

---

## 7. INDUSTRY OVERVIEW

---

### 7.1 THE MALAYSIAN ECONOMY

The Malaysian economy's growth momentum continues into 2004 after recording a strong growth in 2003. Unlike in 2003, when the global economy was affected by the war in Iraq and SARS, the external environment in 2004 has improved substantially. The economy is supported by the upswing in the global electronics demand as well as the commodity prices. The manufacturing sector registered a more solid growth of 12.3% during the first half 2004 while the service sector expanded strongly by 6.8%. The Malaysian economy is set to surpass its earlier estimate of 6.0-6.5% and post a stronger growth of 7.0% in 2004 compared to 5.3% in 2003.

The sturdy domestic demand, led by the private sector contributes significantly to the overall economic growth in 2004. The encouraging performance of the private sector is due, in part, to the Government's deliberate efforts over the years to stimulate a more vibrant and dynamic private sector by providing a better conducive business and investment environment for private initiatives to flourish. Private sector expenditure is expected to expand at a greater pace of 10.3%, the highest since 2001, propelled by both consumption and investment spending. Private sector expenditure will contribute 5.8% to GDP growth (2003:3.1%). Higher disposable income arising from firm commodity prices, stronger export earnings as well as better employment prospects and positive wealth effects from favourable stock market conditions, are the major contributing factors to the strong growth of 9.3% in private consumption (2003:6.6%).

The SMEs represent an important component in the economy as they not only provide a vital link in the business supply chain and complement MNCs but also have the potential to grow and evolve into global players. The magnitude of SMEs, totaling 613,000 involving the full spectrum of sectors and services, underscores their role and potential in the economy. During the first six months of 2004, investments by SMEs have shown an upward trend. Loan disbursements to SMEs from the banking sector grew strongly by 20.5%. As for the five SMEs funds under the BNM, out of the total allocation of RM6.9 billion, a sum of RM6.3 billion had been approved to 17,000 borrowers.

The outlook for 2005 will generally remain favourable although global growth is expected to be moderate on account of high oil prices, inflationary pressures, interest rate hikes and a probable slowdown in China's economy. The emergence of these risks, that become apparent in the second half of 2004 and are expected to continue into 2005, will have a large impact on growth next year.

*(Source: Economic Report 2004/2005)*

### 7.2 THE FOOD/FROZEN FOOD INDUSTRY IN MALAYSIA

#### 7.2.1 Introduction

The Malaysian food manufacturing industry covers a wide range of products. The diversity of the industry is a result of the country's geography, origins as an agrarian economy and its open and trade oriented economy. Major sectors of the food industry are dairy products, seafood products, palm and palm kernel oil, flour, biscuits, sugar refining, cocoa, chocolate and sugar confectionery and frozen food.

The industry has been one of the more dynamic sectors in the economy. Besides registering strong sales growth, it has continued to attract capital investment from both local and foreign sources. Local manufacturers have also made inroads into export markets. Product development and packaging have improved much over the years.

## 7. INDUSTRY OVERVIEW (CONT'D)

Several factors have contributed to this growth, amongst them:

- An increasingly affluent consumer base. The size of the middle class is estimated at 37% of the population. The annual gross household income has increased from RM24,240 in 1995 to RM29,664 in 1999.
- Favourable government policies. Since the late 1960s, the government has been very supportive of the agricultural and food manufacturing industry. These supports are in the form of financing for food production and tax incentives.
- Low import duties encourage the imports of wide range of foods. As consumers acquire a taste for these foods, local companies are encouraged to develop and produce similar products for the local market, and eventually expanding to the export markets.
- The spread of supermarkets and hypermarkets into the sub-urban areas helps to distribute a wide variety of foods to the population. This has particularly helped the marketing of chilled and frozen food products and ice-creams.
- The government encourages Malaysian manufacturers to help develop Malaysia as a major producer of 'halal' food. Coming from a predominantly Muslim and developed economy, Malaysia's 'halal' accreditation is recognised overseas and thus facilitates the exports of 'halal' products to overseas Muslims.
- Malaysian branding. The Ministry of Agriculture introduction of the "Malaysia Best" logo and its promotion has helped local manufacturers to achieve greater recognition in global markets.
- Export promotion. The government agency, Malaysia External Trade Development Corporation is actively assisting the private sector in promoting Malaysian manufactured products for the export markets.

*(Source: IMR Report)*

### 7.2.2 Malaysian Food Manufacturing Industry

The sale value of the food manufacturing industry is estimated at RM45.6 billion in 2000. The industry has had yearly average growth rates of 9% since 1995. Between the years 2000 and 2003, the projected growth in this industry is estimated at 3% to 5% per annum. The food manufacturing sector in Malaysia contributed about 10% to the overall manufacturing output in 2003. Although this growth in the food manufacturing is considered to be a little slow compared to other manufacturing sectors, the Government is trying to focus on value-added products such as 'halal' food products. The Government hopes to tap into the RM150 billion a year, global 'halal' food market by providing incentives in terms of product promotion and product branding.

The industry consists of some 3,141 establishments in year 2000, having grown from 1,406 in 1994. About 38% of the manufacturers are small scale firms, 48% are of medium scale firms and 14% are large scale firms. Small and medium scale firms employ less than 30 workers and have paid-up capital of RM0.5 million or less.

Small and medium scale firms usually manufacture a limited range of processed foods using conventional or low level technologies. The fragmented structure of the industry reflects the wide range of products manufactured by the industry, with varying degrees of capital and technological expertise.

*(Source: IMR Report)*

## 7. INDUSTRY OVERVIEW (CONT'D)

### 7.2.3 History of Chilled and Frozen Food Industry

The frozen food industry started in the mid 1930's in the US when Clarence Birdseye patented a quick freezing method. Birds Eye is still one of the most famous brands in frozen food. It was not until the 1950's that frozen food started to take off in the US, when it gained a lot of publicity due to television advertising. Later, more and more products are being frozen like meat, poultry and fruits. However, as lifestyles and taste buds change, so does the frozen food industry whereby the trend moves from traditional home cooked meals to ready to serve frozen meals to healthy low caloric meals. Frozen food is not just for the consumer market but is also being used by retail fast food chains as a means to store their products.

(Source: IMR Report)

### 7.2.4 Malaysian Chilled and Frozen Food Industry

Based on the research of Agri-food BDC, the chilled and frozen food industry in Malaysia is expected to grow to RM3.11 billion by 2005 and RM6.02 billion by 2010. The combined RTS meals segment and Snacks and Ingredient segment was estimated at RM52.3 million in 1999 and estimated to grow to RM199.6 million by 2005, which is more than a two fold increase in six (6) years. A detailed breakdown of the expected growth rate of the different segments is as follows:

#### *Estimate Growth Rate of the Chilled and Frozen Food Industry in Malaysia from 1999 to 2010*

Segments	Value in 1999 RM'mil	Estimated Value in 2005 RM'mil	Growth From 1999 %	Estimated Value in 2010 RM'mil	Growth From 2010 %
Ready to Serve Meals	9.5	36.3	282	73	101
Snacks and Ingredients	42.8	163.3	282	328.5	101
Food Ingredients	5.6	10.0	79	24.8	148
Vegetables	506.7	1,138.9	125	2,751	141
Meat and Meat based products & Seafood	995.6	1,763.8	77	2,841	61
<b>Total</b>	<b>1,560.2</b>	<b>3,112.3</b>	<b>99</b>	<b>6,018.3</b>	<b>93</b>

(Source: IMR Report)

**7. INDUSTRY OVERVIEW (CONT'D)****7.2.5 Demand and Supply**

Market demand for frozen food is fuelled by the advantages of frozen food such as year-round availability, quality consistency, ease of storage, as well as the convenience and ease of food preparation. For the international market, frozen food also offers global customers the opportunities to consume food items that may not be easily available in a particular country. This is in fact one of the driving factors for market demand of frozen RTS meals such as Roti Paratha, Naan and Chapatti and steamed buns in some export countries such as Europe and/or the US.

