

## 12. ACCOUNTANTS' REPORT



29 March 2007

The Board of Directors  
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Dear Sirs,

### **NATURAL BIO RESOURCES BERHAD ACCOUNTANTS' REPORT**

#### **1. PURPOSE OF REPORT**

This report has been prepared by Horwath, an approved company auditor, for inclusion in the Prospectus of Natural Bio Resources Berhad (hereinafter referred to as "Natural Bio" or "the Company") to be dated 20 April 2007 in connection with the public issue and offer for sale of 146,999,900 ordinary shares of RM0.20 each in conjunction with the listing of the entire issued and paid-up share capital of Natural Bio on the Second Board of Bursa Malaysia Securities Berhad ("Bursa Securities").

#### **2. DETAILS OF THE RESTRUCTURING AND LISTING SCHEME**

In conjunction with and as an integral part of the listing of Natural Bio on the Second Board of Bursa Securities, the Company undertook the following transactions which have been approved by the relevant authorities:-

##### **2.1 Restructuring Scheme**

Natural Bio has undertaken an internal restructuring scheme comprising the following:-

- (A) share split of Natural Bio's existing issued and paid-up share capital of two (2) ordinary shares of RM1.00 each into ten (10) ordinary shares of RM0.20 each ("Share Split");
- (B) acquisition of the entire equity interest in Power Root (M) Sdn. Bhd. ("PRM") and Power Root Marketing Sdn. Bhd. ("PR Marketing") comprising 5,000,000 ordinary shares of RM1.00 each and 1,600,000 ordinary shares of RM1.00 each respectively for a total purchase consideration of RM44,999,998 fully satisfied by the issuance of 224,999,990 new ordinary shares of RM0.20 each in Natural Bio ("Natural Bio Shares"), credited as fully paid-up, at an issue price of RM0.20 per Natural Bio Share. The acquisitions were completed on 31 January 2007;

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 2. DETAILS OF THE RESTRUCTURING AND LISTING SCHEME (CONT'D)

## 2.1 Restructuring Scheme (Cont'd)

- (C) acquisition of the entire equity interest in Power Root Manufacturing Sdn. Bhd. ("PR Manufacturing") for a cash consideration of RM3. The acquisition was completed on 31 January 2007; and
- (D) acquisition of the entire equity interest in Power Root Nergy Sdn. Bhd. ("PR Nergy") for a cash consideration of RM3. The acquisition was completed on 31 January 2007.

(Items (B) to (D) are collectively referred to as the "Acquisitions", and accordingly Natural Bio and its subsidiaries are referred to as "Natural Bio Group" or "the Group" hereinafter.)

## 2.2 Listing Scheme

- (A) As part of the Listing Scheme, Natural Bio will undertake an initial public offering of 146,999,900 Natural Bio Shares comprising the public issue of 75,000,000 new Natural Bio Shares ("Public Issue") and offer for sale of 71,999,900 Natural Bio Shares by the offerors ("Offer for Sale") as follows:-
  - (i) 72,000,000 Natural Bio Shares by way of placement to Bumiputera investors at a price being the lower of (a) RM1.48 per Natural Bio Share or (b) 3.5% discount to the Institutional Price (as defined below), subject to rounding adjustments;
  - (ii) 55,000,000 Natural Bio Shares by way of placement to selected institutional investors at the institutional price to be determined by way of bookbuilding ("Institutional Price"); and
  - (iii) 19,999,900 Natural Bio Shares to the Malaysian public and the eligible Directors, employees and business associates of Natural Bio Group at a price being the lower of (a) RM1.48 per Natural Bio Share or (b) 3.5% discount to the Institutional Price, subject to rounding adjustments.
- (B) Listing of and quotation for the entire enlarged issued and paid-up share capital of Natural Bio comprising 300,000,000 Natural Bio Shares on the Second Board of Bursa Securities.

**12. ACCOUNTANTS' REPORT (cont'd)****3 GENERAL INFORMATION****3.1 INCORPORATION**

The Company was incorporated in Malaysia on 10 May 2006 under the Companies Act, 1965 as a public limited company with the name Natural Bio Resources Berhad.

**3.2 PRINCIPAL ACTIVITIES**

The principal activities of the Company are investment holding and the provision of management services.

**3.3 SHARE CAPITAL**

The Company was incorporated with an authorised share capital of RM100,000 comprising 100,000 ordinary shares of RM1.00 each. On 18 January 2007, the authorised share capital was subdivided into 500,000 ordinary shares of RM0.20 each and subsequently on 19 January 2007, the authorised share capital was increased from RM100,000 to RM100,000,000 comprising 500,000,000 ordinary shares of RM0.20 each.

The present issued and fully paid-up share capital of the Company is RM45,000,000 comprising 225,000,000 ordinary shares of RM0.20 each. Upon completion of the Public Issue, the enlarged issued and fully paid-up share capital of the Company will be RM60,000,000 comprising 300,000,000 ordinary shares of RM0.20 each.

