


## 13. ACCOUNTANTS' REPORT



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17 March 2006

The Board of Directors  
Jadi Imaging Holdings Berhad  
No 1, Jalan Peguam U1/25A  
Section U1  
Hicom-Glenmarie Industrial Park  
40150 Shah Alam  
Selangor Darul Ehsan

**Attn: Mr. Liew Kim Siong**

Dear Sirs,

### 1. INTRODUCTION

This report has been prepared by Peter I.M. Chieng & Co., an approved company auditor, for inclusion in the Prospectus of Jadi Imaging Holdings Berhad ("Jadi Imaging") in connection with the flotation on the Second Board of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Flotation").

### 2. GENERAL INFORMATION

#### 2.1 Incorporation

Jadi Imaging was incorporated in Malaysia on 15 September 2000 as a public limited company under the Companies Act, 1965.

On 12 July 2004, the Company was converted to a private limited company and assumed the name of Jadi Imaging Holdings Sdn. Bhd.. On 5 February 2005, the Company was re-converted to a public limited company and assumed its present name of Jadi Imaging Holdings Berhad.


#### 2.2 Principal Activity

The principal activity of Jadi Imaging is investment holding.

#### 2.3 Share Capital

The authorised and paid-up share capital of Jadi Imaging as at 31 December 2005 are RM25,000,000 and RM7,000,002, comprising 250,000,000 and 70,000,020 ordinary shares of RM0.10 each respectively.

On 30 December 2005, the authorised share capital of Jadi Imaging was increased from RM25,000,000 comprising 250,000,000 ordinary shares of RM0.10 each to RM100,000,000 comprising 1,000,000,000 ordinary shares of RM0.10 each.

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**2. GENERAL INFORMATION (Cont'd)****2.4 Subsidiary Companies**

Jadi Imaging Technologies Sdn. Bhd. ("Jadi Technologies"), a wholly-owned subsidiary company of Jadi Imaging, is principally engaged in the manufacturing of toners.

Jadi Imaging Technologies (Suzhou) Co., Ltd ("Jadi Technologies (S)"), a wholly-owned foreign subsidiary company of Jadi Imaging, is principally engaged in the manufacturing of toners.

Further details of the subsidiary companies of Jadi Imaging as at the date of this report are as follows:

Companies	Equity interest	Country of incorporation	Date of incorporation
Jadi Technologies	100%	Malaysia	22 July 1999
Jadi Technologies (S)	100%	China	2 September 2005

**3. FLOTATION**

The Flotation of Jadi Imaging comprise the following:

- **Bonus Issue I**

On 16 January 2006, Jadi Imaging implemented a bonus issue of 77,000,000 new ordinary shares of RM0.10 each ("Shares") to be issued to all shareholders of Jadi Imaging on the basis of approximately 11 new Shares for every 10 Shares held. The Bonus Issue I was capitalised from the retained profits.

Upon completion of Bonus Issue I, the issued and paid-up share capital of Jadi Imaging increased from RM7,000,002 comprising 70,000,020 Shares to RM14,700,002 comprising 147,000,020 Shares.

- **Rights Issue**

On 18 January 2006, Jadi Imaging implemented a rights issue of 156,999,980 new Shares at par on the basis of approximately 1,068 new Shares for every 1,000 Shares held after the Bonus Issue I. The Rights Issue increased the issued and paid-up share capital of Jadi Imaging from RM14,700,002 comprising 147,000,020 Shares to RM30,400,000 comprising 304,000,000 Shares.

- **Initial Public Offering ("IPO")**

The IPO is to comprise an initial public offering of 172,000,000 Shares ("IPO Shares"), of which 96,000,000 IPO Shares are to be issued by the Company pursuant to the public issue ("Public Issue") and 76,000,000 Shares are to be offered by the Offerors (collectively LTL Venture Holdings Sdn. Bhd., Liew Kim Foong, Won Thean Sang, Won Thiam Foo, Won Tian Loong, Eu Lan Eng, Chan Kheng Hoe, Lee Chee Keng, Lim Hock Guan and Mohd Salmi bin Mansor) ("Offer Shares") pursuant to the offer for sale ("Offer for Sale") as set out below:

- **(i) Public Issue**

Jadi Imaging is to make a public issue of 96,000,000 new Shares ("Public Issue Shares"), representing 24% of the enlarged issued and paid-up share capital of Jadi Imaging after the Public Issue, at an IPO price of 22 sen per IPO Share. Based on the IPO Price of 22 sen per IPO Share, the total gross proceeds receivable by the Company from the Public Issue is approximately RM21.12 million.

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**3. FLOTATION (Cont'd)****(ii) Offer for Sale**

In conjunction with the Flotation, the Offerors are to collectively make an offer for sale of 76,000,000 Offer Shares, representing 19% of the enlarged issued and paid-up share capital of Jadi Imaging after the Public Issue, at an offer price of 22 sen per Offer Share.

76,000,000 Offer Shares are to be offered to Bumiputera investors approved by the Ministry of International Trade and Industry.

None of the proceeds arising from the Offer for Sale will accrue to Jadi Imaging as the proceeds amounting to approximately RM16.72 million will be accrued entirely to the Offerors.

- **Bonus Issue II**

As part of the Flotation and an incentive to the shareholders of Jadi Imaging subsequent to the Public Issue and Offer for Sale, Jadi Imaging is to implement a bonus issue of 50,000,000 new Shares to all shareholders of Jadi Imaging prior to the listing on the Second Board of Bursa Securities ("Listing") on the basis of 1 new Share for every 8 Shares held after the Public Issue and Offer for Sale and will be completed prior to the Listing. The Bonus Issue II is to be capitalised from the share premium account arising from the Public Issue.

Upon completion of the Bonus Issue II, the issued and paid-up share capital of Jadi Imaging will increase from RM40,000,000 comprising 400,000,000 Shares to RM45,000,000 comprising 450,000,000 Shares.

- **Listing**

Finally, Jadi Imaging is to seek admission to the Official List of Bursa Securities and the listing of and quotation for the entire enlarged issued and paid-up share capital of Jadi Imaging of RM45,000,000 comprising 450,000,000 Shares on the Second Board of Bursa Securities.

**4. AUDITORS, FINANCIAL STATEMENTS AND FINANCIAL ACCOUNTING DATES**

The financial statements of Jadi Imaging for the financial period ("FP")/financial year ("FY")s under review were audited by the auditors as set out below:

<u>Audited financial statements</u>	<u>Auditors</u>
FP ended 31 December 2001	HLB I.M. Chieng & Co.
FYs ended 31 December 2002 to 2003	HLB I.M. Chieng & Co.
FYs ended 31 December 2004 to 2005	Peter I.M. Chieng & Co.

The audited financial statements for the relevant FP/FYs under review were reported by the respective auditors without any qualification.

The financial statements of Jadi Technologies for the FYs under review were audited by the auditors as set out below:

<u>Audited financial statements</u>	<u>Auditors</u>
FYs ended 31 December 2001 to 2003	HLB I.M. Chieng & Co.
FYs ended 31 December 2004 to 2005	Peter I.M. Chieng & Co.

The audited financial statements for the relevant FYs under review were reported by the auditors without any qualification.

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**4. AUDITORS, FINANCIAL STATEMENTS AND FINANCIAL ACCOUNTING DATES (Cont'd)**

Jadi Technologies (S) was newly incorporated on 2 September 2005. The first audited financial statements of Jadi Technologies (S) is for the four (4) months FP ended 31 December 2005 and were audited by the auditors as set out below:

<u>Audited financial statements</u>	<u>Auditors</u>
FP ended 31 December 2005	Suzhou Lixin Certified Public Accountants Co., Ltd.

The audited financial statements for the FP under review were reported by the auditors without any qualification.