On the supply side, frozen RTS meals (such as Roti Paratha, Naan and Chapatti), frozen springroll and samosa pastry, and frozen steamed buns could be produced locally or imported from overseas. There are twelve (12) major players that are involved in the full value chain of product development, manufacturing as well as marketing and distribution of such frozen food products in Malaysia. The critical success factors are to continuously enhance the product quality in terms of flavour, texture, shelf life, improve distribution network and equally important is to keep up to the ever changing consumer preference trend.

*(Source: IMR Report)*

**7.2.6 Substitute Products/Services**

Our Group's main frozen food products are frozen RTS meals (such as Roti Paratha, Naan and Chapatti), frozen springroll and samosa pastry, as well as frozen steamed buns. There are two main categories of product substitution to our Group's main frozen food products, namely:

- Freshly-made or cooked food products which are available in restaurants. These include Roti Paratha, Naan and Chapatti which are easily available in the local market. However, such frozen food products serve:
  - (i) the overseas market of which there are not commonly available in restaurants; and
  - (ii) local niche market of which some people prefer to buy frozen food for the convenience and/or for simple food preparation at home.
- Other RTS meals such as bread, cakes and donuts. However, frozen food products have the advantages of longer shelf life and wide distribution coverage at supermarkets, hypermarkets, mini markets, convenience stores and even at some petrol kiosks.

*(Source: IMR Report)*

**THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK**

---

**7. INDUSTRY OVERVIEW (CONT'D)**

---

**7.2.7 Reliance and Dependency on Imports**

Our Group's manufacturing of frozen RTS food products is dependent on the availability of the major raw materials, specifically wheat flour, margarine and cooking oil. Wheat flour is mainly produced locally by the local flour millers and it is thus easily available. However, wheat is imported from overseas countries such as Australia, and Malaysia has been importing more than 1 million metric tonnes of wheat annually for the past five (5) years. Any major natural disaster that may affect the production of wheat farming in the major producing countries may potentially affect the supply of wheat worldwide. However, the risk is to a certain extent mitigated by the fact that major wheat farming is carried out in many countries in different continents around the world, such as Argentina, Australia, Canada, China, the United States, India and Russia.

As for the other major raw materials namely margarine and cooking oil which are mainly derived from palm oil, it is abundantly available locally as Malaysia is one of the largest producers of palm oil.

See Section 12 of this Prospectus for further details on the industry.

**7.3 GOVERNMENT LEGISLATION, POLICIES AND INCENTIVES**

Since the late 1960s, Government policies have been consistently supportive of the development of the food industry. Other government initiatives still in place today include the National Agricultural Policy, Bank Negara Malaysia's Fund for Food Scheme and the many government agencies in support of the industry.

In future, the industry is expected to continue to enjoy government support. Under the Second Industrial Masterplan (1996 - 2005), the food processing industry is one of the eight industrial groups identified for development to be internationally competitive. Further development of the industry is expected to have many positive spin-offs for the economy, amongst them, increasing export earnings, reducing the food import bill, generating employment, developing the ancillary supporting industries of packaging, transportation, warehousing and distribution, adding value to the country's primary commodities and working idle land.

Tax incentives are also generously available as many segments of the food processing industry are eligible for Pioneer Status and Investment Tax Allowance under the Promotion of Investments Act 1986. Amongst the industries eligible are those involved in food manufacturing like frozen food, confectioneries, processing of fruits, vegetables, tubers and roots.

The Investment Incentives Act 1968 had since then accorded tax incentives towards approved agricultural industries. Since then, these incentives had been expanded to cover food manufacturing processing industries.

*(Source: IMR Report)*

Other than the manufacturing requirements under the Industrial Coordination Act 1975, our Group's business is primarily governed by the Food Act 1983 and the Food Regulations 1985 ("Food Act"). This legislation comes under the purview of the MOH and it encompasses all persons and buildings involved in the food preparation including manufacturing. The objective of the Food Act is to protect the public against health hazards and fraud in the preparation, sale and use of food, and for matters incidental thereto or connected therewith.

---

**7. INDUSTRY OVERVIEW (CONT'D)**

---

The coverage of the Food Act is very wide. Basically it aims to cover not only readily-made product but also each and every process in which a product is produced, that is, from raw materials (if any) until the food product is manufactured and is ready for consumer consumption. As such, the way food is prepared, preserved, packaged, stored, conveyed, distributed or sold falls well within the application of the Food Act.

The Food Act provides the MOH with enforcement rights to inspect any premises involved in the food manufacturing, preparation and packing industries to ensure its safety and hygiene for human consumption. Any persons may it be the director of the company, secretary, manager or similar ranking, found to have violated the act can be charged severely should the case be approved by the Public Prosecutor. Thus any food manufacturing industry will need to abide by this legislation.

The Consumer Protection Act 1999 ("CPA") provides for the protection of consumers, the establishment of the National Consumer Advisory Council and the Tribunal for Consumer Claims, and for matters connected therewith. The CPA applies in respect of all goods and services that are offered and supplied to one or more consumers in trade. Under the CPA, the Minister of Domestic Trade and Industry may by regulations prescribe the safety standards in respect of any goods or class of goods. These include the performance, composition, contents, manufacture, processing, design, construction, finish or packaging of the goods, the testing of the goods during or after manufacture or processing as well as the form and content of markings, warnings or instructions to accompany the goods. If there is no safety standard prescribed, the person supplying or offering to supply the goods or services shall adopt and observe a reasonable standard of safety to be expected by a reasonable consumer, due regard being had to the nature of the goods or services concerned.

In addition to Malaysian legislation and regulations, the food industry is also governed by international trade obligations. This would especially apply to companies, such as our Group of companies, that export its products to other countries. These trade obligations refer mainly to food specification and standards and include the following categories:

***GM Food***

Over the past few years, genetically modified food and feeds have been slowly being introduced in the international arena. According to WHO, GM organisms can be defined as organisms in which the genetic material has been altered in a way that does not occur naturally. Such methods are used to create GM plants which are then used to grow GM food crops. One such crops that been produced is the GM wheat but it has not been available commercially as yet due to poor demand from international markets especially the EU countries, Canada, and Japan. However, some agribusiness companies have been actively involved in seeking approval for the commercialisation of the sale of GM wheat seeds for farmers in Canada and US. Presently the international consumers have been resisting the consumption of GM Foods and the EU is slowly regulating the GM food by ensuring strict labelling of GM foods. This ruling will cover all food and ingredients which uses:

- (i) animal feed in addition to human food; and
- (ii) whole GM organisms, food/feed ingredients containing GM organisms and food/feed ingredients derived from GM organisms.

For companies expecting to export to EU countries, these companies must be more sensitive to the ingredients they used in their food products in order to ensure that they do not violate the terms of this strict ruling.

---

**7. INDUSTRY OVERVIEW (CONT'D)**

---

***Food certification***

HACCP, is a food safety program initiated and adopted by the US's Food and Drug Administration for US food supply, to reduce the occurrence of food-borne illnesses. It is a regulatory and import requirement for seafood and juice items to the US. Eventually this standard would cover many other high-risk foods such as eggs, meat, cheese, frozen dough, breakfast cereals, bread, flour, salad dressing and other products.

HACCP is a global standard for food safety recognised in many major countries including US, Canada, Australia, United Kingdom, the European Union and Japan. The HACCP system can be applied throughout the food chain from the primary producer to the final consumer. In addition to enhancement of food safety, application of HACCP will ensure effective use of resources and more timely response to food safety problems. The application of the HACCP system is compatible with the implementation of quality management systems, such as the International Organization for Standardization's ISO 9000 series.