Details of changes in the issued and fully paid-up share capital of the Company since its incorporation are as follows:-

| <b>Date of allotment</b> | <b>No. of ordinary shares issued</b> | <b>Par value RM</b> | <b>Consideration/ Type of issue</b> | <b>Cumulative issued and paid-up share capital RM</b> |
|--------------------------|--------------------------------------|---------------------|-------------------------------------|---|
| 10.5.2006                | 2                                    | 1.00                | Subscribers' shares                 | 2   |
| 18.1.2007                | 10                                   | 0.20                | Share Split                         | 2   |
| 31.1.2007                | 224,999,990                          | 0.20                | Issued pursuant to the Acquisitions | 45,000,000  |

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**12. ACCOUNTANTS' REPORT (cont'd)****3 GENERAL INFORMATION (CONT'D)****3.4 PRINCIPAL ACTIVITIES OF THE SUBSIDIARIES**

The subsidiaries of Natural Bio and their respective principal activities as at the date of this report are as follows:

| <b>Name of Company</b> | <b>Date of Incorporation</b> | <b>Effective Equity Interest (%)</b> | <b>Principal Activities</b>                          |
|------------------------|------------------------------|--------------------------------------|--|
| PRM                    | 23 July 1999                 | 100.00                               | Manufacturing and distribution of various beverages. |
| PR Marketing           | 19 January 2000              | 100.00                               | Distribution of various beverages.                   |
| PR Manufacturing       | 23 March 2005                | 100.00                               | Manufacturing and distribution of various beverages. |
| PR Nenergy             | 2 May 2006                   | 100.00                               | Manufacturing and distribution of various beverages. |

**3.5 RELEVANT FINANCIAL PERIODS AND AUDITORS**

The relevant financial periods for Natural Bio and each of the subsidiaries within Natural Bio Group ("Relevant Financial Periods") for the purpose of this report are as follows:-

| <b>Company</b>   | <b>Relevant Financial Periods</b>  |
|------------------|--|
| Natural Bio      | Financial period from 10 May 2006 (date of incorporation) to 31 October 2006.  |
| PRM              | Financial Years Ended ("FYE") 31 July 2003 and 2004.<br><br>FYE 31 July 2005, Financial Period Ended ("FPE") 28 February 2006 and FPE 31 October 2006. |
| PR Marketing     | FYE 29 February 2004 and FYE 28 February 2005.<br><br>FYE 28 February 2006 and FPE 31 October 2006.  |
| PR Manufacturing | Financial period from 23 March 2005 (date of incorporation) to 28 February 2006 and FPE 31 October 2006.   |
| PR Nenergy       | Financial period from 2 May 2006 (date of incorporation) to 31 October 2006.   |

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**12. ACCOUNTANTS' REPORT (cont'd)****3 GENERAL INFORMATION (CONT'D)****3.5 RELEVANT FINANCIAL PERIODS AND AUDITORS (CONT'D)**

The auditors for the Relevant Financial Periods were Messrs Horwath, except for FYE 31 July 2003 and FYE 31 July 2004 for PRM and FYE 29 February 2004 and FYE 28 February 2005 for PR Marketing, which were audited by Messrs K. E. Chen & Associates.

The auditors' reports on the financial statements of Natural Bio, PRM, PR Marketing, PR Manufacturing and PR Nergy for the Relevant Financial Periods were not subject to any audit qualification or other forms of modified auditors report other than the emphasis of matter on the preparation of the financial statements on a going concern basis for PR Manufacturing for the financial period from 23 March 2005 (date of incorporation) to 28 February 2006 where PR Manufacturing incurred a deficit to its shareholders' equity amounting to RM8,373 as at 28 February 2006, resulting from the loss incurred during the said financial period.

**4 ACCOUNTING STANDARDS AND POLICIES****4.1 BASIS OF PREPARATION**

The financial statements of Natural Bio, PRM, PR Marketing, PR Manufacturing and PR Nergy are prepared under the historical cost convention and modified to include other bases of valuation as disclosed under significant accounting policies below. The financial statements comply with approved accounting standards in Malaysia for the Relevant Financial Periods.

During the eight-month FPE 31 October 2006, Natural Bio Group have adopted all of the new and revised Financial Reporting Standards ("FRS") issued by Malaysian Accounting Standards Board which are relevant to their operations and effective for financial periods beginning on or after 1 January 2006. The applicable FRS are set out below:-

- FRS 3 Business Combinations
- FRS 101 Presentation of Financial Statements
- FRS 102 Inventories
- FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors
- FRS 110 Events After the Balance Sheet Date
- FRS 116 Property, Plant and Equipment
- FRS 121 The Effects of Changes in Foreign Exchange Rates
- FRS 127 Consolidated and Separate Financial Statements
- FRS 132 Financial Instruments: Disclosure and Presentation
- FRS 133 Earnings Per Share
- FRS 136 Impairment of Assets

The adoption of these new and revised FRS does not have any material financial effects on the financial statements of PRM, PR Marketing and PR Manufacturing for the Relevant Financial Periods.

## 12. ACCOUNTANTS' REPORT (cont'd)



## 4 ACCOUNTING STANDARDS AND POLICIES (CONT'D)

## 4.2 FINANCIAL RISK MANAGEMENT POLICIES

Natural Bio Group's financial risk management policies seek to ensure that adequate financial resources are available for the development of Natural Bio Group's business whilst managing its currency, interest rate, market, credit, liquidity and cash flow risks. The policies in respect of the major areas of treasury activity are as follows:-

**(a) Foreign Currency Risk**

Natural Bio Group is exposed to foreign exchange risk on sales and purchases that are denominated in foreign currencies. It manages its foreign exchange exposure by a policy of matching as far as possible receipts and payments in each individual currency.

**(b) Interest Rate Risk**

Natural Bio Group obtains financing through banking and hire purchase facilities. Its policy is to obtain the most favourable interest rates available.

Surplus funds are placed with licensed financial institutions at the most favourable interest rates.

**(c) Market Risk**

Natural Bio Group does not have any quoted investments and hence is not exposed to market risks.

**(d) Credit Risk**

Natural Bio Group's exposure to credit risks, or the risk of counterparties defaulting, arises mainly from receivables. The maximum exposure to credit risks is represented by the total carrying amount of these financial assets in the balance sheet reduced by the effects of any netting arrangements with counterparties.

Natural Bio Group does not have any major concentration of credit risk related to any individual customer or counterparty.

**(e) Liquidity and Cash Flow Risks**

Natural Bio Group's exposure to liquidity and cash flow risks arises mainly from general funding and business activities.