**5. DIVIDENDS**

Dividends paid and declared by Jadi Imaging and its subsidiary company, Jadi Technologies during the FYs under review are as follows:

	RM
<u>Jadi Imaging</u>	
Tax exempt dividend of 5.35 sen per share amounted to RM3,745,000 in respect of the FY ended 31 December 2004, paid on 30 December 2004	<u>3,745,000</u>
<u>Jadi Technologies</u>	
Tax exempt dividend of 68.76 sen per share amounted to RM4,655,000 in respect of the FY ended 31 December 2004, paid on 29 December 2004	4,655,000
Gross dividend of 10 sen per share less 28% taxation amounted to RM487,440 in respect of the FY ended 31 December 2000, paid on 22 June 2001	487,440
Dividend of 49.02 sen per share of RM1,569,000 in respect of the FY ended 31 December 2000 paid by way of 1,569,000 new ordinary shares of RM1 each in Jadi Technologies on 30 December 2000	<u>1,569,000</u>

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## 6. SUMMARISED INCOME STATEMENTS

## 6.1 Proforma Consolidated Income Statements

The proforma consolidated income statements for the past five FYs ended 31 December 2005 are based on the audited financial statements of Jadi Imaging and its subsidiary companies, Jadi Technologies and Jadi Technologies (S) ("Jadi Imaging Group" or "Group"). The proforma consolidated income statements are provided for illustrative purposes only, based on the assumption that the Jadi Imaging Group had been in existence throughout the FYs under review.

	1.1.2001 to 31.12.2001 RM	1.1.2002 to 31.12.2002 RM	1.1.2003 to 31.12.2003 RM	1.1.2004 to 31.12.2004 RM	1.1.2005 to 31.12.2005 RM
Revenue	11,756,855	14,463,795	23,590,694	35,852,838	44,804,615
Cost of sales	(8,486,724)	(10,012,560)	(16,497,815)	(20,806,458)	(29,171,933)
Gross profit ("GP")	3,270,131	4,451,235	7,092,879	15,046,380	15,632,682
Other operating income	21,135	38,696	5,533	1,087	151,571
Selling and distribution expenses	(528,506)	(650,491)	(680,797)	(1,301,734)	(2,123,535)
Administrative expenses	(889,907)	(1,445,913)	(2,410,150)	(3,373,586)	(3,626,551)
Other operating expenses	(446,187)	(510,750)	(217,876)	(53,768)	(87,826)
Profit before interest expense and taxation ("PBIT")	1,426,666	1,882,777	3,789,589	10,318,379	9,946,341
Interest expense	(435,391)	(618,147)	(777,824)	(1,050,523)	(897,450)
Profit before taxation ("PBT")	991,275	1,264,630	3,011,765	9,267,856	9,048,891
Taxation	(81,109)	(788,238)	(338,393)	(1,253,533)	(506,079)
Profit after taxation ("PAT")	910,166	476,392	2,673,372	8,014,323	8,542,812

Included in the proforma consolidated income statements are the following expenses:

	1.1.2001 to 31.12.2001 RM	1.1.2002 to 31.12.2002 RM	1.1.2003 to 31.12.2003 RM	1.1.2004 to 31.12.2004 RM	1.1.2005 to 31.12.2005 RM
Depreciation	312,857	840,412	1,308,662	1,938,807	2,539,856
Research and development expenses	315,298	329,224	323,942	292,546	669,941
Gross earnings per share ("EPS") ^ (sen) <sup>(1)</sup>	0.67	0.86	2.05	6.30	6.16
Net EPS ^ (sen) <sup>(2)</sup>	0.62	0.32	1.82	5.45	5.81
Gross EPS ~ (sen)	1.42	1.81	4.30	13.24	12.93
Net EPS ~ (sen)	1.30	0.68	3.82	11.45	12.20
Earnings before interest, taxation, depreciation and amortisation ("EBITDA") <sup>(3)</sup>	1,739,523	2,723,189	5,098,251	12,257,186	12,486,197
Effective tax rate (%) <sup>(4)</sup>	8.18	62.33	11.24	13.53	5.59
GP margin (%) <sup>(5)</sup>	27.81	30.78	30.07	41.97	34.89
PBT margin (%) <sup>(6)</sup>	8.43	8.74	12.77	25.85	20.20
Interest expense	435,391	618,147	777,824	1,050,523	897,450
Interest coverage (times) <sup>(7)</sup>	3.28	3.05	4.87	9.82	11.08
Gross dividend rate (%) <sup>(8)</sup>	-	-	-	5.35	-
After-tax return on shareholders' funds (%) <sup>(9)</sup>	N/A	6.10	25.51	50.64	35.05

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**6. SUMMARISED INCOME STATEMENTS (Cont'd)****6.1 Proforma Consolidated Income Statements (Cont'd)**

<sup>^</sup> Based on the assumed number of issued and paid-up shares of Jadi Imaging after the Bonus Issue I of 147,000,020 units.

~ Based on existing number of issued and paid-up shares of Jadi Imaging of 70,000,020 units.

- (1) PBT / Number of shares in issue
- (2) PAT / Number of shares in issue
- (3) EBITDA, no amortisation expense incurred
- (4) Tax expense / PBT
- (5) GP / Revenue
- (6) PBT / Revenue
- (7) PBIT / Interest expense
- (8) Gross dividend / Number of shares in issue
- (9) PAT / Shareholders' funds

**Notes to the Proforma Consolidated Income Statements of Jadi Imaging Group:**

- (i) The proforma consolidated income statements of Jadi Imaging Group were presented on the assumption that Jadi Imaging hold 100% equity interest in Jadi Technologies and Jadi Technologies (S) throughout the FYs under review, and as such, there was no minority interest.
- (ii) There were no exceptional items or extraordinary items in the FYs under review.
- (iii) The proforma consolidated income statements include adjustments to taxation expenses for the FYs under review in compliance with Financial Reporting Standards ("FRS") 112: Income Taxes.
- (iv) Jadi Imaging was incorporated on 15 September 2000 and its first set of audited financial results was for the FP from 15 September 2000 to 31 December 2001. Accordingly, adjustments have been made to the audited financial results of Jadi Imaging on a time apportionment basis to arrive at the above proforma results.
- (v) For the purpose of consolidation, the income statement of Jadi Technologies (S) for the FP from 2 September 2005 (date of incorporation) to 31 December 2005 was translated based on the average exchange rate of Renminbi 2.142 : RM1.
- (vi) As Jadi Imaging Group comprise of Jadi Imaging, Jadi Technologies (S) and its sole revenue-generating subsidiary company, Jadi Technologies, the commentaries on the financial results was based on Jadi Technologies' results as presented in Section 6.3.

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## 6. SUMMARISED INCOME STATEMENTS (Cont'd)

## 6.2 Summarised Income Statements of Jadi Imaging

The summarised income statements of Jadi Imaging as set out below are based on its audited financial statements for the sixteen (16) months FP ended 31 December 2001, twelve (12) months FYs ended 31 December 2002, 2003, 2004 and 2005.