*(Source: IMR Report)*

**THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK**

---

## **8. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST**

---

### **8.1 RELATED PARTY TRANSACTIONS**

Save as disclosed in Section 4.1.2.2 and below, there is no existing or potential related party transaction between our Group and our Directors, substantial shareholders and/or persons connected with such directors, substantial shareholders as defined under Section 122A of the Act:

- (i) Unic Food Manufacturing Sdn Bhd (“Unic Food”) is a company in which Gan Thiam Chai and Kwan Sok Kay have substantial shareholdings. Gan Thiam Chai and Kwan Sok Kay are our substantial shareholders and are members of our Board. Unic Food is one of the distributors of KFM’s products, and KFM supplies products to Unic Food in the ordinary course of business from time to time. Our Directors confirm that our Group’s transactions with Unic Food do not contribute materially to the revenue of KFM which have been carried out on arm’s length basis and on terms not any less favourable to KFM and which are generally available to the public; and
- (ii) K.C. Belight Food Industry (M) Sdn Bhd (“KC Belight”) is a company in which the spouse of Gan Thiam Hock is a substantial shareholder. Gan Thiam Hock is our substantial shareholder and a member of our Board. The nature of KC Belight’s business is as food manufacturers. KC Belight supplies products such as cocktail prawn rolls and chicken floss rolls to our Group, whilst our Group supplies products to KC Belight for distribution, in the ordinary course of business from time to time. Our Directors confirm that the trading transactions with KC Belight do not contribute materially to the revenue of our Group, which have been carried out on arm’s length basis and on terms not any less favourable to KFM and which are generally available to the public.

Our Audit Committee will monitor our Group’s transactions with related parties (including Unic Food and KC Belight) in the future to ensure that they are carried out on arms’ length basis, and where necessary, the mandate of our shareholders will be sought for any such related party transactions (where applicable).

### **8.2 TRANSACTIONS OF UNUSUAL NATURE**

Our Directors confirm that there is no transaction that is unusual in its nature or condition, involving goods, services, or tangible or intangible assets, to which we or any of our subsidiaries was a party in respect of the FYE 31 December 2004, and in the subsequent financial period immediately preceding the date of this Prospectus.

### **8.3 OUTSTANDING LOANS TO DIRECTORS AND SUBSTANTIAL SHAREHOLDERS**

Our Directors confirm that there are no amounts of outstanding loans (including guarantees of any kind) that has been made by us or any of our subsidiaries to or for the benefit of any director, substantial shareholder or person connected with such director or substantial shareholder, as at the date of this Prospectus.

---

**THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK**

---



**8. RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST (CONT'D)****8.4 INTERESTS IN SIMILAR BUSINESS**

Save as disclosed below, none of our Directors and substantial shareholders and those of our subsidiaries have any interest, direct or indirect, in any other business or company which is carrying on a business similar to that as us and/or our subsidiaries:

- (i) Datuk Haji Ibrahim bin Haji Ahmad is the founder and the Group Managing Director of Dewina Holdings Sdn Bhd (“Dewina”), which is an investment holding company with subsidiaries involved in the manufacturing and trading of food products, industrial food services, catering supplies and franchised food outlets. Dewina group’s products mainly comprise of sauces, paste and ready to eat meals in retortable pouches. Some of our Group’s products are frozen vegetable curry and dhal curry which are to complement our flat bread range of products. In addition, Dewina group’s products include frozen snacks such as curry puffs and local traditional cakes which are mainly supplied to catering services and food outlets. Apart from the frozen vegetable curry, dhal curry and curry puffs (“Said Products”), none of the products of our Group are similar to the products of Dewina. Our Directors are of the view that the income from the Said Products is insignificant in relation to our overall revenue. As such, our Directors are of the view that Dewina is not in direct competition with our Group; and
- (ii) Unic Food is a company in which Gan Thiam Chai and Kwan Sok Kay have substantial shareholdings and are members of our Board. Unic Food is one of the distributors of KFM’s products, and KFM supplies products to Unic Food in the ordinary course of business from time to time. Our Directors confirm that transactions with Unic Food do not contribute materially to the revenue of KFM and are undertaken on terms not more favourable to Unic Food compared to those of KFM’s other customers. As such, our Directors of the view that there is no conflict of interest in respect of KFM’s transactions with Unic Food.

**8.5 INTERESTS IN MATERIAL ASSETS ACQUIRED, DISPOSED OF OR LEASED**

Save as disclosed in Section 4.1.2.2, none of our Directors and substantial shareholders and those of our subsidiaries have any interest, direct or indirect, in any promotion of or in, any material asset, within the two (2) years preceding the date of this Prospectus, acquired or disposed of by, or leased to us or any of our subsidiaries, or is proposed to be acquired or disposed of by or leased to us or any of our subsidiaries.

**8.6 DECLARATIONS OF NO CONFLICT BY ADVISERS**

Hwang-DBS confirms that there is no existing or potential conflict of interest in its capacity as the Adviser for the IPO.

Messrs. KPMG confirms that there is no existing or potential conflict of interest in its capacity as the Reporting Accountants for the IPO.

Messrs. Zain & Co. confirms that there is no existing or potential conflict of interest in its capacity as the Solicitors for the IPO.

Infocredit D&B confirms that there is no existing or potential conflict of interest in its capacity as the Independent Market Research Consultant for the IPO.

## 9. FINANCIAL INFORMATION

### 9.1 PROFORMA CONSOLIDATED INCOME STATEMENT

You should read the summary of our Group's proforma consolidated income statement for the past five (5) financial years ended 31 December 2004, which was prepared based on the Accountants' Report set out in Section 10 of this Prospectus (based on the results of KFB, KFM and KG in view that KGPM has acquired KG's business and undertakings pursuant to the Acquisition of Net Assets) and on the assumption that the current structure of our Group has been in existence throughout the financial years under review. The following table is presented for illustrative purposes only and has been extracted from the Accountants' Report set out in Section 10 of this Prospectus and should be read in conjunction with the notes and assumptions thereto.

	<----- FYE 31 December ----->				
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000
Revenue	30,333	31,760	35,811	38,595	45,642
EBITDA	10,028	10,728	13,259	13,841	14,934
Depreciation	(953)	(1,618)	(1,794)	(2,268)	(2,575)
Amortisation of goodwill and property rights	(12)	(16)	-	-	-
Interest expenses	(245)	(394)	(372)	(204)	(111)
Interest income	18	49	62	103	229
PBT	8,836	8,749	11,155	11,472	12,477
Less: Taxation	(2,222)	(1,988)	(2,417)	(2,316)	(3,228)
PAT	6,614	6,761	8,738	9,156	9,249
No. of KFB Shares assumed in issue ('000) <sup>1</sup>	69,680	69,680	69,680	69,680	69,680
Gross EPS (RM) <sup>2</sup>	0.13	0.13	0.16	0.16	0.18
Net EPS (RM) <sup>3</sup>	0.09	0.10	0.13	0.13	0.13

*Notes:*

1. Based on the issued and paid-up share capital of our Group of 69,680,000 KFB Shares after the KFB Acquisitions but before the Public Issue.
2. Based on the consolidated PBT divided by the number of KFB Shares assumed in issue.
3. Based on the consolidated PAT divided by the number of KFB Shares assumed in issue.
4. There were no exceptional or extraordinary items during the financial years under review.

**9. FINANCIAL INFORMATION (CONT'D)****9.2 FINANCIAL INFORMATION ANALYSIS****9.2.1 Segmental Analysis of Revenue****Analysis of Revenue by Local and Export Markets:**

	←----- FYE 31 December ----->									
	2000		2001		2002		2003		2004	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Local sales	13,216	43.57	12,864	40.50	14,538	40.60	13,698	35.49	16,501	36.15
Export sales	17,117	56.43	18,896	59.50	21,273	59.40	24,897	64.51	29,141	63.85
<b>Total</b>	<b>30,333</b>	<b>100.00</b>	<b>31,760</b>	<b>100.00</b>	<b>35,811</b>	<b>100.00</b>	<b>38,595</b>	<b>100.00</b>	<b>45,642</b>	<b>100.00</b>

**Analysis of Revenue by Activities:**

	←----- FYE 31 December ----->									
	2000		2001		2002		2003		2004	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Manufactured products	17,988	59.30	20,532	64.65	22,097	61.70	26,116	67.67	30,796	67.47
Trading products	12,729	41.96	12,886	40.57	14,413	40.25	13,666	35.41	15,917	34.88
	30,717	101.26	33,418	105.22	36,510	101.95	39,782	103.08	46,713	102.35
Less: Discounts given	(384)	(1.26)	(1,658)	(5.22)	(699)	(1.95)	(1,187)	(3.08)	(1,071)	(2.35)
<b>Total</b>	<b>30,333</b>	<b>100.00</b>	<b>31,760</b>	<b>100.00</b>	<b>35,811</b>	<b>100.00</b>	<b>38,595</b>	<b>100.00</b>	<b>45,642</b>	<b>100.00</b>

**9.2.2 Overview**

For the purposes of this section, the financial results of the Group is based on the proforma group of KFM and KG in view that KGPM has acquired KG's business and undertakings from KG pursuant to the Acquisition of Net Assets.