It practises prudent liquidity risks management by maintaining sufficient cash balances and the availability of funding through certain committed credit facilities.

## 12. ACCOUNTANTS' REPORT *(cont'd)*



### 4 ACCOUNTING STANDARDS AND POLICIES (CONT'D)

#### 4.3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by Natural Bio Group in the preparation of this report are as follows:-

##### (a) Critical Accounting Estimates and Judgements

Estimates and judgements are evaluated by the management on an on-going basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

##### (i) *Depreciation of Property, Plant and Equipment*

The estimates of the residual values, useful lives and related depreciation charges for its property, plant and equipment are based on commercial and production factors which could change significantly as a result of technical innovations and competitors' actions in response to the market conditions.

Natural Bio Group anticipates that the residual values of its property, plant and equipment to be insignificant. As a result, residual values are not being taken into consideration for the computation of the depreciable amount.

The depreciation charge will increase when useful lives are less than the previously estimated lives.

##### (ii) *Income Taxes*

There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. Natural Bio Group recognises tax liabilities based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

##### (b) Financial Instruments

Financial instruments are recognised in the balance sheet when Natural Bio Group has become a party to the contractual provision of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

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**12. ACCOUNTANTS' REPORT (cont'd)****4 ACCOUNTING STANDARDS AND POLICIES (CONT'D)****4.3 SIGNIFICANT ACCOUNTING POLICIES****(b) Financial Instruments (Cont'd)**

Financial instruments are offset when Natural Bio Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Financial instruments recognised in the balance sheet are disclosed in the individual policy statement associated with each item.

**(c) Basis of Consolidation**

A subsidiary is defined as an enterprise in which the parent company has the power, directly or indirectly to exercise control over the financial and operating policies so as to obtain benefits from its activities.

All subsidiaries are consolidated using the purchase method. Under the purchase method, the results of the subsidiaries acquired or disposed of are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair value of the subsidiaries' assets, liabilities and contingent liabilities are determined and these values are reflected in the consolidated financial statements.

Intragroup transactions, balances and unrealised gains on transactions are eliminated, unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of the subsidiaries to ensure consistency of accounting policies with those of the Group.

**(d) Goodwill**

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of business combinations over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition.

Goodwill is initially recognised as an asset at cost, in the consolidated balance sheet and is subsequently measured at cost less any accumulated impairment losses. The carrying amount of goodwill is reviewed annually and is written down for impairment where it is considered necessary. The impairment value of goodwill is taken to the consolidated income statement. An impairment loss recognised for goodwill is not reversed in a subsequent period.

If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of business combinations, the excess is recognised immediately in the income statement.



## 12. ACCOUNTANTS' REPORT (cont'd)



## 4 ACCOUNTING STANDARDS AND POLICIES (CONT'D)

## 4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

## (e) Investments in Subsidiaries

Investments in subsidiaries are initially stated at cost in the balance sheet of the parent company, and are reviewed for impairment at the end of the financial year if events or changes in circumstances indicate that their carrying values may not be recoverable.

## (f) Property, Plant and Equipment

Property, plant and equipment, other than freehold land, are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Freehold land is stated at cost less impairment losses, if any, and is not depreciated.

Depreciation is calculated under the straight-line method to write off the cost of the assets over their estimated useful lives. The principal annual rates used for this purpose are as follows:-

|   |            |
|---|------------|
| Factory buildings                                   | 2%         |
| Plant and machinery                                 | 10%        |
| Motor vehicles                                      | 20%        |
| Air conditioners                                    | 20%        |
| Signboard, office furniture, fittings and equipment | 10% to 20% |
| Renovation and electrical installation              | 20%        |

The residuals values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, method and period of depreciation are consistent with previous estimates and expected pattern of consumption of the future economic benefits embodied in the terms of plant and equipment.

An item of plant and equipment is derecognised upon disposal or when no future economics benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the income statement in the period the asset is derecognised.

**12. ACCOUNTANTS' REPORT (cont'd)**

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**4 ACCOUNTING STANDARDS AND POLICIES (CONT'D)****4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(g) Impairment of Assets**

The carrying amounts of assets, other than those to which FRS 136 - Impairment of Assets does not apply, are reviewed at each balance sheet date for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts.

An impairment loss is charged to the income statement immediately unless the asset is carried at its revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of a previously recognised revaluation surplus for the same asset.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately, unless the asset is carried at its revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to the revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the income statement, a reversal of that impairment loss is recognised as income in the income statement.

**(h) Assets under Hire Purchase**

Plant and equipment acquired under hire purchase are capitalised in the financial statements and are depreciated in accordance with the policy set out in Note 4.3(f). Each hire purchase payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. Finance charges are allocated to the income statement over the periods of the respective hire purchase agreements.

**(i) Intangible Assets**

Expenditure incurred on the acquisition of product formulae is capitalised as long-term assets, and amortised on a straight-line method over its estimated useful lives or 20 years, whichever is shorter.

The carrying amount of each asset is reviewed annually and adjusted for impairment where it is considered necessary.

**12. ACCOUNTANTS' REPORT (cont'd)**

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**4 ACCOUNTING STANDARDS AND POLICIES (CONT'D)****4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(j) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in-first-out basis and comprises the cost of material and incidentals incurred in bringing the inventories to their present location and condition. Cost of finished goods includes the cost of materials, labour and an appropriate proportion of production overheads.

Net realisable value represents the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

When necessary, allowance is made for obsolete, slow-moving and defective inventories.

**(k) Receivables**

Receivables are carried at anticipated realisable values. Bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

**(l) Payables**

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

**(m) Interest-bearing Borrowings**

The interest-bearing borrowings are recorded at the amount of proceeds received, net of transaction costs.

All borrowing costs are charged to the income statement as expenses in the period in which they are incurred.