	15.9.2000 to 31.12.2001 RM	1.1.2002 to 31.12.2002 RM	1.1.2003 to 31.12.2003 RM	1.1.2004 to 31.12.2004 RM	1.1.2005 to 31.12.2005 RM
Revenue	-	-	-	4,655,000	-
Other operating income	-	16	-	50	-
Administrative expenses	(2,340)	(173,793)	(239,620)	(128,894)	(10,857)
Other operating expenses	(2,200)	(338,544)	(19,242)	(5,000)	-
Loss before taxation ("LBT")/PBT	(4,540)	(512,321)	(258,862)	4,521,156	(10,857)
Taxation	-	-	-	-	(13)
Loss after taxation ("LAT")/PAT	(4,540)	(512,321)	(258,862)	4,521,156	(10,870)
Gross EPS* (sen) <sup>(1)</sup>	(227,000.00)	(0.73)	(0.37)	6.46	(0.02)
Net EPS* (sen) <sup>(2)</sup>	(227,000.00)	(0.73)	(0.37)	6.46	(0.02)
EBITDA <sup>(3)</sup>	(4,540)	(512,321)	(258,862)	4,521,156	(10,870)
Effective tax rate (%) <sup>(4)</sup>	N/A	N/A	N/A	-	N/A
GP margin (%) <sup>(5)</sup>	N/A	N/A	N/A	N/A	N/A
PBT margin (%) <sup>(6)</sup>	N/A	N/A	N/A	0.97	N/A
Interest expense	-	-	-	-	-
Interest coverage (times) <sup>(7)</sup>	N/A	N/A	N/A	N/A	N/A
Gross dividend rate (%) <sup>(8)</sup>	-	-	-	5.35	-
After-tax return on shareholders' funds (%) <sup>(9)</sup>	N/A	(7.90)	(4.16)	64.58	(0.16)
Weighted average number of shares (unit)	2	70,000,020	70,000,020	70,000,020	70,000,020

(1) PBT / Number of shares in issue

(2) PAT / Number of shares in issue

(3) EBITDA, no amortisation expense incurred

(4) Tax expense / PBT\*\*

(5) GP / Revenue\*\*

(6) PBT / Revenue\*\*

(7) PBIT / Interest expense\*\*

(8) Gross dividend / Number of shares in issue

(9) (LAT)/PAT / Shareholders' funds\*\*

\* Based on weighted average number of shares in issue of Jadi Imaging

\*\* Not applicable as Jadi Imaging was in loss making position/shareholders' deficit and had no external interest-bearing borrowings

## Notes to the Summarised Income Statements of Jadi Imaging:

- (i) There were no exceptional or extraordinary items in the FP/FYs under review.
- (ii) No revenue was recorded for the FP/FYs under review other than the dividend income earned in FY 2004 from its subsidiary company, Jadi Technologies.
- (iii) The higher losses incurred by Jadi Imaging in FYs 2002 and 2003 were due to professional charges on legal fees and listing expenses incurred for previous listing scheme which was subsequently aborted.

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**6. SUMMARISED INCOME STATEMENTS (Cont'd)****6.2 Summarised Income Statements of Jadi Imaging (Cont'd)**

Notes to the Summarised Income Statements of Jadi Imaging (Cont'd):

- (iv) Revenue in FY 2004 was in relation to tax exempt dividend income from Jadi Technologies.
- (v) There was no taxation charges for the FP/FYs under review as Jadi Imaging was in a tax loss position. Jadi Imaging was not in a taxable position in FY 2004 due to the tax exempt income earned from dividend declared by Jadi Technologies.

**6.3 Summarised Income Statements of Jadi Technologies**

The summarised income statements of Jadi Technologies as set out below are based on the audited financial statements of Jadi Technologies for the twelve (12) months FYs ended 31 December 2001 to 31 December 2005.


	1.1.2001 to 31.12.2001 RM	1.1.2002 to 31.12.2002 RM	1.1.2003 to 31.12.2003 RM	1.1.2004 to 31.12.2004 RM	1.1.2005 to 31.12.2005 RM
Revenue	11,756,855	14,463,795	23,590,694	35,852,838	44,804,615
Cost of sales	(8,486,724)	(10,012,560)	(16,497,815)	(20,806,458)	(29,171,933)
GP	3,270,131	4,451,235	7,092,879	15,046,380	15,632,682
Other operating income	21,135	38,680	5,533	1,037	149,867
Selling and distribution expenses	(528,506)	(650,491)	(680,797)	(1,301,734)	(2,107,670)
Administrative expenses	(888,152)	(1,272,120)	(2,170,530)	(3,244,692)	(3,500,413)
Other operating expenses	(444,537)	(172,206)	(198,634)	(48,768)	(81,618)
PBIT	1,430,071	2,395,098	4,048,451	10,452,223	10,092,848
Interest expense	(435,391)	(618,147)	(777,824)	(1,050,523)	(897,450)
PBT	994,680	1,776,951	3,270,627	9,401,700	9,195,398
Taxation	(81,109)	(788,238)	(338,393)	(1,253,533)	(506,066)
PAT	913,571	988,713	2,932,234	8,148,167	8,689,332
Gross EPS* <sup>(1)</sup>	0.15	0.26	0.48	1.39	1.36
Net EPS* <sup>(2)</sup>	0.14	0.15	0.43	1.20	1.28
EBITDA <sup>(3)</sup>	1,742,928	3,235,510	5,357,113	12,391,030	12,632,674
Effective tax rate (%) <sup>(4)</sup>	8.15	41.93	10.35	13.34	5.50
GP margin (%) <sup>(5)</sup>	27.81	30.78	30.07	41.97	34.89
PBT margin (%) <sup>(6)</sup>	8.46	12.29	13.86	26.22	20.52
Interest expense	435,391	618,147	777,824	1,050,523	897,450
Interest coverage (times) <sup>(7)</sup>	3.28	3.87	5.20	9.95	11.25
Gross dividend rate (%) <sup>(8)</sup>	10.00	-	-	68.76	-
After-tax return on shareholders' funds (%) <sup>(9)</sup>	12.46	11.88	26.05	51.49	35.45
Weighted average number of shares (unit)	6,436,667	6,770,000	6,770,000	6,770,000	6,770,000

(1) PBT / Number of shares in issue

(2) PAT / Number of shares in issue

(3) No amortisation expense incurred



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**6. SUMMARISED INCOME STATEMENTS (Cont'd)****6.3 Summarised Income Statements of Jadi Technologies (Cont'd)**

- (4) Tax expense / PBT
- (5) GP / Revenue
- (6) PBT / Revenue
- (7) PBIT / Interest expense
- (8) Gross dividend / Number of shares in issue
- (9) PAT / Shareholders' funds

\* Based on weighted average number of shares in issue of Jadi Technologies

**Notes to the Summarised Income Statements of Jadi Technologies:**

- (i) There were no exceptional or extraordinary items in the FYs under review.
- (ii) Taxation expenses for the FYs under review have been adjusted and restated in compliance with FRS 112: Income Taxes.
- (iii) Overall, Jadi Technologies's results over the FYs under review have been on an upward trend other than the slight decline in performance in FY 2001 due to the lower revenue and higher operating expenses in that year. Jadi Technologies's significant improvement in revenue performance and profit margins since FY 2002 were due to improved production efficiency and economies of scale, in line with the increased production capacity through the start up of new production lines as well as new overseas customers secured.
- (iv) FY 2001  
The revenue performance for Jadi Technologies for the year has declined due to the transitional period for the newly acquired factory, plant and machineries at the end of FY 2000. Revenue for the FY declined by 14.57% with consequential decrease in PBT and PAT by 66.70% and 57.28% respectively. PBT and PAT margin were at 8.46% and 7.77% respectively. In FY 2001, the Company was granted pioneer status with tax exemption of up to 70% of the statutory income of Jadi Technologies for five years commencing FY 2001. Hence, the effective tax rate was relatively lower at 8.15% due to the tax exemption granted under the pioneer status.
- (v) FY 2002  
Revenue for FY 2002 improved by 23.02% as compared to FY 2001 with the installation of the second production line during the FY. A corresponding increase in PBT by 78.65% as compared to previous FY was noted whilst PBT margin improved to 12.29%. The overall increase in fixed operating expenses and finance costs was in line with the start up of the new production line.

Effective tax rate was significantly higher due to the provision for deferred tax and underprovision of tax in prior years. As such, PAT margin for the FY was lower at 6.84% due to higher tax expenses incurred for the year. PAT recorded for the year was approximately RM0.99 million, an increase by 8.23% as compared to FY 2001.