Our Group's revenue shows an increasing trend from FYE 31 December 2000 to FYE 31 December 2004.

In FYE 31 December 2001, our Group recorded an increase in revenue of 4.70% to RM31.76 million compared to RM30.33 million recorded in FYE 31 December 2000 mainly due to our Group's success in penetrating the US market and through securing overseas customers.

Following an acquisition of plant and machinery at end 2000, our Group recorded a slight decrease in PBT of 0.98% in FYE 31 December 2001 as the new plant and machinery acquired have yet to operate at the optimum capacity to cover the costs incurred.

Despite the national and global economic slowdown encountered in 2002, our Group performed well in our operations, outperforming the results of FYE 31 December 2001. For FYE 31 December 2002, our Group achieved a revenue of RM35.81 million representing an increase of 12.76% compared to FYE 31 December 2001 mainly attributable to the increasing demand in Roti Parathas and other products such as Naan and French Fries as well as the introduction of new products such as Chapatti. The increasing demand for our Group's products coupled with an improvement in production efficiency which gave rise to economies of scale resulted in a substantial increase in PBT of 27.50% to RM11.16 million for the financial year under review.

**9. FINANCIAL INFORMATION (CONT'D)**

The improvement in our Group's revenue continued in FYE 31 December 2003 where our Group recorded a revenue of RM38.60 million representing an increase of 7.77% compared to the previous financial year. Despite the outbreak of Severe Acute Respiratory Syndrome and Iraq war as well as increase in competition in the export market, our Group was able to achieve a PBT of RM11.47 million for the financial year under review mainly due to our strategy to compete more aggressively in the market.

For the FYE 31 December 2004, our Group's revenue increased to RM45.64 million compared to RM38.60 million for the FYE 31 December 2003, representing an increase of 18.24%. The increase in revenue was mainly attributable to the increase in demand for Roti Paratha from the export market due to the promotional efforts undertaken and the new market penetration i.e. Netherlands and Vietnam, increase of local sales for Springroll Pastry and the introduction of new product such as the Mini Bun and Mini Rice Ball. Our Group recorded PBT of RM12.49 million for FYE 31 December 2004 taking into consideration of the above and after accounting for an increase in expenses which was mainly due to expenses claimed by an advertising consultant.

**9.2.3 Impact of Foreign Exchange Rates on PBT**

Our sales to export market accounted for more than 50% of our revenue for the FYE 31 December 2000 to the FYE 31 December 2004, which is mostly denominated in USD. The exchange control rules implemented since 1 September 1998 which effectively pegged the RM against USD at the fixed rate of RM3.80 to USD1.00 has, to a certain extent, stabilised the risks to the fluctuations of foreign exchange. As such, our Group has not been adversely affected by foreign exchange fluctuations for the past five (5) financial years under review.

However, there can be no assurance that the exchange controls will remain and that any downward adjustment of RM against USD may have adverse financial impact on our Group's financial performance and vice versa, should the Ringgit peg be removed or adjusted. In view of this, our Group constantly monitors the foreign exchange exposure and will hedge foreign exchange risk, whenever deemed appropriate.

**9.2.4 Taxation**

The effective tax rates for the FYE 31 December 2000 to the FYE 31 December 2003 were lower than the statutory rate mainly due to the availability of reinvestment allowance. However, the effective tax rate for the FYE 31 December 2004 was higher compared to the FYE 31 December 2003 as a result of a lower reinvestment allowance claimed during the financial year under review.

**9.2.5 Exceptional and extraordinary items**

There were no exceptional or extraordinary items during the past five (5) financial years under review.

**9.3 WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITIES, MATERIAL CAPITAL COMMITMENTS AND MATERIAL LITIGATION****(i) Working Capital**

Our Directors are of the opinion that after taking into account the cashflow forecast, banking facilities available and the proceeds from the Public Issue, our Group will have adequate working capital for its foreseeable requirements, for a period of twelve (12) months from the date of this Prospectus.

**9. FINANCIAL INFORMATION (CONT'D)****(ii) Borrowings**

The following sets out our Group's total outstanding borrowings (which is interest bearing) as at 15 June 2005 being the latest practicable date prior to the issuance of this Prospectus:

	<b>RM'000</b>
<b>Long Term Loan (Payable after twelve (12) months)</b>	-
<b>Short Term Loan (Payable within twelve (12) months)</b>	
Revolving Credit	4,939
<b>Total</b>	<u>4,939</u>

Our Group has not defaulted on payments of interest and/or principal sums in respect of any borrowings throughout the past one (1) financial year and the subsequent financial period thereof immediately preceding the date of this Prospectus.

**(iii) Contingent Liabilities**

Our Directors have confirmed that they are not aware of any contingent liabilities as at 15 June 2005 which, upon becoming enforceable, may have a material impact on the financial position of our Group.

**(iv) Material Capital Commitments**

Our Directors have confirmed that save as disclosed in Section 4.1.2.2 and Section 14.6(iv), our Group has not contracted for any material capital commitment not provided for in the financial statements in respect of acquisition of land and building, plant and machinery and other fixed assets as at 15 June 2005 (being the latest practicable date prior to the issuance of this Prospectus).

**(v) Material Litigation**

Our Directors have confirmed that save as disclosed in Section 14.5 of this Prospectus, as at 15 June 2005 (being the latest practicable date prior to the issuance of this Prospectus), no company within our Group are engaged in any litigation and/or arbitration, either as plaintiff or defendant, which has a material effect on our financial position or of our subsidiaries' financial positions, and our Directors are not aware of any proceedings pending or threatened against us and/or our subsidiaries, or of any fact likely to give rise to any proceedings, which might materially affect our position or business and/or our subsidiaries.

**THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK**

**9. FINANCIAL INFORMATION (CONT'D)****9.4 TRADE RECEIVABLES**

As at 15 June 2005, our Group's total trade receivables amount to approximately RM9.11 million. The normal credit period of our Group ranges from 90 days to 120 days. The ageing analysis of our Group's trade receivables as at 15 June 2005 is as follows:

	0 – 30 days RM'000	31 – 60 days RM'000	61 – 90 days RM'000	91 – 120 days RM'000	>120 days RM'000	Total RM'000
Trade receivables	5,126	1,973	721	302	991	9,113
Less: Provision for Doubtful Debts	-	-	-	-	(863)	(863)
Net trade receivables	5,126	1,973	721	302	128	8,250
% of net trade receivables	62.13	23.91	8.74	3.67	1.55	100.00

Provision for doubtful debts has been made in the financial statements of our Group for the trade receivables exceeding the credit period amounting to approximately RM863,000. However, our Group's historical experience in collection shows recovery with no major default. As such, our Directors believe that there will not be any foreseeable collection losses inherent in our Group's trade debtors.

**9.5 DIRECTORS' DECLARATION ON FINANCIAL PERFORMANCE**

Save as disclosed in Sections 3, 7, 9.2, 9.3, 9.8 and 13 of this Prospectus, the financial performance, position and operations of our Group are not materially affected by any of the following:

- (i) known trends, demands, commitments, events or uncertainties that have had, or that our Group reasonably expects to have, a material favourable or unfavourable impact on financial performance, position and operations of our Group;
- (ii) material commitments for capital expenditure;
- (iii) unusual, infrequent events or transactions or any significant economic changes that materially affected the financial performance, position and operations of our Group;
- (iv) substantial increase in revenue attributed to prices, volume, or the introduction of new products services; and
- (v) known events, circumstances, trends, uncertainties and commitments that are reasonably likely to make the historical statements not indicative of future financial performance and position.

**THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK**

**9. FINANCIAL INFORMATION (CONT'D)****9.6 FUTURE FINANCIAL INFORMATION**

Our Directors forecast that the profit forecast of our Group before and after taxation for the FYE 31 December 2005 will be as follows:

<b>FYE 31 December 2005</b>	<b>RM'000</b>
Revenue	41,357
Consolidated PBT	10,628
Less: Taxation	(2,913)
Consolidated PAT	7,715
Less: Pre-acquisition profits	(4,140)
Consolidated PAT attributable to our shareholders	3,575

*Based on weighted average number of KFB Shares in issue of approximately 45.179 million#*

Net EPS* (sen)	17.08
Net PE multiple based on the IPO Price of RM1.00 per KFB Share (times)	5.85

*Based on the enlarged share capital of 80 million KFB Shares in issue after the KFB Acquisitions and Public Issue*

Net EPS* (sen)	9.64
Net PE multiple based on the IPO Price of RM1.00 per KFB Share (times)	10.37

\* Based on the consolidated PAT before adjusting for pre-acquisition profits

# Based on the assumption that the KFB Acquisitions are completed in May 2005 and the Public Issue is completed in July 2005 and no new KFB Shares will be issued pursuant to the exercise of options under the ESOS in the FYE 31 December 2005

**9.7 DIRECTORS' ANALYSIS AND COMMENTARY ON THE CONSOLIDATED PROFIT FORECAST FOR THE FYE 31 DECEMBER 2005**

For the FYE 31 December 2005, our Group's forecast PAT (before adjusting for pre-acquisition profit) reflects only seven (7) months operation of KGPM and twelve (12) months operation of KFM and KFB as KGPM completed the Acquisition of Net Assets in May 2005. As such, our Directors forecast that our Group's revenue and profit for the FYE 31 December 2005 to be lower than the performance of the proforma group of KFM and KG in FYE 31 December 2004 as set out in Sections 9.1 and 9.2 of this Prospectus.

Our Group forecasts revenue of approximately RM41.4 million for the FYE 31 December 2005 which was mainly due to the introduction of new range of products such as the ready-to-eat products and finger food as well as an increase in for Chapatti and Mini Buns. Our Directors anticipate that the majority of the revenue will be contributed by export markets such as US and United Kingdom. Taking into consideration of the revenue forecasted and the operation costs, our Directors forecast that our Group's consolidated PBT and PAT (before adjusting for pre-acquisition profit) will be RM10.6 million and RM7.7 million respectively in FYE 31 December 2005.

**9. FINANCIAL INFORMATION (CONT'D)**

Our Directors have confirmed that they have prepared and reviewed our profit forecast for the FYE 31 December 2005, after due and careful enquiry based on the current prevailing economic and operating conditions as well as the bases and assumptions used. Our Directors are of the opinion that the profit forecast of our Group for the FYE 31 December 2005 is fair and reasonable in light of the assumptions made, future plans and strategies to be adopted by our Group, the future prospects of the industry as well as our Group's level of gearing, liquidity and working capital. However, a forecast by its nature is subject to subjective judgments, inherent uncertainties and unexpected events which occur beyond the control or prediction of our Group or Directors. Accordingly, our Directors do not guarantee the achievement of the profit forecast.

**9.8 SENSITIVITY ANALYSIS**

The following sensitivity analysis is prepared based on the profit forecast as set out in Section 9.6 and assuming all other things remain unchanged, except for 5% and 10% upward and downward variations in the revenue and cost of sales. Notwithstanding the impact of the variation in revenue and cost of sales, there may exist other factors which have not been taken into account, which variation may have a significant impact, either positively or negatively, on the financial position of our Group.

**9.8.1 Changes in revenue**

	<-----Forecast for the FYE 31 December 2005----->				
(RM'000)	-10%	-5%	As forecasted	+5%	+10%
PBT	9,122	9,875	10,628	11,381	12,134

The sensitivity analysis above is based on the assumption that the changes in the forecasted revenue are constant throughout the financial year.

**9.8.2 Changes in cost of sales**

	<-----Forecast for the FYE 31 December 2005----->				
(RM'000)	-10%	-5%	As forecasted	+5%	+10%
PBT	13,094	11,861	10,628	9,396	8,163

The sensitivity analysis above is based on the assumption that the changes in the forecasted cost of sales are constant throughout the financial year.

Our Directors have assessed the sensitivity of our consolidated profit forecast taking into consideration the fluctuation in the major variables as mentioned above. Our Directors are of the view that the sensitivity analysis on our Group's consolidated profit forecast is fair and reasonable.

**THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK**



**9. FINANCIAL INFORMATION (CONT'D)**

**9.9 DIVIDEND FORECAST AND POLICY**

Based on our consolidated profit forecast for the FYE 31 December 2005, our Directors anticipate that our Company will be in a position to propose a net dividend rate of 2.9% for the FYE 31 December 2005, based on our enlarged share capital of 80,000,000 KFB Shares after the Public Issue and par value of RM 0.50 per KFB Share.

The intended appropriation of our forecast consolidated PAT before adjusting for pre-acquisition profits for the FYE 31 December 2005 will be as follows:

<b>FYE 31 December 2005:</b>	<b>%</b>
Gross dividend per KFB Share	4.0
Net dividend per KFB Share	2.9
Gross dividend yield based on the issue price of RM1.00 per KFB Share	2.0
Net dividend yield based on the issue price of RM1.00 per KFB Share	1.4
Net dividend cover based on enlarged number of KFB Shares in issue (times)*	6.7

\* *Based on the consolidated PAT before adjusting for pre-acquisition profits and on the assumption that no KFB Shares will be issued pursuant to the exercise of options under the ESOS in the FYE 31 December 2005*

The declaration, amount and payment of dividend are subject to the approval of our Board. We will endeavour to pay reasonable dividends to allow shareholders to participate in our Group's profits whilst ensuring that there are adequate reserves for our Group's future growth. Any variation from the dividend forecast would depend on our Group's financial performance, financial condition and other factors deemed relevant by our Board.

Future dividends may be waived in the event of the following circumstances:

- (i) insufficient retained profits to declare as dividends;
- (ii) insufficient tax credits to frank its dividends; or
- (iii) insufficient cashflow to pay dividends.

**THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK**

**9. FINANCIAL INFORMATION (CONT'D)****9.10 REPORTING ACCOUNTANTS' LETTER ON THE CONSOLIDATED PROFIT FORECAST FOR THE FYE 31 DECEMBER 2005***(Prepared for inclusion in the Prospectus)*

**KPMG (Firm No. AF 0758)**  
Chartered Accountants  
Wisma KPMG  
Jalan Dungun, Damansara Heights  
50490 Kuala Lumpur, Malaysia

Telephone +60 (3) 2095 3388  
Fax +60 (3) 2095 0971  
Internet www.kpmg.com.my

The Board of Directors  
Kawan Food Berhad  
Lot 20, Jalan Pengapit 15/19  
40200 Shah Alam  
Selangor Darul Ehsan

Our ref A4/DHSL/OPL/TWL/1/p

**21 JUN 2005**

Dear Sirs

**Reporting accountants' letter on the consolidated profit forecast for the year ending 31 December 2005**

We have reviewed the consolidated profit forecast of Kawan Food Berhad ("KFB") and its subsidiary companies (collectively known as "KFB Group") for the year ending 31 December 2005 as set out in the accompanying statement (which we have stamped for the purpose of identification) in accordance with the Standard on Auditing (ISA 810) applicable to the review of forecasts. The consolidated profit forecast has been prepared for inclusion in the Prospectus to be dated **30 June 2005** in connection with the following and should not be relied on for any other purposes.

- (i) Public issue of 10,320,000 new ordinary shares of RM0.50 each in KFB ("KFB Shares") at an issue price of RM1.00 per KFB Share;
- (ii) Offer for sale of 10,400,000 existing KFB Shares at an offer price of RM1.00 per KFB Share;
- (iii) Listing of and quotation for the 80,000,000 KFB Shares, representing the entire enlarged issued and paid-up ordinary share capital of KFB on the Second Board of Bursa Malaysia Securities Berhad; and
- (iv) Offer of options under the Employees' Share Option Scheme of KFB to non-executive Directors.