**(n) Equity Instruments**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised as liabilities when declared before the balance sheet date. A dividend proposed or declared after the balance sheet date, but before the financial statements are authorised for issue, is not recognised as a liability at the balance sheet date but as an appropriation from retained earnings and treated as a separate component of equity. Upon the approval of the proposed dividend, it will be accounted for as a liability.

## 12. ACCOUNTANTS' REPORT (cont'd)



## 4 ACCOUNTING STANDARDS AND POLICIES (CONT'D)

## 4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

## (o) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with licensed banks, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## (p) Taxation

Taxation 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 or substantially enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences other than those that arise from goodwill or negative goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the business combination cost 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 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 assets and liabilities are 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 the 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 charged or credited 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 excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the business combination cost. The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised.

**12. ACCOUNTANTS' REPORT (cont'd)**

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**4 ACCOUNTING STANDARDS AND POLICIES (CONT'D)****4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(q) Employee Benefits***(i) Short-term benefits*

Wages, salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of Natural Bio Group.

*(ii) Defined Contribution Plans*

The contributions by Natural Bio Group to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, Natural Bio Group has no further liabilities in respect of the defined contribution plans.

**(r) Revenue Recognition***(i) Sale of goods*

Sales are recognised upon delivery of goods and customers' acceptance and where applicable, net of returns and trade discounts.

*(ii) Interest income*

Interest income is recognised on an accrual basis, based on effective yield on the investment.

**(s) Functional and Foreign Currency***(i) Functional and Presentation Currency*

The financial statements of the Company are presented in its functional currency. Functional currency is determined by the primary economic environment in which each entity operates.

The management has determined the functional currency of the Company to be Ringgit Malaysia ("RM"), as selling prices and major costs incurred by the Company are primarily transacted in RM.

The presentation currency of the financial statements of the Company is in RM.

**12. ACCOUNTANTS' REPORT (cont'd)**

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**4 ACCOUNTING STANDARDS AND POLICIES (CONT'D)****4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(s) Functional and Foreign Currency (Cont'd)***(ii) Transactions and balances*

Transactions in foreign currency are converted into RM at the approximate rates of exchange ruling at the transaction date. Monetary assets and liabilities at the balance sheet are translated at the rates ruling as of that date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. All exchange differences are taken to the income statement.

**4.4 CONSISTENCY OF APPLICATION OF ACCOUNTING POLICIES**

There were no material changes in the significant accounting policies adopted by Natural Bio, PRM, PR Marketing, PR Manufacturing and PR Nenergy during the Relevant Financial Periods other than the adoption of new and revised FRS, as disclosed in Section 4.1, which do not have any material financial effects on the financial statements of PRM, PR Marketing and PR Manufacturing for the Relevant Financial Periods.

**5 AUDITED FINANCIAL STATEMENTS**

No consolidated financial statements of Natural Bio Group were presented for the Relevant Financial Periods as Natural Bio Group was only formed on 31 January 2007.

Accordingly, we have set out the audited financial statements of Natural Bio, PRM, PR Marketing, PR Manufacturing and PR Nenergy for their respective Relevant Financial Periods as set out in Section 3.5.

The financial statements presented in Sections 5.1, 5.2, 5.3, 5.4 and 5.5 are based on the audited financial statements of the respective company, modified as appropriate, for the purpose of this report. All relevant restatements to the audited financial statements are set out in Section 5.2.5 and Section 5.3.5 of this report.

All information is extracted from the audited financial statements of the respective companies except those in italics which are prepared based on calculation, representation and explanation provided by the management and those otherwise indicated.

## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.1 NATURAL BIO

## 5.1.1 INCOME STATEMENT OF NATURAL BIO

|  | Financial<br>period from<br>10 May 2006<br>to<br>31 October<br>2006<br>RM'000 |
|--|---|
| Turnover   | -   |
| Loss before depreciation, interest and taxation                  | (7)   |
| Depreciation   | -   |
| Interest expense   | -   |
| Loss before taxation ("LBT")                                     | (7)   |
| Income tax expense   | -   |
| Loss after taxation ("LAT")                                      | (7)   |
| <i>Weighted average number of ordinary shares of RM1.00 each</i> | ^   |
| <i>Gross loss per share ("LPS")</i>                              | (4)   |
| <i>Net LPS</i>   | (4)   |

## Notes:-

^ Represents two (2) ordinary shares of RM1.00 each

(i) There were no exceptional or extraordinary items for the financial period under review.

(ii) The gross LPS and net LPS were computed by dividing the LBT and LAT respectively by the weighted average number of ordinary shares in issue during the period.

(iii) The income statement of Natural Bio for the financial period represents preliminary expenses and pre-operating expenses.

## 5.1.2 BALANCE SHEET OF NATURAL BIO

|  | 31.10.2006<br>RM'000 |
|--|----------------------|
| <b>ASSETS</b>                                      |                      |
| <b>CURRENT ASSETS</b>                              |                      |
| Prepayments  | 600                  |
| Cash and bank balances                             | ^                    |
|  | 600                  |
| <b>TOTAL ASSETS</b>                                | 600                  |
| <b>EQUITY AND LIABILITIES</b>                      |                      |
| <b>EQUITY</b>                                      |                      |
| Share capital                                      | #                    |
| Accumulated loss                                   | (7)                  |
| <b>SHAREHOLDERS' EQUITY</b>                        | (7)                  |
| <b>CURRENT LIABILITIES</b>                         |                      |
| Other payables and accruals                        | 607                  |
| <b>TOTAL EQUITY AND LIABILITIES</b>                | 600                  |
| <i>Net tangible liabilities ("NTL") (RM'000)</i>   | (7)                  |
| <i>NTL per ordinary share (RM'000)<sup>1</sup></i> | (4)                  |

## Notes:-

^ Represents RM2

# Represents two (2) ordinary shares of RM1.00 each

<sup>1</sup> NTL per ordinary share is calculated based on the ordinary shares in issue as at the end of the financial period under review.