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**6. SUMMARISED INCOME STATEMENTS (Cont'd)****6.3 Summarised Income Statements of Jadi Technologies (Cont'd)**

Notes to the Summarised Income Statements of Jadi Technologies (Cont'd):

**(vi) FY 2003**

For the FY 2003, Jadi Technologies's revenue increased by 63.10% to RM23.59 million with the full-year operation of the second production line. The increase in revenue was largely due to incremental export sales orders generated from existing and new customers from countries such as China, Thailand, Indonesia and America, as a result of the adoption of competitive pricing policy and the continuous marketing efforts undertaken by the management such as participation in overseas exhibitions and promotions.

PBT margin for the year was 13.86%, an improvement as compared to FY 2002. With the low effective tax rate of 10.35%, the improved PAT margin was recorded at 12.43%. Both PBT and PAT recorded a growth of 84.06% and 196.57% respectively as compared to the previous year.

**(vii) FY 2004**

With the commencement of the third production line since the second half of FY 2004, Jadi Technologies' revenue recorded improvement by 51.98%, due to higher customers' demand for Jadi Technologies's toner products and successful marketing efforts in securing new customers during the FY.

The overall PBT margin for the year stood at 26.22% whilst PAT margin was recorded at 22.73%, a significant improvement compared to previous years due to increase in production efficiency as well as purchase rebates from bulk purchases of raw materials. PBT and PAT for the year increased by 187.46% and 177.89% respectively as compared to FY 2003.

**(viii) FY 2005**

Revenue for the FY 2005 was recorded at RM44.80 million, which represents an increase of 24.97% as compared to FY 2004. The increase in revenue was in line with the increased production capacity with the full-year operation of the third production line which commenced during the second half of the FY 2004.

PAT for the FY increased by 6.64% as compared to FY 2004. The lower effective tax rate for the FY was due to certain overprovision of deferred taxation in prior years.

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**6. SUMMARISED INCOME STATEMENTS (Cont'd)****6.4 Income Statement of Jadi Technologies (S)**

Jadi Technologies (S) was incorporated on 2 September 2005. Accordingly, there is no comparative information to be disclosed in this report. The summarised income statement of Jadi Technologies (S) for the four (4) months FP based on its audited financial statements is as set out below:

	<b>2.9.2005</b>
	<b>to</b>
	<b>31.12.2005</b>
	<b>RM</b>
Revenue	-
Other operating income	1,704
Selling and distribution expenses	(15,865)
Administrative expenses	(115,281)
Other operating expenses	<u>(6,208)</u>
LBT	(135,650)
Taxation	-
LAT	<u>(135,650)</u>

Notes to the Summarised Income Statement of Jadi Technologies (S):

- (i) There were no exceptional items or extraordinary items in the FP under review.
- (ii) The income statement of Jadi Technologies (S) was translated based on the average rate for the FP of Renminbi 2.142 : RM1.

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**7. SUMMARISED BALANCE SHEETS****7.1 Proforma Consolidated Balance Sheets**

The consolidated balance sheets of Jadi Imaging Group based on its audited financial statements of the Jadi Imaging Group are as follows:

	31.12.2002	31.12.2003	31.12.2004	31.12.2005
	RM	RM	RM	RM
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	16,664,173	16,779,386	25,712,226	24,422,052
Investments	170,000	170,000	170,000	170,000
<b>CURRENT ASSETS</b>				
Inventories	4,462,212	5,889,179	8,980,482	8,587,925
Trade receivables	1,625,339	1,956,892	2,808,960	3,343,927
Other receivables, prepayments and deposits	284,630	597,785	2,269,319	3,249,403
Tax recoverable	141,170	20,150	-	-
Amount due from holding company	-	-	3,498	-
Cash and bank balance	235,420	436,039	902,653	2,698,114
	<u>6,748,771</u>	<u>8,900,045</u>	<u>14,964,912</u>	<u>17,879,369</u>
<b>CURRENT LIABILITIES</b>				
Trade payables	1,815,002	2,298,429	5,500,212	3,952,185
Other payables and accruals	1,274,670	1,237,443	813,028	728,894
Hire purchase payables	1,000,255	1,343,234	3,657,509	3,900,481
Short term borrowings	2,668,921	1,353,173	2,560,214	1,406,363
Amount due to shareholders	-	-	1,427,969	1,427,969
Amount due to director(s)	87,073	2,200	3,274	728,237
Amount due to holding company	3,250	-	-	-
Provision for taxation	-	-	236,280	35,661
	<u>6,849,171</u>	<u>6,234,479</u>	<u>14,198,486</u>	<u>12,179,790</u>
<b>NET CURRENT (LIABILITIES)/ASSETS</b>	(100,400)	2,665,566	766,426	5,699,579
	<u>16,733,773</u>	<u>19,614,952</u>	<u>26,648,652</u>	<u>30,291,631</u>
<b>FINANCED BY:</b>				
Share capital	7,000,002	7,000,002	7,000,002	7,000,002
Reserve on consolidation	-	-	1,075,463	1,075,463
Foreign exchange reserve	-	-	-	3,828
Retained profits	806,376	3,479,748	7,749,071	16,291,883
Shareholders' funds	<u>7,806,378</u>	<u>10,479,750</u>	<u>15,824,536</u>	<u>24,371,176</u>
<b>NON-CURRENT LIABILITIES</b>				
Hire purchase payables	4,214,368	3,942,944	5,657,951	1,885,408
Term loan - long term	3,849,885	4,260,723	3,294,240	2,291,047
Deferred tax liabilities	863,142	931,535	1,871,925	1,744,000
	<u>16,733,773</u>	<u>19,614,952</u>	<u>26,648,652</u>	<u>30,291,631</u>
NTA	7,806,378	10,479,750	15,824,536	24,371,176
NTA per share <sup>(1)</sup>	0.11	0.15	0.23	0.35
Current ratio (times) <sup>(2)</sup>	0.99	1.43	1.05	1.47
Total borrowings <sup>(3)</sup>	11,733,429	10,900,074	15,169,914	9,483,299
Gearing ratio (times) <sup>(4)</sup>	1.50	1.04	0.96	0.39

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**13. ACCOUNTANTS' REPORT (Cont'd)**

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**7. SUMMARISED BALANCE SHEETS (Cont'd)**

**7.1 Proforma Consolidated Balance Sheets (Cont'd)**

- (1) NTA / Number of shares in issue
- (2) Current assets / Current liabilities
- (3) All interest-bearing debts
- (4) Total borrowings / Shareholders' funds

Notes to the Proforma Consolidated Balance Sheets of Jadi Imaging Group:

- (i) The consolidated balance sheets of Jadi Imaging Group were presented upon the acquisition of 100% equity interest in Jadi Technologies by Jadi Imaging since 31 March 2002 and 100% equity interest in Jadi Technologies (S) by Jadi Imaging.
- (ii) Deferred tax liabilities for the FYs under review have been adjusted and restated in compliance with FRS 112: Income Taxes.
- (iii) For the purpose of consolidation, the balance sheet of Jadi Technologies (S) as at 31 December 2005 was translated based on closing rate as at 30 December 2005 of Renminbi 2.134 : RM1.

