

10. ACCOUNTANTS' REPORT (Cont'd)

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9.3 GENERAL

BSL is a public limited company incorporated in Malaysia. The principal activity of BSL is that of an investment holding company.

The registered office of BSL is located at Level 14, Uptown 1, Damansara Uptown, 1 Jalan SS21/58, 47400 Petaling Jaya.

The proforma consolidated statement of assets and liabilities are expressed in Ringgit Malaysia.

9.4 INVESTMENT IN SUBSIDIARY COMPANIES

The details of subsidiary companies as of March 31, 2005 are as follows:

| Name of Subsidiary Company | Date/ Country of Incorporation | Issued and Fully Paid-up Share Capital | Effective Equity Interest (%) | Principal Activities |
|--|--------------------------------|--|-------------------------------|---|
| Direct subsidiary companies | | | | |
| BSLI | 30.6.1978/ Malaysia | 1,000,000 | 100 | Stamping and manufacturing of precision metal parts and fabrication of precision tools and dies. |
| Crestronics | 18.6.1996/ Malaysia | 1,700,000 | 100 | Printed circuit board assembly and assembly of all types of electronic and electrical components, devices and system. |
| Unique | 22.6.1989/ Malaysia | 400,000 | 100 | Fabrication and forging of base metal components. |
| Indirect subsidiary company held through BSLI | | | | |
| Kotamech | 22.5.1981/ Malaysia | 100,000 | 100 | Repairing and servicing of metal mould and stamping die. The Company has temporarily ceased operations during the financial year ended August 31, 2004. |

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9.5 PROPERTY, PLANT AND EQUIPMENT

| Proforma Group | At valuation | | At cost | | | | Total RM'000 | | |
|-----------------------------|----------------------------|-----------------------------|---------------------|----------------------------|---------------------|----------------------------------|-----------------|--|-----------------------------|
| | Freehold Land RM'000 | Leasehold land RM'000 | Buildings RM'000 | Freehold land RM'000 | Buildings RM'000 | Plant and machinery RM'000 | | Office equipment, furniture, fittings, renovation, factory upgrade and factory equipment RM'000 | Motor vehicles RM'000 |
| Cost | 2,813 | 6,803 | 6,743 | 2,776 | 1,745 | 38,538 | 3,326 | 2,286 | 65,030 |
| Accumulated Depreciation | - | 42 | 94 | - | 26 | 19,671 | 1,773 | 1,302 | 22,908 |
| Net Book Value | 2,813 | 6,761 | 6,649 | 2,776 | 1,719 | 18,867 | 1,553 | 984 | 42,122 |

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The details of the valuation of the Proforma Group's freehold and leasehold land and buildings are as follows:

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| Details of properties | Year of valuation | Details of valuers | Revalued amount RM'000 |
|------------------------------|--------------------------|---|-----------------------------------|
| Freehold land and buildings | 2004 | Long Tian Chek, B.Sc., MRICS, MIS (M) Registered Valuer of Henry Butcher, Lim & Long (Selangor) Sdn. Bhd. and Siew Weng Hong, Registered Valuer of Henry Butcher Malaysia (NS) Sdn Bhd | 5,659 |
| Leasehold land and buildings | 2004 | Long Tian Chek, B.Sc., MRICS, MIS (M) Registered Valuer of Henry Butcher, Lim & Long (Selangor) Sdn. Bhd. and Siew Weng Hong, Registered Valuer of Henry Butcher Malaysia (NS) Sdn Bhd | 10,700 |
| | | | <u>16,359</u> |

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As of March 31, 2005, the unexpired lease period of the leasehold land is 85 to 91 years.

Included in property, plant and equipment of the Proforma Group are the following assets acquired under hire-purchase arrangements:

| | RM'000 |
|---------------------|---------------|
| Net Book Value: | |
| Plant and machinery | 9,160 |
| Motor vehicles | 655 |
| | <u>9,815</u> |

Included in property, plant and equipment of the Proforma Group are the following fully depreciated assets which are still in use:

| | RM'000 |
|--|---------------|
| Plant and machinery | 4,142 |
| Office equipment, furniture, fittings, renovation, factory upgrade and factory equipment | 763 |
| Motor vehicles | 141 |
| | <u>5,046</u> |

As of March 31, 2005, the following property, plant and equipment are pledged to licensed banks as security for credit facilities granted to the Proforma Group:

| | RM'000 |
|------------------------------|---------------|
| Net Book Value: | |
| Leasehold land and buildings | 10,539 |
| Freehold land and buildings | 10,180 |
| Plant and machinery | 4,804 |
| | <u>25,523</u> |

9.6 OTHER INVESTMENT

| | Proforma Group RM'000 |
|--|--------------------------------------|
| Unquoted shares in local corporation - at cost | 17 |
| Less: Allowance for diminution in value | (4) |
| | <u>13</u> |
| Market value | <u>14</u> |