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.1 NATURAL BIO

## 5.1.3 CASHFLOW STATEMENT OF NATURAL BIO

|   | Financial<br>period from<br>10 May 2006<br>to<br>31 October<br>2006<br>RM'000 |
|---|---|
| <b>CASH FOR OPERATING ACTIVITY</b>  |   |
| LBT   | (7)   |
| Adjustment for:-  |   |
| Increase in prepayments   | (600)   |
| Increase in other payables and accruals                                   | 607   |
| <b>NET CASH FOR OPERATING ACTIVITY</b>                                    | <u>-</u>  |
| <b>CASH FROM FINANCING ACTIVITY</b>                                       |   |
| Proceeds from issuance of shares  | #   |
| <b>NET CASH FROM FINANCING ACTIVITY</b>                                   | <u>#</u>  |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS FOR THE FINANCIAL PERIOD</b> | <u>#</u>  |

Note:-

# Represents RM2

## 5.1.4 STATEMENT OF CHANGES IN EQUITY OF NATURAL BIO

|                               | Share<br>Capital<br>RM'000 | Accumulated<br>Loss<br>RM'000 | Total<br>RM'000 |
|-------------------------------|----------------------------|-------------------------------|-----------------|
| At 10.5.2006                  | -                          | -                             | -               |
| Issue of share capital        | #                          | -                             | #               |
| Loss for the financial period | -                          | (7)                           | (7)             |
| Balance at 31.10.2006         | <u>#</u>                   | <u>(7)</u>                    | <u>(7)</u>      |

Note:-

# Represents RM2

## 5.1.5 SHARE CAPITAL

|                             | 31.10.2006<br>Number of<br>Shares | 31.10.2006<br>RM |
|-----------------------------|-----------------------------------|------------------|
| Ordinary shares of RM1 each |                                   |                  |
| Authorised                  | 100,000                           | 100,000          |
| Issued and fully paid-up    | <u>#</u>                          | <u>#</u>         |

Note:-

# Represents two (2) ordinary shares of RM1.00 each

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.2 PRM

## 5.2.1 INCOME STATEMENTS OF PRM

|  | NOTE  | ← FYE 31 July → |                |                | Seven-month<br>FPE 28<br>February | Eight-month FPE 31<br>October |                   |
|--|-------|-----------------|----------------|----------------|-----------------------------------|-------------------------------|-------------------|
|  |       | 2003<br>RM'000  | 2004<br>RM'000 | 2005<br>RM'000 | 2006<br>RM'000                    | 2005*<br>RM'000               | 2006<br>RM'000    |
| Revenue  | 5.2.6 | 5,347           | 15,915         | 41,877         | 35,202                            | 39,671                        | 65,632            |
| Other income   |       | 12              | 37             | 31             | 141                               | 122                           | 283               |
| Changes in inventories of<br>finished goods  |       | 374             | 873            | (430)          | (66)                              | 1,175                         | 1,069             |
| Raw materials and<br>consumables used  |       | (3,505)         | (10,739)       | (27,419)       | (20,230)                          | (25,209)                      | (37,409)          |
| Staff costs  |       | (202)           | (477)          | (1,532)        | (1,752)                           | (1,618)                       | (4,130)           |
| Depreciation and amortisation  |       | (193)           | (319)          | (1,457)        | (649)                             | (1,017)                       | (785)             |
| Other operating expenses   |       | (1,559)         | (3,792)        | (3,956)        | (7,442)                           | (4,152)                       | (19,833)          |
| Profit before taxation ("PBT")   |       | 274             | 1,498          | 7,114          | 5,204                             | 8,972                         | 4,827             |
| Depreciation and amortisation  |       | 193             | 319            | 1,457          | 649                               | 1,017                         | 785               |
| Interest expense   |       | 143             | 201            | 274            | 223                               | 220                           | 369               |
| Interest income  |       | (2)             | (4)            | (6)            | -                                 | (6)                           | (13)              |
| Earning before interest, tax,<br>depreciation and amortisation                           |       | 608             | 2,014          | 8,839          | 6,076                             | 10,203                        | 5,968             |
| Depreciation and amortisation  |       | (193)           | (319)          | (1,457)        | (649)                             | (1,017)                       | (785)             |
| Interest expense   |       | (143)           | (201)          | (274)          | (223)                             | (220)                         | (369)             |
| Interest income  |       | 2               | 4              | 6              | -                                 | 6                             | 13                |
| PBT  | 5.2.7 | 274             | 1,498          | 7,114          | 5,204                             | 8,972                         | 4,827             |
| Income tax expense   | 5.2.8 | (41)            | (120)          | (1,096)        | (1,357)                           | (1,695)                       | (848)             |
| Profit after taxation ("PAT")  |       | 233             | 1,378          | 6,018          | 3,847                             | 7,277                         | 3,979             |
| <i>PBT Margin (%)</i>  |       | 5.12            | 9.41           | 16.99          | 14.78                             | 22.62                         | 7.35              |
| <i>PAT Margin (%)</i>  |       | 4.36            | 8.66           | 14.37          | 10.93                             | 18.34                         | 6.06              |
| <i>Effective tax rate (%)</i>  |       | 14.96           | 8.01           | 15.41          | 26.08                             | 18.89                         | 17.57             |
| <i>Interest coverage (times)</i>   |       | 2.92            | 8.45           | 26.96          | 24.34                             | 41.78                         | 14.08             |
| <i>Weighted average number of<br/>ordinary shares of RM1.00<br/>each in issue ('000)</i> |       | 1,000           | 1,000          | 1,000          | 1,000                             | 1,000                         | 1,000             |
| <i>Gross earnings per share<br/>("EPS")(RM)</i>  |       | 0.27            | 1.50           | 7.11           | 8.92 <sup>^</sup>                 | 13.46 <sup>^</sup>            | 7.24 <sup>^</sup> |
| <i>Net EPS (RM)</i>  |       | 0.23            | 1.38           | 6.02           | 6.59 <sup>^</sup>                 | 10.92 <sup>^</sup>            | 5.97 <sup>^</sup> |

Notes:-

<sup>^</sup> Annualised

\* The income statements for the eight-month FPE 31 October 2005 are unaudited and are included for comparison purposes only.