Our review has been undertaken to enable us to form an opinion as to whether the consolidated profit forecast is, in all material respects, properly prepared on the basis of the assumptions made by the Directors and is presented on a basis consistent with the accounting policies adopted and disclosed by KFB Group in their respective audited financial statements for the year ended 31 December 2004. The Directors of KFB are solely responsible for the preparation and presentation of the consolidated profit forecast and the assumptions on which the consolidated profit forecast is based.

Forecast, in this context, means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions which management expects to take as of the date the information is prepared (best-estimate assumptions). While information may be available to support the assumptions on which a forecast is based, such information is generally future oriented and therefore uncertain. Thus, actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation could be material.

**9. FINANCIAL INFORMATION (CONT'D)**

---



*Kawan Food Berhad  
Reporting accountants' letter on the consolidated profit forecast  
for the year ending 31 December 2005*

Subject to the matter stated in the preceding paragraph:-

- (i) nothing has come to our attention which causes us to believe that the assumptions made by the Directors, as set out in the accompanying statement, do not provide a reasonable basis for the preparation of the consolidated profit forecast; and
- (ii) in our opinion, the consolidated profit forecast, so far as the calculations are concerned, is properly prepared on the basis of the assumptions made by the Directors and is presented on a basis consistent with the accounting policies adopted and disclosed by KFB Group in their respective audited financial statements for the year ended 31 December 2004.

Yours faithfully

*KPMG*

KPMG  
Firm No. AF 0758  
Chartered Accountants

*David Lim*

Lim Hun Soon @ David Lim  
Approval No: 1514/05/06(J)  
Partner

**9. FINANCIAL INFORMATION (CONT'D)**

**Kawan Food Berhad (“KFB”)  
And Its Subsidiary Companies (collectively known as “KFB Group”)**

**Consolidated Profit Forecast  
For The Financial Year Ending 31 December 2005**

The Directors of KFB forecast that, the consolidated profit forecast of KFB Group for the financial year ending 31 December 2005 will be as follows:

	<i>2005</i> <i>RM'000</i>
Consolidated profit after taxation	7,715
Less: Pre-acquisition	(4,140)
	3,575
Net consolidated profit after taxation	3,575
Enlarged number of shares in issue ('000)	80,000
Weighted average number of shares in issue ('000)	45,179
Earnings per share (“EPS”)* (sen)	
- Enlarged number of shares	9.6
Net EPS ** (sen)	
- Enlarged number of shares	4.5
- Weighted average number of shares	7.9

\* Based on consolidated profit after taxation before adjusting for pre-acquisition profit.

\*\* Based on net consolidated profit after taxation after adjusting for pre-acquisition profit.



**9. FINANCIAL INFORMATION (CONT'D)**

**Kawan Food Berhad ("KFB")  
And Its Subsidiary Companies (collectively known as "KFB Group")**

**Consolidated Profit Forecast  
For The Financial Year Ending 31 December 2005**

The principal bases and assumptions upon which the above consolidated profit forecast have been made are as follows:

1. There will be no significant changes in the existing and intended principal activities, key management and operating structure of KFB Group save for that which relates to the Acquisitions set out in Note 18.
2. There will be no significant changes in the prevailing economic and political conditions in Malaysia and elsewhere that will adversely affect the activities and performance of KFB Group.
3. There will be no significant changes in the present legislation or government regulations, direct or indirect taxes and duties, which will adversely affect the activities or operations of KFB Group or the markets in which it operates.
4. There will be no significant changes in the rate and basis of taxation.
5. There will be no significant changes in the accounting policies presently adopted by KFB Group.
6. There will be no significant changes in the forecast selling prices for KFB Group's products and services, and there will be no major changes in the forecast market demand for the Group's products and services.
7. Existing trading relationships with major suppliers and business partners will be maintained. There will be no limitation or delay in the supply of critical raw materials by these suppliers and business partners that will materially affect the operations and performance of KFB Group.
8. There will be no significant changes in the prices of major raw materials, labour and other operating costs other than those as provided.
9. There will be sufficient manpower and there will be no industrial disputes or disruption in the supply of raw materials by the major suppliers or any other abnormal factors, which will adversely affect the operations of KFB Group.
10. Capital expenditure program will be implemented and incurred on schedule and there will be no other significant additions or disposals of property, plant and equipment other than those in the forecast.



**9. FINANCIAL INFORMATION (CONT'D)**

11. The Group will continue to enjoy the existing credit and financing facilities and additional credit and financing facilities will be obtained as required. Interest rates on the existing and additional credit and financing facilities will not vary significantly from the present and forecast level.
12. There will be no significant fluctuation in foreign currency exchange rates from the prevailing rates against Ringgit Malaysia.

1USD	RM3.80
1EURO	RM5.17
1SGD	RM2.33
100TWD	RM11.97

13. Inflation rate will remain at the present level.
14. Surplus fund will be placed in fixed deposits and will earn interest at 2.75% to 3.0% per annum.
15. All trade debts arising from the sales of goods are collectible and those known to be doubtful have been adequately provided for.
16. There will be no material contingent liabilities arising during the forecast period, which may materially affect the forecast. KFB Group will not be engaged in any material litigation and there will be no legal proceedings which will affect KFB Group's activities or performance or give rise to additional contingent liabilities which will materially affect the results of KFB Group.
17. The gross proceeds from the public issue amounting to RM10,320,000 would be received by the third quarter of the financial year ending 31 December 2005 and utilised as follows:

<u>Utilisation:</u>	<i>RM'000</i>
Purchase of machinery	4,000
Working capital	4,320
Estimated share issue expenses	2,000
	-----
	10,320
	=====



**9. FINANCIAL INFORMATION (CONT'D)**

18. The restructuring and listing exercise of KFB Group involve the following transactions which is estimated to be completed by July 2005:

- Sub-division of one (1) ordinary share of RM1.00 each in KFB into two (2) new ordinary shares of RM0.50 each in KFB ("KFB Shares").
- Acquisitions by Kawan Food Manufacturing Sdn Bhd ("KFM") of the following from K.G. Pastry Manufacturing Sdn Bhd ("KG"):
  - (a) All that piece of land held under H.S.(D) 98527, Tapak Perusahaan Shah Alam, Daerah Petaling, bearing a postal address Lot 20, Jalan Pengapit 15/19, 40200 Shah Alam, Selangor Darul Ehsan together with the building erected on the land for a cash consideration of RM6,900,000 ("Acquisition of Lot 20"); and
  - (b) Certain machineries and equipment for a cash consideration of RM3,879,060 ("Acquisition of Machineries").

(collectively referred to as "KFM Acquisitions")

The purchase consideration for the above acquisitions were arrived at on a willing buyer-willing seller basis after taking into consideration the net book value of the assets as at 31 December 2003.

The Acquisition of Machineries and Acquisition of Lot 20 were completed in April 2005 and May 2005 respectively.

- Acquisition by KG Pastry Marketing Sdn Bhd ("KGPM") of certain assets and business undertakings of KG (comprising all that piece of land held under H.S.(D) 207237 PTD No. 59709, Mukim of Tebrau, Negeri Johor bearing postal address 52, Jalan Mutiara Emas 5/12, Taman Mount Austin, 81100 Johor Bahru together with the buildings erected on the land, trademarks, plant, machinery, book debts and other undertakings of KG) for a purchase consideration of RM11,000,000 satisfied by the issuance of 10,000,000 new ordinary shares of RM1.00 each in KGPM, at an issue price of RM1.00 per ordinary share and RM1,000,000 cash ("Acquisition of Net Assets").

The new shares of KGPM were issued and distributed to KG's shareholders as dividend-in-specie by KG.

The purchase consideration was arrived at on a willing buyer-willing seller basis after taking into consideration the net book value of the above net assets as at 31 December 2003.

The Acquisition of Net Assets was completed in May 2005 save for the transfer of Johor land to KGPM, which is pending the consent of the state authority for the same.