**13. ACCOUNTANTS' REPORT (Cont'd)**

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**7.2 Summarised Balance Sheets of Jadi Imaging**

The balance sheets of Jadi Imaging based on its audited financial statements are set out below:

	31.12.2001 RM	31.12.2002 RM	31.12.2003 RM	31.12.2004 RM	31.12.2005 RM
<b>NON-CURRENT ASSETS</b>					
Investment in subsidiary companies	-	7,000,000	7,000,000	7,000,000	8,984,070
<b>CURRENT ASSETS</b>					
Prepayments and other receivables	266,612	-	10,000	112,875	2,288,686
Amount due from holding company	-	-	-	1,958	-
Amount due from subsidiary company	-	-	-	1,317,271	-
Cash in hand	2	18	18	-	-
	<u>266,614</u>	<u>18</u>	<u>10,018</u>	<u>1,432,104</u>	<u>2,288,686</u>
<b>CURRENT LIABILITIES</b>					
Other payables and accruals	271,152	131,700	4,016	1,500	19,423
Amount due to subsidiary company	-	382,977	779,523	-	2,833,599
Amount due to a director	-	2,200	2,200	2,200	2,200
Amount due to shareholders	-	-	-	1,427,969	1,427,969
	<u>271,152</u>	<u>516,877</u>	<u>785,739</u>	<u>1,431,669</u>	<u>4,283,191</u>
<b>NET CURRENT (LIABILITIES)/ASSETS</b>	<b>(4,538)</b>	<b>(516,859)</b>	<b>(775,721)</b>	<b>435</b>	<b>(1,994,505)</b>
	<u>(4,538)</u>	<u>6,483,141</u>	<u>6,224,279</u>	<u>7,000,435</u>	<u>6,989,565</u>
<b>FINANCED BY:</b>					
Share capital	2	7,000,002	7,000,002	7,000,002	7,000,002
(Accumulated losses)/Retained profit	(4,540)	(516,861)	(775,723)	433	(10,437)
Shareholders' (deficit)/funds	<u>(4,538)</u>	<u>6,483,141</u>	<u>6,224,279</u>	<u>7,000,435</u>	<u>6,989,565</u>
NTA per share <sup>(1)</sup>	(2,269.00)	0.09	0.09	0.10	0.10
Current ratio (times) <sup>(2)</sup>	0.98	0.00	0.01	1.00	0.53
Total borrowings <sup>(3)</sup>	N/A	N/A	N/A	N/A	N/A
Gearing ratio (times) <sup>(4)</sup>	N/A	N/A	N/A	N/A	N/A

(1) NTA / Number of shares in issue

(2) Current assets / Current liabilities

(3) All interest-bearing debts

(4) Total borrowings / Shareholders' funds

**13. ACCOUNTANTS' REPORT (Cont'd)**

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**7. SUMMARISED BALANCE SHEETS (Cont'd)****7.3 Summarised Balance Sheets of Jadi Technologies**

The balance sheets of Jadi Technologies based on its audited financial statements are as set out below:

	<b>31.12.2001</b>	<b>31.12.2002</b>	<b>31.12.2003</b>	<b>31.12.2004</b>	<b>31.12.2005</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	8,786,561	16,664,173	16,779,386	25,712,226	24,107,993
Investments	50,000	170,000	170,000	170,000	170,000
<b>CURRENT ASSETS</b>					
Inventories	1,865,133	4,462,212	5,889,179	8,980,482	8,587,925
Trade receivables	1,605,200	1,625,339	1,956,892	2,808,960	3,343,927
Other receivables, prepayments and deposits	385,843	284,630	587,785	2,156,444	840,070
Amount due from related company	-	-	-	-	133,221
Amount due from holding company	268,051	382,977	779,523	-	2,820,504
Amount due from ultimate company	-	-	-	1,540	-
Tax recoverable	-	141,170	20,150	-	-
Cash and bank balances	1,039,320	235,402	436,021	902,653	1,159,891
	<b>5,163,547</b>	<b>7,131,730</b>	<b>9,669,550</b>	<b>14,850,079</b>	<b>16,885,538</b>
<b>CURRENT LIABILITIES</b>					
Trade payables	788,593	1,815,002	2,298,429	5,500,212	3,952,185
Other payables and accruals	252,977	1,142,970	1,233,427	811,528	708,916
Hire purchase payables	-	1,000,255	1,343,234	3,657,509	3,900,481
Short term borrowings	547,921	2,668,921	1,353,173	2,560,214	1,406,363
Amount due to director(s)	-	84,873	-	1,074	726,037
Amount due to holding company	-	-	-	1,317,271	-
Amount due to ultimate holding company	-	3,250	-	-	-
Provision for taxation	371,440	-	-	236,280	35,661
	<b>1,960,931</b>	<b>6,715,271</b>	<b>6,228,263</b>	<b>14,084,088</b>	<b>10,729,643</b>
<b>NET CURRENT ASSETS</b>	<b>3,202,616</b>	<b>416,459</b>	<b>3,441,287</b>	<b>765,991</b>	<b>6,155,895</b>
	<b>12,039,177</b>	<b>17,250,632</b>	<b>20,390,673</b>	<b>26,648,217</b>	<b>30,433,888</b>
<b>FINANCED BY:</b>					
Share capital	6,770,000	6,770,000	6,770,000	6,770,000	6,770,000
Retained profits	564,524	1,553,237	4,485,471	7,978,638	16,667,970
Revaluation reserve	-	-	-	1,075,463	1,075,463
Shareholders' funds	<b>7,334,524</b>	<b>8,323,237</b>	<b>11,255,471</b>	<b>15,824,101</b>	<b>24,513,433</b>
<b>NON-CURRENT LIABILITIES</b>					
Hire purchase payables	-	4,214,368	3,942,944	5,657,951	1,885,408
Term loan - long term	4,454,544	3,849,885	4,260,723	3,294,240	2,291,047
Deferred tax liabilities	250,109	863,142	931,535	1,871,925	1,744,000
	<b>12,039,177</b>	<b>17,250,632</b>	<b>20,390,673</b>	<b>26,648,217</b>	<b>30,433,888</b>

**13. ACCOUNTANTS' REPORT (Cont'd)**

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**7. SUMMARISED BALANCE SHEETS (Cont'd)****7.3 Summarised Balance Sheets of Jadi Technologies (Cont'd)**

Deferred tax liabilities for the FYs under review have been adjusted and restated in compliance with FRS 112: Income Taxes.

	31.12.2001	31.12.2002	31.12.2003	31.12.2004	31.12.2005
	RM	RM	RM	RM	RM
NTA per share <sup>(1)</sup>	1.08	1.23	1.66	2.34	3.62
Current ratio (times) <sup>(2)</sup>	2.63	1.06	1.55	1.05	1.57
Total borrowings <sup>(3)</sup>	5,002,465	11,733,429	10,900,074	15,169,914	9,483,299
Gearing ratio (times) <sup>(4)</sup>	0.68	1.41	0.97	0.96	0.39

(1) NTA / Number of shares in issue

(2) Current assets / Current liabilities

(3) All interest-bearing debts

(4) Total borrowings / Shareholders' funds

**7.4 Summarised Balance Sheet of Jadi Technologies (S)**

Jadi Technologies (S) was incorporated on 2 September 2005. Accordingly, there is no comparative information to be disclosed in this report. The summarised balance sheet of Jadi Technologies (S) based on its audited financial statements is as set out below:

	31.12.2005
	RM
<b>NON-CURRENT ASSETS</b>	
Property, plant and equipment	314,059
<b>CURRENT ASSETS</b>	
Other receivables, prepayments and deposits	120,647
Amount due from holding company	13,095
Cash and bank balances	1,538,223
	<u>1,671,965</u>
<b>CURRENT LIABILITIES</b>	
Other payables and accruals	555
Amount due to related company	132,623
	<u>133,178</u>
<b>NET CURRENT ASSETS</b>	1,538,787
	<u>1,852,846</u>
<b>FINANCED BY:</b>	
Capital contribution	1,989,020
Foreign exchange reserve	(524)
Accumulated loss	(135,650)
	<u>1,852,846</u>
Current ratio (times) <sup>(1)</sup>	12.55

(1) Current assets / Current liabilities

The balance sheet of Jadi Technologies (S) was translated based on closing rate as at 30 December 2005 of Renminbi 2.134 : RM1.