(a) There were no exceptional or extraordinary items for the Relevant Financial Periods under review.

(b) The gross EPS and net EPS were computed by dividing the PBT and PAT respectively by the weighted average number of ordinary shares in issue during the period.

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.2 PRM

## 5.2.1 INCOME STATEMENTS OF PRM (CONT'D)

- (c) Revenue for the FYE 31 July 2003 increased from RM3.59 million in FYE 31 July 2002 to RM5.35 million in FYE 31 July 2003. During FYE 31 July 2003, PRM launched its new instant premixed coffee range, Ali Café and canned beverage range. Ali Café 250 ml and Power Root Perl 250 ml. The new Ali Café range of products contributed approximately RM1.10 million or 21% of total sales for FYE 31 July 2003.

Revenue for the FYE 31 July 2004 increased from RM5.35 million in FYE 31 July 2003 to RM15.92 million in FYE 31 July 2004, being an increase of RM10.57 million or 198%. The increase was mainly contributed by the increased sales in Ali Café products launched in FYE 31 July 2003 by 361% or RM3.97 million from RM1.10 million in FYE 31 July 2003 to RM5.07 million in FYE 31 July 2004. Sales from canned beverage increased by RM7.14 million from RM4.73 million in FYE 31 July 2003 to RM11.87 million in FYE 31 July 2004.

Revenue for FYE 31 July 2005 increased from RM15.92 million in FYE 31 July 2004 to RM41.88 million in FYE 31 July 2005, being an increase of approximately RM25.96 million or 163%. PRM introduced several new products, namely Per'l Café 20gm and 1kg – Instant Premixed Coffee and Teh Tarik 30gm and 1kg – Instant Premixed Tea which contributed to RM4.77 million or 11% of total sales.

Revenue for seven-month FPE 28 February 2006 was RM35.20 million. During the financial period, PRM ventured into new export markets (i.e. the UAE and Taiwan). Export revenue increased from RM900,000 in FYE 31 July 2005 to RM1.30 million in FPE 28 February 2006.

Revenue for eight-month FPE 31 October 2006 was RM65.63 million. During the financial period, PRM launched several new products comprising Ali Café and Per'l Café non sugar added 12gm, Oligo Café 20gm, Nnergy 250ml, Carbonated Power Root Extra Honey 250ml, Alitea 20gm and Per'l Café 250ml. Export revenue for the financial period accounted for approximately RM5.41 million.

- (d) PBT increased by RM98,000 or 56% from RM176,000 in FYE2002 to RM274,000 in FYE2003. As cost of sales and operating expenses increased at a slower rate as compared to revenue, pre-tax profit margin has improved marginally from 4.90% in FYE2002 to 5.12% in FYE2003.

PBT increased by RM1.22 million or 447% from RM274,000 in FYE 31 July 2003 to approximately RM1.50 million in FYE 31 July 2004. As administrative and general expenses increased at a slower rate as compared to revenue, PBT margin improved from 5.12% in FYE2003 to 9.41% in FYE2004.

PBT increased by approximately RM5.61 million or 375% from RM1.50 million in FYE 31 July 2004 to RM7.11 million in FYE 31 July 2005. The PBT margin for the FYE 31 July 2005 was 16.99%, being an increase from the PBT margin recorded for FYE 31 July 2004 of 9.41%. This increase was mainly due to the higher level of revenue recorded and lower administrative and general expenses incurred for the FYE 31 July 2005 when compared to FYE 31 July 2004.

During the seven-month FPE 28 February 2006, PRM recorded a lower PBT margin of 14.78% as compared to FYE 31 July 2005 of 16.99%. The slight decrease in PBT margin was mainly attributed by the increased advertising and promotion cost incurred during the seven-month FPE 28 February 2006 in view of the Group's decision that all expenditure relating to mass media advertisements (locally and overseas) be borne by PRM.

During the eight-month FPE 31 October 2006, PRM recorded a PBT margin of 7.35%. The lower PBT margin was mainly due to the increase in advertisement and promotional expenses during the period of approximately RM15.92 million.

- (e) The effective tax rate for FYE 31 July 2003 to 2005, seven-month FPE 28 February 2006 and eight-month FPE 31 October 2006 of 14.96%, 8.01%, 15.41%, 26.08% and 17.57% respectively, were lower than the statutory tax rate was mainly due to the utilisation of reinvestment allowances for the financial period under review.

