debts promptly.

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in the cash flows.

Foreign currency risk

A significant portion of the Group's sales and purchases involved foreign currency which inevitably are expose to some exchange risk. To minimise risk exposure, the Group endeavors to deal in either local currency or the US dollars which is peg to the local currency.

Interest rate risk

The Group is only exposed to interest rate risk for deposit placed with a licensed bank.

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Effective interest rates and repricing analysis

2004	Effective interest rate %	Total RM	Within 1 year RM
Financial asset			
Deposit placed with a licensed bank	2.35-2.4	500,000	500,000

Fair values

In the opinion of the Directors, there are no significant differences between the fair values and carrying values of the financial assets and liabilities of the Group.

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5 Proforma Consolidated Cash Flow Statements

The cash flow statements of the Company and the Proforma Group set out below have been prepared for illustrative purposes only and are based on the audited financial statements of CSB and its subsidiaries for the period ended 30 June 2004. The proforma consolidated cash flow statement of the CSB Group has been prepared on the assumption that the restructuring scheme Rights Issue and Public Issue as detailed in Section 1.3 had been effected on 30 June 2004.

	Company RM'000	Proforma Group RM'000
Cash flow from operating activities		
Profit before taxation	-	7,398
Adjustments for:		
Depreciation		916
Gain on disposal of property, plant and equipment		(46)
Unrealised foreign exchange losses		17
Interest income	-	(2)
Operating profit before working capital changes		8,283
Changes in working capital:		
Inventories	-	532
Trade and other receivables		(4,191)
Trade and other payables	-	(303)
Cash generated from operating activities	-	4,321
Taxation paid		(677)
Net cash generated from operating activities		3,644
Cash flow from investing activities		
Interest income		2
Proceeds from disposal on property, plant and equipment		652
Purchase of property, plant and equipment	-	(4,370)
Net cash generated from investing activities	-	(3,716)
Cash flow from financing activities		
Proceeds from right issue		7,000
Proceeds from public issue	-	7,500
Share issue expenses	-	(1,400)
Advances to a Director	-	(180)
Net cash generated from financing activities	-	12,920
Net increase in cash and cash equivalents	-	12,848
Cash and cash equivalents at beginning of period	*	1,583
Cash and cash equivalents at end of period	*	14,431

* RM 2.00

6 Proforma Net Tangible Assets Cover

Based on the proforma statement of assets and liabilities of the CSB Group as at 30 June 2004, the net tangible assets (NTA) cover per ordinary share is calculated as follows:

	Proforma Group
NTA per statement of assets and liabilities of the Proforma CSB Group as at 30 June 2004 (RM'000)	59,796
Number of ordinary shares of RM0.50 each following the Public Issue (RM'000)	100,000
Proforma NTA cover per ordinary share of RM0.50 each (RM)	0.60

7 Events Subsequent to Balance Sheet Date of 30 June 2004

There were no events that have arisen subsequent to the balance sheet date which would require any amounts stated to be adjusted or any further disclosures to be made in this report other than the acquisitions referred to in Section 1.3.

8 Audited Financial Statements

No audited financial statements have been drawn up for any period subsequent to 30 June 2004.

Yours faithfully

KPMG

KPMG
Firm Number: AF 0758
Chartered Accountants

Lim Hun Soon @ David Lim
Partner
Approval Number: 1514/05/06(J)

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