**13. ACCOUNTANTS' REPORT (Cont'd)**

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**8. STATEMENT OF ASSETS AND LIABILITIES**

The proforma statement of assets and liabilities of Jadi Imaging Group as at 31 December 2005 is presented based on the audited financial statements, for illustrative purposes only, to show the effects of the transactions stated in Section 3 of this report. The proforma statement of assets and liabilities should be read in conjunction with the notes thereto.

	Note	RM
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	8.3	50,422,052
Investments	8.4	170,000
<b>CURRENT ASSETS</b>		
Inventories	8.5	8,587,925
Trade receivables	8.6	3,343,927
Other receivables, deposits and prepayments	8.7	3,249,403
Cash and bank balances		10,490,143
		<u>25,671,398</u>
<b>CURRENT LIABILITIES</b>		
Trade payables	8.8	3,952,185
Other payables and accruals		728,894
Amount due to directors	8.9	728,237
Hire purchase payables	8.10	3,900,481
Short term borrowings	8.11	1,406,363
Provision for taxation		35,661
		<u>10,751,821</u>
<b>NET CURRENT ASSETS</b>		14,919,577
		<u>65,511,629</u>
<b>FINANCED BY:</b>		
Share capital	8.13	45,000,000
Share premium	8.14	4,920,000
Revaluation reserve	8.15	1,075,463
Foreign exchange reserve	8.16	3,828
Retained profits		8,591,883
Shareholders' funds		<u>59,591,174</u>
<b>NON-CURRENT LIABILITIES</b>		
Hire purchase payables	8.10	1,885,408
Term loan	8.12	2,291,047
Deferred taxation	8.17	1,744,000
		<u>65,511,629</u>

**8.1 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted by Jadi Imaging Group and Jadi Imaging are as follows:

**(a) Basis of Accounting**

The financial statements of Jadi Imaging Group and Jadi Imaging have been prepared under the historical cost convention except for the revaluation of freehold land and building included within property, plant and equipment and in accordance with applicable Approved Accounting Standards in Malaysia and the provisions of the Companies Act, 1965.

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**8. STATEMENT OF ASSETS AND LIABILITIES (Cont'd)****8.1 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)****(b) Basis of consolidation**Subsidiary companies

The consolidated financial statements include the financial statements of the Jadi Imaging and its subsidiary companies. Subsidiary companies are those entities in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from its activities.

Subsidiary companies are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiary companies acquired or disposed of during the financial year is included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The assets and liabilities of the subsidiary companies are measured at their fair values at the date of acquisition. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary companies at the date of acquisition is included in the consolidated balance sheet as goodwill arising on consolidation.

Intra-group transaction, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences.

Minority interests in the consolidated balance sheet consist of the minorities' share of the fair value of the identifiable assets and liabilities of the acquiree as at acquisition date and the minorities' share of movements in the acquiree's equity since then.

**(c) Investment in subsidiary companies**

Investment in subsidiary companies is stated at cost and is written down when there is an impairment in the value of such investment. Impairment loss is recognised in the income statement of Jadi Imaging. The policy for the recognition and measurement of impairment loss in accordance with Section 8.1(e).

On disposal, the difference between the net disposal proceeds and the carrying amount of the subsidiary company disposed is recognised in the income statement.

**(d) Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Section 8.1(e).

Freehold land and building are stated at valuation less impairment losses. Revaluation are made at least once in every five years based on a valuation by an independent valuer on an open market value basis. Any revaluation increase is credited to equity as a revaluation surplus, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is recognised in the income statement to the extent of the decrease previously recognised. A revaluation decrease is first offset against unutilised previously recognised revaluation surplus in respect of the same asset and the balance is thereafter recognised as an expense. Upon the disposal of revalued assets, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained profits.

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**8. STATEMENT OF ASSETS AND LIABILITIES (Cont'd)****8.1 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)****(d) Property, plant and equipment and depreciation (Cont'd)**

Freehold land is not depreciated. Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the costs of each asset to its residual value over the estimated useful life, at the following annual rates:

Building	2.5%
Plant and machinery	10% - 15%
Motor vehicles	20%
Computers	20%
Tools and equipment	20%
Office equipment	20%
Office renovation	10%
Furniture and fittings	20%

Upon the disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement and the unutilised portion of the related revaluation surplus is taken directly to retained profits.

**(e) Impairment of assets**

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset.

**(f) Investment property**

Investment property consist of investment in building that is not substantially occupied for use by, or in the operations, of the Company. Investment property is treated as long term investment and is stated at cost.

Upon the disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

**(g) Investment in golf club membership**

Investment in golf club membership is stated at cost less impairment losses. On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in the income statement.

**(h) Inventories**

Inventories are stated at lower of cost and net realisable value.

Cost is determined using the first in, first out method. The cost of raw materials comprises costs of purchase. The costs of finished goods and work-in-progress comprise raw materials, direct labour, other direct costs and appropriate proportions of production overheads.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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**8. STATEMENT OF ASSETS AND LIABILITIES (Cont'd)****8.1 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)****(i) Trade and other receivables**

Trade and other receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

**(j) Trade and other payables**

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

**(k) Hire-purchase arrangements**

Plant and equipment acquired under hire purchase arrangement are capitalised and the corresponding obligations treated as liabilities in the balance sheets. The finance expenses of the hire purchases are charged to the income statements, over the period of the respective hire purchase agreements.

The finance charge is allocated to periods during the hire purchase term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The net carrying amount includes amount capitalised less accumulated depreciation and any impairment loss. The depreciation policy for plant and equipment acquired under hire purchase arrangements is consistent with the depreciable plant and equipment which are owned.

**(l) Foreign currency transaction and translation**

Transactions in foreign currencies are converted into Ringgit Malaysia at the rates of exchange ruling on the transaction dates. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Ringgit Malaysia at the rates of exchange ruling at that date. Gains or losses on foreign exchange are taken up in the income statement.

**(m) Income tax**

Income tax on the profit or loss for the period comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the period and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

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**8. STATEMENT OF ASSETS AND LIABILITIES (Cont'd)****8.1 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)****(n) Cash and cash equivalents**

Cash and cash equivalents comprise of cash and bank balances.

**(o) Revenue recognition**

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

**(i) Sale of goods**

Revenue relating to sale of goods is recognised net of sales taxes and discounts upon the transfer of risks and rewards.

**(ii) Interest income**

Interest is recognised on a time proportion basis that reflects the effective yield on the asset.

**(p) Employee benefits****(i) Short term benefits**

Wages, salaries and bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

**(ii) Defined contribution plans**

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund. Such contributions are recognised as an expense in the income statement as incurred.

**(q) Research and development costs**

Expenditure on research and development activities is recognised as an expense in the period in which it is incurred.

**(r) Financial instruments****(i) Financial instruments recognised on the balance sheet**

Financial assets and financial liabilities carried on the balance sheet include borrowings, trade and other receivables/payables. The accounting policies on recognition and measurement of these items are disclosed in their respective accounting policies.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Gains, and losses relating to a financial instrument, are reported as expense or income. Financial instruments are offset when Jadi Imaging has legal enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

**(ii) Financial instruments not recognised on the balance sheet**

Jadi Imaging did not enter into any contract involving financial instruments with off balance sheet risk.

**(iii) Equity instruments**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

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**8. STATEMENT OF ASSETS AND LIABILITIES (Cont'd)****8.2 FINANCIAL RISK MANAGEMENT POLICIES**

Jadi Imaging Group's financial risk management policies were established to ensure the adequacy of financial resources for business development and in managing its credit, liquidity, cash flow, interest rate and currency risks. Capital resources of Jadi Imaging Group are managed and allocated centrally to ensure that all business units within Jadi Imaging Group maintains sufficient and prudent level of capital and liquidity at all times. Jadi Imaging Group operates within clearly defined guidelines that are approved by the Board of Directors.