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.2 PRM (CONT'D)

## 5.2.2 BALANCE SHEETS OF PRM

|   | NOTE   | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|---|--------|---------------------|---------------------|---------------------|---------------------|----------------------|
| <b>ASSETS</b>   |        |                     |                     |                     |                     |                      |
| <b>NON-CURRENT ASSETS</b>                                       |        |                     |                     |                     |                     |                      |
| Property, plant and equipment                                   | 5.2.9  | 2,584               | 3,368               | 11,539              | 11,457              | 14,755               |
| Intangible assets   | 5.2.10 | 313                 | 347                 | 228                 | 219                 | 209                  |
|   |        | <u>2,897</u>        | <u>3,715</u>        | <u>11,767</u>       | <u>11,676</u>       | <u>14,964</u>        |
| <b>CURRENT ASSETS</b>   |        |                     |                     |                     |                     |                      |
| Inventories   | 5.2.11 | 993                 | 2,413               | 7,755               | 8,227               | 11,110               |
| Trade receivables   | 5.2.12 | 2,018               | 7,775               | 10,054              | 5,384               | 9,814                |
| Other receivables, deposits and prepayments                     | 5.2.13 | 65                  | 272                 | 415                 | 464                 | 2,922                |
| Amounts owing by related parties                                | 5.2.14 | 469                 | 76                  | 26                  | -                   | 59                   |
| Amounts owing by directors                                      | 5.2.15 | 240                 | -                   | 110                 | 110                 | -                    |
| Tax recoverable   |        | -                   | -                   | -                   | 141                 | 310                  |
| Fixed deposits with licensed banks                              | 5.2.16 | 74                  | 140                 | 196                 | 231                 | 444                  |
| Cash and bank balances  |        | 1                   | 10                  | 310                 | 1,799               | 1,129                |
|   |        | <u>3,860</u>        | <u>10,686</u>       | <u>18,866</u>       | <u>16,356</u>       | <u>25,788</u>        |
| <b>TOTAL ASSETS</b>   |        | <u>6,757</u>        | <u>14,401</u>       | <u>30,633</u>       | <u>28,032</u>       | <u>40,752</u>        |
| <b>EQUITY AND LIABILITIES</b>                                   |        |                     |                     |                     |                     |                      |
| <b>EQUITY</b>   |        |                     |                     |                     |                     |                      |
| Share capital   | 5.2.17 | 1,000               | 1,000               | 1,000               | 1,000               | 1,000                |
| Retained profits  |        | 245                 | 1,623               | 5,441               | 9,288               | 10,267               |
| <b>SHAREHOLDERS' EQUITY</b>                                     |        | <u>1,245</u>        | <u>2,623</u>        | <u>6,441</u>        | <u>10,288</u>       | <u>11,267</u>        |
| <b>NON-CURRENT LIABILITIES</b>                                  |        |                     |                     |                     |                     |                      |
| Long term borrowings  | 5.2.18 | 1,000               | 886                 | 3,598               | 3,135               | 2,601                |
| Deferred taxation   | 5.2.19 | 18                  | 39                  | 243                 | 382                 | 449                  |
|   |        | <u>1,018</u>        | <u>925</u>          | <u>3,841</u>        | <u>3,517</u>        | <u>3,050</u>         |
| <b>CURRENT LIABILITIES</b>                                      |        |                     |                     |                     |                     |                      |
| Trade payables  | 5.2.20 | 1,651               | 6,262               | 11,138              | 7,913               | 9,922                |
| Other payables and accruals                                     | 5.2.21 | 220                 | 2,609               | 3,380               | 4,172               | 6,413                |
| Dividends payable   |        | -                   | -                   | 2,200               | -                   | -                    |
| Provision for taxation  |        | -                   | 44                  | 568                 | -                   | -                    |
| Short term borrowings   | 5.2.22 | 2,087               | 1,813               | 2,929               | 2,142               | 9,842                |
| Bank overdrafts   | 5.2.25 | 536                 | 125                 | 136                 | -                   | 258                  |
|   |        | <u>4,494</u>        | <u>10,853</u>       | <u>20,351</u>       | <u>14,227</u>       | <u>26,435</u>        |
| <b>TOTAL LIABILITIES</b>  |        | <u>5,512</u>        | <u>11,778</u>       | <u>24,192</u>       | <u>17,744</u>       | <u>29,485</u>        |
| <b>TOTAL EQUITY AND LIABILITIES</b>                             |        | <u>6,757</u>        | <u>14,401</u>       | <u>30,633</u>       | <u>28,032</u>       | <u>40,752</u>        |
| <i>Number of ordinary shares of RM1.00 each in issue ('000)</i> |        | 1,000               | 1,000               | 1,000               | 1,000               | 1,000                |
| <i>Net tangible assets ("NTA")(RM'000)</i>                      |        | 932                 | 2,276               | 6,213               | 10,069              | 11,058               |
| <i>NTA per ordinary share (RM) <sup>††</sup></i>                |        | 0.93                | 2.28                | 6.21                | 10.07               | 11.06                |
| <i>Inventories turnover ratio (times)</i>                       |        | 6.91                | 7.21                | 6.46                | 4.94 <sup>^</sup>   | 6.38 <sup>^</sup>    |
| <i>Trade receivables turnover ratio (times)</i>                 |        | 2.65                | 2.05                | 4.17                | 11.20 <sup>^</sup>  | 10.03 <sup>^</sup>   |
| <i>Trade payables turnover ratio (times)</i>                    |        | 2.79                | 2.03                | 3.06                | 4.28 <sup>^</sup>   | 5.76 <sup>^</sup>    |
| <i>Gearing ratio (times)</i>                                    |        | 2.91                | 1.08                | 1.03                | 0.52                | 1.13                 |

Notes:-

<sup>^</sup> Annualised<sup>††</sup> NTA per ordinary share is calculated based on the ordinary shares in issue as at the end of the financial years/period(s) under review.