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9.7 INVENTORIES

| At cost: | Proforma Group RM'000 |
|------------------|--------------------------------------|
| Raw materials | 4,276 |
| Work-in-progress | 2,549 |
| Finished goods | <u>1,496</u> |
| | <u>8,321</u> |

9.8 TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAID EXPENSES

i) Trade receivables

| | Proforma Group RM'000 |
|--|--------------------------------------|
| Trade receivables | 15,240 |
| Less: Allowance for doubtful receivables | <u>(650)</u> |
| Net | <u>14,590</u> |

Trade receivables comprise amounts receivable for sales of goods. The credit period granted by the Proforma Group on sale of goods and services rendered range from 30 to 90 days.

The foreign currencies profile of trade receivables is as follows:

| | Proforma Group RM'000 |
|----------------------|--------------------------------------|
| Ringgit Malaysia | 15,233 |
| United States Dollar | <u>7</u> |
| | <u>15,240</u> |

ii) Other receivables and prepaid expenses

| | Proforma Group RM'000 |
|---------------------|--------------------------------------|
| Other receivables | 920 |
| Refundable deposits | 267 |
| Prepaid expenses | 488 |
| Tax recoverable | <u>562</u> |
| | <u>2,237</u> |

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9.9 SHORT-TERM DEPOSITS WITH LICENSED BANKS

Included in short-term deposits of the Proforma Group are short-term deposits amounting to about RM81,066 placed with certain licensed banks as security for credit facilities granted by the said banks to certain subsidiary companies as mentioned in Note 9.12.

9.10 TRADE PAYABLES, OTHER PAYABLES AND ACCRUED EXPENSES

i) Trade payables

The foreign currencies profile of trade payables are as follows:

| | Proforma Group RM'000 |
|----------------------|--------------------------------------|
| Ringgit Malaysia | 7,122 |
| United States Dollar | 362 |
| Singapore Dollar | 4 |
| | <u>7,488</u> |

Included in trade payables is an amount of RM16,500 payable to a company in which a director of a subsidiary company is also a director and the said amount outstanding arose mainly from rental of premises payable.

Trade payables comprise amounts outstanding for trade purchases and ongoing costs. The credit period granted to the Proforma Group on purchases of goods range from 60 to 90 days.

ii) Other payables and accrued expenses

| | Proforma Group RM'000 | The Company RM'000 |
|------------------|--------------------------------------|-----------------------------------|
| Other payables | 3,187 | 7 |
| Accrued expenses | 1,064 | - |
| | <u>4,251</u> | <u>7</u> |

Included in other payables is dividend payable of RM2,500,000 by BSLI to its former shareholders.

The foreign currencies profile of other payables are as follows:

| | Proforma Group RM'000 | The Company RM'000 |
|------------------|--------------------------------------|-----------------------------------|
| Ringgit Malaysia | 3,184 | 7 |
| Singapore Dollar | 3 | - |
| | <u>3,187</u> | <u>7</u> |

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9.11 HIRE-PURCHASE PAYABLES

| | Proforma Group RM'000 |
|--|--------------------------------------|
| Balance outstanding | 3,815 |
| Less: Interest-in-suspense | <u>(295)</u> |
| Principal portion | <u>3,520</u> |
| Principal amount repayable: | |
| Within one year (shown under current liabilities) | 1,611 |
| More than one year (shown under long-term liabilities) | <u>1,909</u> |
| | <u>3,520</u> |

The implicit interest rates in the hire-purchase arrangements ranges from 3.30% to 10.90% per annum.

9.12 BANK BORROWINGS

The outstanding bank borrowings of the Proforma Group consist of the following:

| | Proforma Group RM'000 |
|----------------------|--------------------------------------|
| Bank overdrafts | 1,888 |
| Bankers' acceptances | <u>4,758</u> |
| | <u>6,646</u> |

As of March 31, 2005, the Proforma Group has bank overdrafts and other credit facilities amounting to RM21,000,000. These facilities are secured by joint and several guarantees by directors of certain subsidiary companies, fixed and floating charge over certain property, plant and equipment (Note 9.5) and short-term deposits of a subsidiary company (Note 9.9). The interest rates applicable for the bank borrowings range from 4.60% to 7.90% per annum.

9.13 TERM LOANS

| | Proforma Group RM'000 |
|---|--------------------------------------|
| Total outstanding | 8,923 |
| Less: Portion due within next 12 months | <u>(2,871)</u> |
| Non current portion | <u>6,052</u> |

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The term loans are secured by joint and several guarantees by certain directors of the subsidiary company, fixed and floating charge over certain property, plant and equipment (Note 9.5) and short-term deposits of a subsidiary company (Note 9.9). The term loans bear interest rates ranging from 5.65% to 8.50% per annum.