Jadi Imaging Group's policies in respect of the major areas of financial risk activities are set out as

**(a) Credit Risk**

Credit risk is the risk of default by clients and counterparties. Cash deposits and trade receivables may give rise to credit risk which requires the loss to be recognised if a counterparty fails to perform as contracted. It is Jadi Imaging Group's policy to monitor the financial standing of these counterparties on an on-going basis to ensure that Jadi Imaging Group's exposure to credit risk is minimal.

Jadi Imaging Group manages its credit risk by controlling the application of credit approvals, limits and other monitoring procedures on receivables.

**(b) Liquidity Risk**

Liquidity risk, also referred to as funding risk, is the risk of Jadi Imaging Group in raising adequate funds to meet its commitments associated with financial instruments.

Jadi Imaging Group manages the funding needs and allocates funds in such manner that all business units maintains optimum levels of liquidity sufficient in meeting their operation requirements. Furthermore, financial commitments are closely monitored to ensure that Jadi Imaging Group is able to meet its obligations as and when they fall due and that refinancing needs are met.

**(c) Cash Flow Risk**

Cash flow risk is the risk fluctuation in the amounts of future cash flows associated with a monetary financial instrument. Cash flow forecasts are prepared incorporating all major transactions. Any temporary excess funds, as and when available, from operating cash cycles, are invested in short term placements and fixed deposits with a wide array of licensed financial institutions at the most competitive interest rates obtainable.

**(d) Interest Rate Risk**

Jadi Imaging Group's primary interest rate risk relates to interest-bearing debt. Jadi Imaging Group manages its interest rate exposure by reviewing its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against interest rate hikes.

**(e) Currency Risk**

Currency risk is the risk of fluctuation in the value of a financial instrument due to changes in foreign exchange rates. The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to Euro, United States Dollar, Japanese Yen and Chinese Renminbi. Currency risks relating to operating activities in the ordinary course of business of the Company are minimal. These currency risks are generally not hedged, such risk may be naturally hedged through plan course of business and by matching income and expenditure to minimise currency exchange.

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**8. STATEMENT OF ASSETS AND LIABILITIES (Cont'd)****8.3 PROPERTY, PLANT AND EQUIPMENT**

	Cost RM	Accumulated Depreciation RM	Net Book Value RM
<b>Valuation</b>			
Freehold land	7,726,260	-	7,726,260
Building	6,867,549	(106,602)	6,760,947
<b>Cost</b>			
Plant and machinery	39,804,310	(5,561,707)	34,242,603
Motor vehicles	1,419,123	(663,260)	755,863
Computers	200,394	(78,222)	122,172
Tools and equipment	629,113	(223,745)	405,368
Furniture and fittings	44,904	(4,412)	40,492
Office equipment	75,504	(19,247)	56,257
Office renovation	312,090	-	312,090
	<u>57,079,247</u>	<u>(6,657,195)</u>	<u>50,422,052</u>

Certain portion of the proceeds receivable from the Rights Issue and IPO totalling RM26 million is utilised for the acquisition of land and building, plant and machinery.

The freehold land and building have been pledged to a bank for term loan granted to Jadi Imaging Group as disclosed in Section 8.12.

**8.4 INVESTMENTS**

Investments relate to a transferable golf club membership at the Glenmarie Golf and Country Club membership at cost of RM50,000 and an apartment unit held as investment property which is carried at cost of RM120,000.

**8.5 INVENTORIES**

	RM
At cost:	
Finished goods	3,116,179
Raw materials	4,496,665
Packaging materials	143,991
Work-in-progress	831,090
	<u>8,587,925</u>

The increase in inventories as at 31 December 2005 as compared to previous financial years was to meet the increase in production and sale of toners. Raw materials are maintained at higher quantities to cater for production needs.

**8.6 TRADE RECEIVABLES**

	RM
Trade receivables	3,449,397
Less: Allowance for doubtful debts	(105,470)
	<u>3,343,927</u>

The Group's normal trade credit terms range is 45 days on average. Other credit terms are assessed and approved on a case-by-case basis.

The Group has no significant concentration of credit risk that may arise from exposure to a single debtor or group of debtors.

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**8. STATEMENT OF ASSETS AND LIABILITIES (Cont'd)****8.7 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS**

	RM
Deposits	1,816,468
Prepayments	1,343,681
Sundry receivables	89,254
	<u>3,249,403</u>

Included in other receivables is an amount of RM78,215 in relation to rebates receivables for the purchase of raw material. Included in deposits is an amount of RM1,483,265 which relates to 20% downpayment for equipment for Jadi Technologies (S) as at 31 December 2005.

**8.8 TRADE PAYABLES**

The normal credit terms granted to the Jadi Imaging Group ranges from 30 to 90 days.

**8.9 AMOUNT DUE TO DIRECTORS**

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

**8.10 HIRE PURCHASE PAYABLES**

	RM
Current portion	3,900,481
Long-term portion	1,885,408
Total	<u>5,785,889</u>

The hire purchase payables bear effective interest rates of 6.12% to 14.64% per annum.

**8.11 SHORT TERM BORROWINGS**

	RM
Unsecured:	
Bankers' acceptance	400,000
Secured:	
Term loan (8.12)	1,006,363
	<u>1,406,363</u>

**8.12 TERM LOAN**

	RM
Amount outstanding	3,297,410
Current portion - due within one year (8.11)	(1,006,363)
Non-current portion	<u>2,291,047</u>

The non-current portion of the term loan is repayable as follows:

	RM
Later than one year not later than two years	1,081,798
Later than two years not later than five years	1,209,249
	<u>2,291,047</u>

The term loan is repayable in 60 instalments with monthly instalment of RM101,000 and bears interest at 1.25% per annum above the bank's base lending rate.



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**8. STATEMENT OF ASSETS AND LIABILITIES (Cont'd)****8.12 TERM LOAN (Cont'd)**

The term loan is secured by way of:

- (i) deed of assignment over the rights, title and interest to the three storey office-cum-factory building which is on part of the land held under Mukim Damansara, District of Petaling, Selangor Darul Ehsan as disclosed in Section 8.3;
- (ii) fixed charge over the above mentioned property;
- (iii) a guarantee by a director of the Jadi Technologies; and
- (iv) a facilities agreement and all monies due.

**8.13 SHARE CAPITAL**

	No. of ordinary shares of RM0.10 each	RM
Authorised:		
As at 31 December 2005	<u>1,000,000,000</u>	<u>100,000,000</u>
Issued and fully paid up:		
As at 31 December 2005	70,000,020	7,000,002
Bonus Issue I	77,000,000	7,700,000
Rights Issue	<u>156,999,980</u>	<u>15,699,998</u>
	304,000,000	30,400,000
Public Issue	<u>96,000,000</u>	<u>9,600,000</u>
	400,000,000	40,000,000
Bonus Issue II	<u>50,000,000</u>	<u>5,000,000</u>
	<u>450,000,000</u>	<u>45,000,000</u>

**8.14 SHARE PREMIUM**

	RM
As at 31 December 2005	-
Arising from Public Issue	11,520,000
Estimated listing expenses	(1,600,000)
Capitalisation for Bonus Issue II	<u>(5,000,000)</u>
	<u>4,920,000</u>

**8.15 REVALUATION RESERVE**

Revaluation reserve comprises of the cumulative net change, net of deferred tax effects, arising from the revaluation of freehold land and building above their costs.

**8.16 FOREIGN EXCHANGE RESERVE**

Foreign exchange reserve comprise of cumulative net translation differences not recognised in the income statement, which arose from translation of financial statements of foreign subsidiary company.

**8.17 DEFERRED TAXATION**

Deferred taxation mainly consists of accelerated capital allowances over depreciation of qualifying plant and equipment and effect arising from the revaluation of freehold land and building.