**9. FINANCIAL INFORMATION (CONT'D)**

- Acquisitions by KFB of the following:

- (a) The entire issued and paid-up share capital of KFM comprising 1,000,000 ordinary shares of RM1.00 each, for a purchase consideration of RM24,840,609 satisfied wholly by the issuance of 49,680,347 new KFB Shares of RM0.50 each at an issue price of approximately RM0.50 per KFB Share ("Acquisition of KFM").

KFM has, prior to the completion of the Acquisition of KFM, declared and paid a total dividend of RM8 million to KFM's then existing shareholders such that the net tangible assets ("NTA") of KFM on the completion date was no less than RM24,840,609, being the purchase consideration of the Acquisition of KFM.

The total purchase consideration of RM24,840,609 was arrived at on a willing buyer-willing seller basis after taking into consideration the audited NTA of KFM as at 31 December 2003 adjusted for the KFM Acquisitions.

	<i>RM</i>	<i>RM</i>
Audited NTA of KFM as at 31 December 2003		24,840,609
Add: KFM Acquisitions		11,630,866
Less: Settlement of part of the purchase consideration for the KFM Acquisitions against the amount due from KG	(10,024,512)	
Settlement of the remaining purchase Consideration for the KFM Acquisitions by cash	(1,606,354)	
		-----
		(11,630,866)
		-----
		24,840,609
		=====

- (b) The entire issued and paid-up share capital of KGPM comprising 10,000,002 ordinary shares of RM1.00 each, for a total purchase consideration of RM10,000,002 satisfied by the issuance of 19,999,649 new KFB Shares at an issue price of approximately RM0.50 per KFB Share and cash consideration of RM2.00 ("Acquisition of KGPM").

The 10,000,000 ordinary shares of RM1.00 each in KGPM were issued pursuant to the Acquisition of Net Assets, and distributed as dividend-in-specie by KG to its shareholders, which in turn, were acquired by KFB, pursuant to the Acquisition of KGPM.

The purchase consideration of RM10,000,002 was arrived at based on a willing buyer-willing seller basis after taking into consideration the NTA of KGPM upon completion of the Acquisition of Net Assets.

(collectively referred to as "KFB Acquisitions")

The Acquisition of Net Assets and KFB Acquisitions were completed in May 2005.





**9. FINANCIAL INFORMATION (CONT'D)**

---

The KFM Acquisitions, Acquisition of Net Assets and KFB Acquisitions are collectively referred to as "Acquisitions".

- Public issue of 10,320,000 new KFB Shares and offer for sale of 10,400,000 existing KFB Shares of RM0.50 each at an issue price of RM1.00 per KFB Share.
  - Listing of and quotation for the 80,000,000 KFB Shares, representing the entire enlarged issued and paid-up ordinary share capital of KFB on the Second Board of Bursa Malaysia Securities Berhad.
  - The estimated shares issue expenses of RM2 million are written off against the share premium account.
  - Establishment of an Employees' Share Option Scheme ("ESOS") of up to 15% of the issued and paid-up ordinary share capital of KFB for the benefit of the Directors and eligible employees of the KFB Group.
19. The weighted average number of shares for the year ending 31 December 2005 is calculated based on the assumption that the Public Issue will be completed by July 2005 and none of the ESOS options granted will be exercised as at 31 December 2005.



**9. FINANCIAL INFORMATION (CONT'D)****9.11 PROFORMA CONSOLIDATED BALANCE SHEET AND REPORTING ACCOUNTANTS' LETTER THEREON***(Prepared for inclusion in the Prospectus)*

**KPMG (Firm No. AF 0758)**  
Chartered Accountants  
Wisma KPMG  
Jalan Dungun, Damansara Heights  
50490 Kuala Lumpur, Malaysia

Telephone +60 (3) 2095 3388  
Fax +60 (3) 2095 0971  
Internet www.kpmg.com.my

The Board of Directors  
Kawan Food Berhad  
Lot 20, Jalan Pengapit 15/19  
40200 Shah Alam  
Selangor Darul Ehsan

Our ref A4/DHSL/OPL/TWL/tp

**21 JUN 2005**

Dear Sirs

**Reporting accountants' letter on the proforma consolidated balance sheets as at 31 December 2004**

We have reviewed the presentation of the proforma consolidated balance sheets of Kawan Food Berhad ("KFB") and its subsidiary companies (collectively known as "KFB Group") as at 31 December 2004 which have been prepared for illustrative purposes only, for which the Directors are solely responsible, as set out in the accompanying statement (which we have stamped for the purpose of identification), for inclusion in the Prospectus to be dated ~~30 June 2005~~ in connection with the listing of KFB on the Second Board of Bursa Malaysia Securities Berhad ("Bursa Securities") and should not be relied on for any other purposes.

- (i) Public issue of 10,320,000 new ordinary shares of RM0.50 each in KFB ("KFB Shares") at an issue price of RM1.00 per KFB Share;
- (ii) Offer for sale of 10,400,000 existing KFB Shares at an offer price of RM1.00 per KFB Share;
- (iii) Listing of and quotation for the 80,000,000 KFB Shares, representing the entire enlarged issued and paid-up ordinary share capital of KFB on the Second Board of Bursa Securities; and
- (iv) Offer of options under the Employees' Share Option Scheme of KFB to non-executive Directors.

In our opinion,

- the proforma consolidated balance sheets have been properly compiled on the basis of preparation stated;
- the adjustments are appropriate for the purposes of the proforma consolidated balance sheets; and
- such basis is consistent with the accounting policies to be adopted and disclosed by KFB Group other than as stated in the notes to the proforma consolidated balance sheets where adjustments have not been made to account for the fair value of the assets and liabilities of Kawan Food Manufacturing Sdn Bhd ("KFM") and KG Pastry Marketing Sdn Bhd ("KGPM") upon acquisition by KFB.

**9. FINANCIAL INFORMATION (CONT'D)**

---



*Kawan Food Berhad  
Reporting accountants' letter on the proforma consolidated balance sheets  
as at 31 December 2004*

We draw attention to the notes to the proforma consolidated balance sheets which states that the Directors will be ascertaining the fair value of the assets and liabilities of KFM and KGPM following the completion of the acquisition. Any adjustments to the values of assets and liabilities of KFM and KGPM will have a corresponding effect on goodwill/negative goodwill and net tangible assets.

Yours faithfully

*KPMG*  
KPMG  
Firm No. AF 0758  
Chartered Accountants

*David Lim*  
Lim Hun Soon @ David Lim  
Approval No: 1514/05/06(J)  
Partner

**9. FINANCIAL INFORMATION (CONT'D)**

**Kawan Food Berhad ("KFB")  
And Its Subsidiary Companies (collectively known as "KFB Group")**

**Proforma Consolidated Balance Sheets  
As At 31 December 2004**

The proforma consolidated balance sheets of KFB and its subsidiary companies have been prepared for illustrative purposes only on the bases of the assumptions set out in the notes below.

	As at 31 December 2004 RM'000	Proforma I After Acquisitions RM'000	Proforma II (After Proforma I and Public Issue) RM'000	Proforma III (After Proforma II and ESOS) RM'000
Property, plant and equipment	-	24,222	28,222	28,222
<b>Current assets</b>				
Inventories	-	2,681	2,681	2,681
Trade and other receivables	463	9,410	9,410	9,410
Cash and cash equivalents	*	7,121	11,441	23,441
	463	19,212	23,532	35,532
<b>Current liabilities</b>				
Trade and other payables	475	1,895	1,895	1,895
Borrowings (secured)	-	4,939	4,939	4,939
Taxation	-	850	850	850
	475	7,684	7,684	7,684
<b>Net current (liabilities)/assets</b>	(12)	11,528	15,848	27,848
	(12)	35,750	44,070	56,070
<b>(Represented by)/Financed by:</b>				
<b>Capital and reserves</b>				
Share capital	**	34,840	40,000	46,000
Share premium	-	-	3,160	9,160
Accumulated losses	(12)	(22)	(22)	(22)
(Deficit)/Surplus in shareholders' funds	(12)	34,818	43,138	55,138
<b>Long term and deferred liabilities</b>				
Deferred tax liabilities	-	932	932	932
	(12)	35,750	44,070	56,070
Number of shares in issue ('000)	*	69,680	30,000	92,000
Net tangible assets per share (RM)	-	0.50	0.54	0.60

\* RM2.00

\*\* Based on the paid-up share capital of RM2.00 comprising 2 ordinary shares of RM1.00 each in KFB as at 31 December 2004.