9.14 DEFERRED TAX LIABILITIES

| | Proforma Group RM'000 |
|---|--------------------------------------|
| The deferred tax liabilities is in respect of: | |
| Temporary differences in respect of property, plant and equipment | 2,928 |
| Revaluation surplus of freehold land and building | 54 |
| | <u>2,982</u> |

9.15 SHARE CAPITAL

The movements in authorised share capital are as follows:

| | Proforma Group RM'000 |
|--|--------------------------------------|
| 100,000 ordinary shares of RM1 each upon incorporation | 100 |
| Share split of 100,000 ordinary shares of RM1 each to 200,000 ordinary shares of RM0.50 each | - |
| Creation of 499,800,000 new ordinary shares of RM0.50 each | <u>249,900</u> |
| | <u>250,000</u> |

The movements in issued and paid-up share capital are as follows:

| | Proforma Group RM'000 |
|---|--------------------------------------|
| At incorporation | -* |
| Issue of 196 new ordinary shares of RM0.50 each | -** |
| Issue of 73,929,800 new ordinary shares of RM0.50 each for the Acquisitions | 36,965 |
| Issue of 3,696,500 new ordinary shares of RM0.50 each pursuant to the Rights Issue | 1,848 |
| Issue of 20,373,500 new ordinary shares of RM0.50 each pursuant to the Public Issue | <u>10,187</u> |
| Total issued and paid-up share capital | <u>49,000</u> |

* RM2

** RM100

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9.16 SHARE PREMIUM

The movements in share premium are as follows:

| | Proforma Group RM'000 |
|--|--------------------------------------|
| As of September 1, 2004 | - |
| Premium arising from the issue of 20,373,500 new ordinary shares of RM0.50 each at an issue price of RM0.68 pursuant to the Public Issue | 3,667 |
| Listing expenses | <u>(1,900)</u> |
| | <u>1,767</u> |

9.17 RESERVES

| | Proforma Group RM'000 |
|--------------------------|--------------------------------------|
| Reserve on consolidation | 2,596 |
| Accumulated loss | <u>(7)</u> |
| | <u>2,589</u> |

Reserve arising on consolidation represents the excess of the fair values attributable to the related net assets of the subsidiary companies at the date of acquisition over the BSL's cost of investment.

9.18 FINANCIAL INSTRUMENTS

Financial Risk Management Objectives and Policies

The operations of the Proforma Group are subject to a variety of financial risks, including foreign currency risk, interest rate risk, credit risk, liquidity risk and cash flow risk. The Proforma Group has taken measures to manage its exposure to risks and/or costs associated with the financing, investing and operating activities.

Foreign currency risk

The Proforma Group undertakes minimal trade transactions which are denominated in foreign currencies. As a result, the Proforma Group's exposure to foreign currency risk is limited.

Interest rate risk

The Proforma Group is exposed to interest rate risk through the impact of rate changes on short-term deposits, hire-purchase payables and bank borrowings.

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Credit risk

The Proforma Group is mainly exposed to credit risk from trade receivables.

The Proforma Group's exposure to credit risk in relation to its trade receivables, should all its customers fail to perform their obligations as of March 31, 2005, is the carrying amount of these receivables as disclosed in the Proforma Statement of Assets and Liabilities.

Liquidity risk

The Proforma Group practices prudent liquidity risk management to minimise the mismatch of financial assets and liabilities and to maintain sufficient credit facilities as disclosed in Section 9.12 for contingent funding requirement of working capital.

Cash flow risk

The Proforma Group reviews its cash flow position regularly to manage its exposure to fluctuations in future cash flows associated with its monetary financial instruments.

Fair values of financial assets and liabilities

The carrying amounts of the Proforma Group's financial assets and liabilities as reported in the Proforma Consolidated Statement Of Assets and Liabilities as of March 31, 2005 approximate their fair values because of the short maturity terms of these instruments other than the following financial instruments:

| | Proforma Group | |
|---------------------------------------|---------------------------------------|----------------------------------|
| | Carrying amount RM'000 | Fair Value RM'000 |
| Financial Asset | | |
| Other investment (Section 9.6) | 13 | 14 |
| Financial Liabilities | | |
| Hire-purchase payables (Section 9.11) | 3,520 | 3,131 |
| Term loans (Section 9.13) | 8,923 | 7,882 |

9.19 PROFORMA NET TANGIBLE ASSETS ("NTA") PER ORDINARY SHARE

Based on the Proforma Consolidated Statement of Assets and Liabilities of the Proforma Group as of March 31, 2005, the proforma NTA per ordinary share is calculated as follows:

| | Proforma Group RM'000 |
|--|--------------------------------------|
| Shareholders' funds | 53,356 |
| Number of ordinary shares of RM0.50 each in issue ('000) | 98,000 |
| Proforma NTA per ordinary share (sen) | 54 |