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**9. NTA COVER**

Based on the proforma statement of assets and liabilities of Jadi Imaging Group as at 31 December 2005, the proforma consolidated NTA per ordinary share of RM0.10 each is as follows:

	RM
Proforma NTA of Jadi Imaging Group as at 31 December 2005	<u>59,591,174</u>
Number of ordinary shares after the transactions (unit)	<u>450,000,000</u>
Proforma NTA per ordinary shares in issue as at 31 December 2005	<u>0.13</u>

**10. CONSOLIDATED CASHFLOW STATEMENTS**

The proforma consolidated cashflow statement of the Jadi Imaging Group for the financial year ended 31 December 2005 set out below is based on the audited financial statements, after taking into consideration of the effects of the transactions stated in Section 3 of this report.

	RM
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>	
Cash receipts from customers	43,438,789
Cash paid to suppliers and employees	<u>(32,981,132)</u>
Cash generated from operations	10,457,657
Tax paid	(834,623)
Interest paid	<u>(897,450)</u>
Net cash generated from operating activities	<u>8,725,584</u>
<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of property, plant and equipment	(27,250,340)
Proceeds from disposal of property, plant and equipment	1,300
Interest received	1,704
Net cash used in investing activities	<u>(27,247,336)</u>
<b>CASHFLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from issuance of shares arising from Rights Issue and Public Issue	35,392,029
Payment of listing expenses	(1,600,000)
Drawdown of borrowings	553,000
Repayment of borrowings	<u>(5,270,589)</u>
Net cash generated from financing activities	<u>29,074,440</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	10,552,688
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR</b>	(66,373)
<b>EFFECT OF CHANGES IN FOREIGN EXCHANGE</b>	3,828
<b>CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR</b>	<u>10,490,143</u>

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**11. OTHER SIGNIFICANT MATTERS****Contingent Liabilities**

There were no contingent liabilities for Jadi Imaging Group as at 31 December 2005.

**Capital Commitments**

The capital commitments of Jadi Imaging Group are as follows:

	RM
<b>Approved and contracted for</b>	
The setting up of Jadi Technologies (S) <sup>1</sup>	5,029,152
The setting up of the fifth production line <sup>2</sup>	5,505,698
<b>Approved and not contracted for</b>	-
	10,534,850

**Note:**

1. As part of the incorporation of Jadi Technologies (S), Jadi Imaging has committed to a registered capital of USD3.5 million, of which USD1.0 million shall be payable in cash and the balance in the form of equipment and office facilities which includes the extruder system and pulverising and classifying system, details of which are set out below. To date, an amount of USD525,000 of the above registered capital, equivalent to RM1,984,070 has been paid in cash and payments for the purchase of the extruder system and pulverising and classifying system have been paid as follows:

	Total commitment		Payment made	Balance
	USD	RM*	(RM equivalent)	outstanding
<b>Registered capital</b>			<b>RM</b>	<b>RM</b>
Payable in cash	1,000,000	3,800,000	1,984,070	1,815,930
Payable in the form of equipment and office facilities	2,500,000	9,500,000	6,443,360 <sup>^</sup>	3,056,640
	3,500,000	13,300,000	8,427,430	4,872,570

<sup>^</sup> Comprise of the purchase of the following equipment:

- (a) Jadi Technologies had on 28 July 2005, contracted to acquire a Mc-Twin screw extruder system for a total purchase consideration of EURO300,000. Jadi Technologies had on 17 August 2005 and 7 February 2006, paid EURO270,000, being 90% of the total purchase consideration, equivalent to RM1,219,260. As at 28 February 2006, the said purchase of extruder system has yet to be completed and the balance of EURO30,000 remains outstanding. The outstanding amount shall be funded from the proceeds to be raised from the Rights Issue and Public Issue.
- (b) Jadi Technologies had on 22 August 2005, contracted to acquire a pulverising and classifying system to be commissioned and installed in Suzhou, China for a total purchase consideration of JPY175,000,000. Jadi Technologies had on 5 September 2005 and 24 January 2006, paid JPY157,500,000, being 90% of the total purchase consideration, equivalent to RM5,224,100. As at 28 February 2006, the said pulverizing and classifying system acquisition has yet to be completed and the balance of JPY17,500,000 remains outstanding. The outstanding amount shall be funded from the proceeds to be raised from the Rights Issue and Public Issue.

\* Assuming an exchange rate of USD1 : RM3.80

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**11. OTHER SIGNIFICANT MATTERS (Cont'd)****Capital Commitments (Cont'd)**

As part of the setting up of Jadi Technologies (S) in Suzhou China, Jadi Technologies (S) had on 23 November 2005 and 23 December 2005 respectively, contracted for office and factory renovation works totalling Renminbi 1,130,000. As at 28 February 2006, Jadi Technologies (S) had paid Renminbi 791,000, equivalent to RM370,665, and the balance of Renminbi 339,000, equivalent to RM156,582 (assuming an exchange rate of Renminbi 2.165 : RM1 as at 28 February 2006) remains outstanding.

As such, the total commitment which remains outstanding in relation to the setting up of Jadi Technologies (S) is RM5.029 million.

2. Capital commitments on plant and machineries which relate to the installation of the fifth production line in Malaysia are as follows:

(a) Jadi Technologies had on 27 January 2006, contracted to acquire a Mc-Twin screw extruder system for a total purchase consideration of EURO295,000. Jadi Technologies had on 7 February 2006, paid a deposit of EURO59,000, being 20% of the total purchase consideration, equivalent to RM265,028. As at 28 February 2006, the said purchase of extruder system has yet to be completed and the balance of EURO236,000 equivalent to RM1,039,698 (assuming an exchange rate of EURO1: RM4.4055 as at 28 February 2006) remains outstanding. The outstanding amount shall be funded from the proceeds to be raised from the Rights Issue and Public Issue.

(b) Jadi Technologies had on 27 January 2006, contracted to acquire a pulverising and classifying system for a total purchase consideration of JPY175,000,000. Jadi Technologies had on 7 February 2006, paid a deposit of JPY35,000,000, being 20% of the total purchase consideration, equivalent to RM1,105,650. As at 28 February 2006, the said pulverizing and classifying system acquisition has yet to be completed and the balance of JPY140,000,000 equivalent to RM4,466,000 (assuming an exchange rate of JPY1: RM0.0319 as at 28 February 2006) remains outstanding. The outstanding amount shall be funded from the proceeds to be raised from the Rights Issue and Public Issue.

As such, the total commitment which remains outstanding in relation to the setting up of the fifth production line is RM5.506 million.

**Subsequent Events**


Save as disclosed below, there were no subsequent events between the date of the latest audited financial statements and the date of this report:

- (a) On 3 January 2006, Jadi Technologies declared a tax exempt dividend of 115 sen per share amounted to RM7,785,500 in respect of the FY ending 31 December 2006, paid on 13 January 2006.
- (b) On 16 January 2006, a bonus issue of 77,000,000 Shares were issued to all shareholders of Jadi Imaging on the basis of approximately 11 new Shares for every 10 Shares held, which were capitalised from the retained profits.
- (c) Subsequent to the bonus issue, on 18 January 2006, a rights issue of 156,999,980 new Shares at par on the basis of approximately 1,068 new Shares for every 1,000 Shares held was implemented.

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**13. ACCOUNTANTS' REPORT (Cont'd)**

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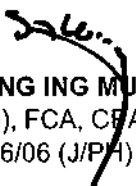
  
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**12. AUDITED FINANCIAL STATEMENTS**

No audited financial statements have been prepared in respect of any period subsequent to 31 December 2005 for Jadi Imaging Group.

Yours faithfully

  
**PETER I.M. CHIENG & CO.**  
AF 0311  
Chartered Accountants

  
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