**9. FINANCIAL INFORMATION (CONT'D)**

**Kawan Food Berhad ("KFB")  
And Its Subsidiary Companies (collectively known as "KFB Group")**

**Proforma Consolidated Balance Sheets  
As At 31 December 2004**

1. The Proforma Consolidated Balance Sheets of KFB Group are based on the audited financial statements of KFB, KG Pastry Marketing Sdn Bhd (KGPM) and Kawan Food Manufacturing Sdn Bhd (KFM) as at 31 December 2004.
2. The Proforma Consolidated Balance Sheets have been prepared on the basis consistent with the accounting policies to be adopted and disclosed by KFB Group other than adjustments that have not been made to account for the fair value of the assets and liabilities of KFM and KGPM upon acquisition by KFB. The Directors will be ascertaining the fair value of the assets and liabilities of KFM and KGPM following the completion of the acquisition. Any adjustments to the values of assets and liabilities of KFM and KGPM will have a corresponding effect on goodwill/negative goodwill and net tangible assets of KFB Group.
3. The Proforma Consolidated Balance Sheets are for illustrative purposes only to incorporate the following transactions as though they were effected on 31 December 2004:

**3.1 Proforma I**

Proforma I incorporates the following:-

- (i) Sub-division of one (1) ordinary share of RM1.00 each in KFB into two (2) new ordinary shares of RM0.50 each in KFB ("KFB Shares").
- (ii) Acquisitions by KFM of the following from K.G. Pastry Manufacturing Sdn Bhd ("KG"):
  - (a) All that piece of land held under H.S.(D) 98527, Tapak Perusahaan Shah Alam, Daerah Petaling, bearing a postal address Lot 20, Jalan Pengapit 15/19, 40200 Shah Alam, Selangor Darul Ehsan together with the building erected on the land for a cash consideration of RM6,900,000 ("Acquisition of Lot 20"); and
  - (b) Certain machineries and equipment for a cash consideration of RM3,879,060 ("Acquisition of Machineries").

(collectively referred to as "KFM Acquisitions")



**9. FINANCIAL INFORMATION (CONT'D)**

The purchase consideration for the above acquisitions were arrived at on a willing buyer-willing seller basis after taking into consideration the net book value of the assets as at 31 December 2003.

The Acquisition of Machineries and Acquisition of Lot 20 were completed in April 2005 and May 2005 respectively.

- (iii) Acquisition by KGPM of certain assets and business undertakings of KG (comprising all that piece of land held under H.S.(D) 207237 PTD No. 59709, Mukim of Tebrau, Negeri Johor bearing postal address 52, Jalan Mutiara Emas 5/12, Taman Mount Austin, 81100 Johor Bahru together with the buildings erected on the land, trademarks, plant, machinery, book debts and other undertakings of KG) for a purchase consideration of RM11,000,000 satisfied by the issuance of 10,000,000 new ordinary shares of RM1.00 each in KGPM, at an issue price of RM1.00 per ordinary share and RM1,000,000 cash ("Acquisition of Net Assets").

The new shares of KGPM were issued and distributed to KG's shareholders as dividend-in-specie by KG.

The purchase consideration was arrived at on a willing buyer-willing seller basis after taking into consideration the net book value of the above net assets as at 31 December 2003.

The Acquisition of Net Assets was completed in May 2005 save for the transfer of Johor land to KGPM, which is pending the consent of the state authority for the same.

- (iv) Acquisitions by KFB of the following:
- (a) The entire issued and paid-up share capital of KFM comprising 1,000,000 ordinary shares of RM1.00 each, for a purchase consideration of RM24,840,609 satisfied wholly by the issuance of 49,680,347 new KFB Shares of RM0.50 each at an issue price of approximately RM0.50 per KFB Share ("Acquisition of KFM").

KFM has, prior to the completion of the Acquisition of KFM, declared and paid a total dividend of RM8 million to KFM's then existing shareholders such that the net tangible assets ("NTA") of KFM on the completion date was no less than RM24,840,609, being the purchase consideration of the Acquisition of KFM.

The total purchase consideration of RM24,840,609 was arrived at on a willing buyer-willing seller basis after taking into consideration the audited NTA of KFM as at 31 December 2003 adjusted for the KFM Acquisitions.



**9. FINANCIAL INFORMATION (CONT'D)**

	<i>RM</i>	<i>RM</i>
Audited NTA of KFM as at 31 December 2003		24,840,609
Add: KFM Acquisitions		11,630,866
Less: Settlement of part of the purchase consideration for the KFM Acquisitions against the amount due from KG	(10,024,512)	
Settlement of the remaining purchase consideration for the KFM Acquisitions by cash	(1,606,354)	
		-----
		(11,630,866)
		-----
		24,840,609
		=====

- (b) The entire issued and paid-up share capital of KGPM comprising 10,000,002 ordinary shares of RM1.00 each, for a total purchase consideration of RM10,000,002 satisfied by the issuance of 19,999,649 new KFB Shares at an issue price of approximately RM0.50 per KFB Share and cash consideration of RM2.00 ("Acquisition of KGPM").

The 10,000,000 ordinary shares of RM1.00 each in KGPM were issued pursuant to the Acquisition of Net Assets, and distributed as dividend-in-specie by KG to its shareholders, which in turn, were acquired by KFB, pursuant to the Acquisition of KGPM.

The purchase consideration of RM10,000,002 was arrived at based on a willing buyer-willing seller basis after taking into consideration the NTA of KGPM upon completion of the Proposed Acquisition of Net Assets.

(collectively referred to as "KFB Acquisitions")

The Acquisition of Net Assets and KFB Acquisitions were completed in May 2005.

The KFM Acquisitions, Acquisition of Net Assets and KFB Acquisitions are collectively referred to as "Acquisitions".



**9. FINANCIAL INFORMATION (CONT'D)**

**3.2 Proforma II**

Proforma II incorporates Proforma I and the following:

- (i) Public issue of 10,320,000 new KFB Shares and offer for sale of 10,400,000 existing KFB Shares of RM0.50 each at an issue price of RM1.00 per KFB Share.
- (ii) Listing of and quotation for the 80,000,000 KFB Shares, representing the entire enlarged issued and paid-up ordinary share capital of KFB on the Second Board of Bursa Malaysia Securities Berhad.
- (iii) The estimated shares issue expenses of RM2 million are written off against the share premium account.

**3.3 Proforma III**

Proforma III incorporates Proforma II and issuance of 12,000,000 new KFB Shares at an issue price of RM1.00 per KFB Share pursuant to the exercise of options to be granted under the Employees' Share Option Scheme ("ESOS"). The number of the KFB Shares under the options to be granted under the ESOS shall not exceed 15% of the issued and paid-up ordinary share capital of KFB at any time.

- 4. The gross proceeds of RM10,320,000 from the public issue is proposed to be utilised as follows:

	<i>RM'000</i>
Purchase of machinery	4,000
Working capital	4,320
Estimated shares issue expenses	2,000
	-----
	10,320
	=====





**9. FINANCIAL INFORMATION (CONT'D)**

## 5. Movement in share capital and share premium accounts:

	Share capital <i>RM'000</i>	Share premium <i>RM'000</i>
Balance at 31 December 2004	*	-
Proforma I		
KFB Acquisitions	34,840	-
	-----	-----
Balance after Proforma I	34,840	-
Proforma II		
Public issue	5,160	5,160
Payment of shares issue expenses	-	(2,000)
	-----	-----
Balance after Proforma II	40,000	3,160
Proforma III		
Upon full exercise of ESOS options	6,000	6,000
	-----	-----
Balance after Proforma III	<u>46,000</u>	<u>9,160</u>

\* Based on the paid-up share capital of RM2.00 comprises 2 ordinary shares of RM1.00 each in KFB as at 31 December 2004.