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10. PROFORMA CONSOLIDATED CASH FLOW STATEMENT

The proforma consolidated cash flow statement of BSL Group set out below is prepared based on audited financial statements of BSL for the financial period September 1, 2004 to March 31, 2005 and the audited financial statements of BSLI, Kotamech, Unique and Crestronics for the financial period September 1, 2004 to March 31, 2005. The proforma consolidated cash flow statement has been prepared based on the assumption that the Acquisitions have been in effect throughout the period from September 1, 2004 to March 31, 2005 and the Rights Issue and Public Issue had been completed on March 31, 2005.

| | RM'000 (7 months) |
|---|------------------------------------|
| Cash Flows From Operating Activities | |
| Profit before tax | 5,810 |
| Adjustments for: | |
| Depreciation of property, plant and equipment | 2,300 |
| Allowance for doubtful receivables | 635 |
| Interest expense | 501 |
| Gain on disposal of property, plant and equipment | (272) |
| Amortisation of reserve on consolidation | (4) |
| | <hr/> |
| Operating Profit Before Working Capital Changes | 8,970 |
| (Increase)/Decrease in: | |
| Inventories | (668) |
| Trade receivables | (1,998) |
| Other receivables and prepaid expenses | 189 |
| Increase/(Decrease) in: | |
| Trade payables | 788 |
| Other payables and accrued expenses | (968) |
| | <hr/> |
| Cash From Operations | 6,313 |
| Income tax paid | <hr/> (1,594) |
| Net Cash Generated From Operating Activities | <hr/> 4,719 |
| Cash Flows From Investing Activities | |
| Proceeds from disposal of property, plant and equipment | 706 |
| Additions to property, plant and equipment (Note) | <hr/> (2,712) |
| Net Cash Used in Investing Activities | <hr/> (2,006) |

(Forward)

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| | RM'000 (7 months) |
|---|------------------------------------|
| Cash Flows From Financing Activities | |
| Proceeds from issue of shares | 15,702 |
| Proceeds from bank borrowings | 1,951 |
| Listing expenses paid | (1,900) |
| Repayment of bank borrowings | (1,741) |
| Repayment of hire-purchase payables | (1,084) |
| Interest paid | (501) |
| Short-term deposits pledged with licensed banks | <u>(30)</u> |
| Net Cash From Financing Activities | <u>12,397</u> |
| Net Increase In Cash And Cash Equivalents | 15,110 |
| Cash and Cash Equivalents At Beginning Of Period | <u>2,941</u> |
| Cash and Cash Equivalents At End Of Period | <u><u>18,051</u></u> |

Note: During the financial period, the Proforma Group acquired property, plant and equipment through the following arrangements:

| | Proforma Group RM'000 |
|--|--|
| Total cost of property, plant and equipment acquired | 9,511 |
| Less: Acquisition costs satisfied through | |
| - hire-purchase arrangements | (1,765) |
| - term loan arrangements | (4,614) |
| - deposit paid in prior year | <u>(420)</u> |
| Cash payments | <u><u>2,712</u></u> |

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10.1 Cash and cash equivalents at the end of year comprise the following:

| | Proforma Group RM'000 |
|---|--------------------------------------|
| Cash and bank balances | 19,611 |
| Short-term deposits with licensed banks | 409 |
| Bank overdrafts (Section 9.12) | <u>(1,888)</u> |
| | 18,132 |
| Short-term deposits pledged with licensed banks (Section 9.9) | <u>(81)</u> |
| | <u><u>18,051</u></u> |

10.2 Proforma Group adopts the indirect method in the preparation of the proforma consolidated cash flow statement.

Cash equivalents are short-term, highly liquid investments with maturities of three months or less from the date of acquisition and are readily convertible to cash with insignificant risks of changes in value.

11. SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE SHEET DATE

As approved by the shareholder at the Extraordinary General Meeting held on April 28, 2005, the issued and fully paid-up capital of BSLI, a subsidiary company of BSL, was increased from RM1,000,000 to RM15,000,000 by way of a bonus issue on the basis of 14,000,000 new ordinary shares of RM1 each through capitalisation of an amount of RM14,000,000 from the unappropriated profit account on the basis of fourteen (14) new ordinary shares of RM1 each for every one (1) existing ordinary shares of RM1 each held. The issue of shares by BSLI does not have any impact on the net assets of the Proforma Group.

The new ordinary shares issued rank pari passu with the then existing ordinary shares of BSLI.

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12. AUDITED FINANCIAL STATEMENTS

No audited financial statements were prepared in respect of any period subsequent to March 31, 2005.

Yours very truly,


DELOITTE KASSIMCHAN
AF 0080
Chartered Accountants


ROSITA TAN
1874/9/06 (J)
Partner