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.2 PRM (CONT'D)

## 5.2.3 CASHFLOW STATEMENTS OF PRM

| NOTE  | FYE 31 July  |              |              | Seven-month FPE | Eight-month FPE 31 |              |
|---|--------------|--------------|--------------|-----------------|--------------------|--------------|
|   | 2003         | 2004         | 2005         | 28 February     | 2005*              | 2006         |
|   | RM'000       | RM'000       | RM'000       | RM'000          | RM'000             | RM'000       |
| <b>CASH FLOW FROM/(FOR) OPERATING ACTIVITIES</b>        |              |              |              |                 |                    |              |
| Profit before taxation                                  | 274          | 1,498        | 7,114        | 5,204           | 8,972              | 4,827        |
| Adjustments for:-                                       |              |              |              |                 |                    |              |
| Amortisation of intangible assets                       | -            | -            | 76           | 9               | 67                 | 10           |
| Bad debts provision written off                         | -            | -            | 31           | -               | 31                 | -            |
| Depreciation of property, plant and equipment           | 193          | 319          | 1,381        | 640             | 950                | 775          |
| Gain on disposal of plant and equipment                 | -            | -            | -            | (1)             | (1)                | -            |
| Interest expense  | 143          | 201          | 274          | 223             | 220                | 369          |
| Interest income   | (2)          | (4)          | (6)          | -               | (6)                | (13)         |
| Trademark registration written off                      | -            | -            | 43           | -               | 43                 | -            |
| Operating profit before working capital changes         | 608          | 2,014        | 8,913        | 6,075           | 10,276             | 5,968        |
| Increase in inventories                                 | (794)        | (1,420)      | (5,342)      | (472)           | (3,849)            | (2,883)      |
| (Increase)/Decrease in trade and other receivables      | (593)        | (5,965)      | (2,479)      | 4,621           | (969)              | (6,888)      |
| (Increase)/Decrease in amount owing by directors        | (203)        | 240          | (110)        | -               | (110)              | 110          |
| Decrease/(Increase) in amounts owing by related parties | (343)        | 393          | 50           | 26              | -                  | (59)         |
| Increase/(Decrease) in trade and other payables         | 2,753        | 7,000        | 5,647        | (2,433)         | 2,810              | 4,255        |
| Decrease in amounts owing to directors                  | (8)          | -            | -            | -               | (165)              | -            |
| <b>CASH FROM OPERATIONS</b>                             | <b>1,420</b> | <b>2,262</b> | <b>6,679</b> | <b>7,817</b>    | <b>7,993</b>       | <b>503</b>   |
| Interest paid   | (143)        | (201)        | (274)        | (223)           | (220)              | (369)        |
| Income tax paid   | (94)         | (56)         | (343)        | (1,927)         | (325)              | (950)        |
| <b>NET CASH FROM/(FOR) OPERATING ACTIVITIES</b>         | <b>1,183</b> | <b>2,005</b> | <b>6,062</b> | <b>5,667</b>    | <b>7,448</b>       | <b>(816)</b> |
| <b>CARRIED FORWARD</b>                                  | <b>1,183</b> | <b>2,005</b> | <b>6,062</b> | <b>5,667</b>    | <b>7,448</b>       | <b>(816)</b> |

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.2 PRM (CONT'D)

## 5.2.3 CASHFLOW STATEMENTS OF PRM (CONT'D)

| NOTE  | FYE 31 July    |                |                | Seven-month FPE               | Eight-month FPE 31 |                |
|---|----------------|----------------|----------------|-------------------------------|--------------------|----------------|
|   | 2003<br>RM'000 | 2004<br>RM'000 | 2005<br>RM'000 | 28 February<br>2006<br>RM'000 | 2005*<br>RM'000    | 2006<br>RM'000 |
| <b>NET CASH FROM/(FOR) OPERATING ACTIVITIES</b>                             |                |                |                |                               |                    |                |
| Bought forward  | 1,183          | 2,005          | 6,062          | 5,667                         | 7,448              | (816)          |
| <b>CASH FLOWS FOR INVESTING ACTIVITIES</b>                                  |                |                |                |                               |                    |                |
| Interest received   | 2              | 4              | 6              | -                             | 6                  | 13             |
| Purchase of property, plant and equipment                                   | 5.2.26 (1,462) | (1,103)        | (7,381)        | (569)                         | (5,310)            | (4,079)        |
| Purchase of trademark and patent  | (3)            | (33)           | -              | -                             | -                  | -              |
| Proceeds from disposal of plant and equipment                               | -              | -              | -              | 12                            | 12                 | -              |
| <b>NET CASH FOR INVESTING ACTIVITIES</b>                                    |                |                |                |                               |                    |                |
|   | (1,463)        | (1,132)        | (7,375)        | (557)                         | (5,292)            | (4,066)        |
| <b>CASH FLOWS (FOR)/FROM FINANCING ACTIVITIES</b>                           |                |                |                |                               |                    |                |
| Dividends paid  | -              | -              | -              | (2,200)                       | (2,200)            | (3,000)        |
| Net (repayment)/ drawdown of bankers' acceptances and trust receipts        | -              | (277)          | 324            | (774)                         | (251)              | 7,670          |
| Net (repayment)/ drawdown of term loans                                     | (60)           | (58)           | 1,616          | (115)                         | (106)              | (46)           |
| Net repayment of hire purchases obligation                                  | (47)           | (52)           | (282)          | (361)                         | (433)              | (457)          |
| <b>NET CASH (FOR)/FROM FINANCING ACTIVITIES</b>                             |                |                |                |                               |                    |                |
|   | (107)          | (387)          | 1,658          | (3,450)                       | (2,990)            | 4,167          |
| <b>NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS</b>                |                |                |                |                               |                    |                |
|   | (387)          | 486            | 345            | 1,660                         | (834)              | (715)          |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEARS/PERIOD</b> |                |                |                |                               |                    |                |
|   | (74)           | (461)          | 25             | 370                           | (550)              | 2,030          |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEARS/PERIOD</b>       |                |                |                |                               |                    |                |
| 5.2.27  | (461)          | 25             | 370            | 2,030                         | (1,384)            | 1,315          |

Note:-

\* Not audited and is included for comparison purposes only.

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.2 PRM (CONT'D)

## 5.2.4 STATEMENTS OF CHANGES IN EQUITY OF PRM

|  | NOTE   | Share<br>Capital<br>RM'000 | Retained<br>Profits<br>RM'000 | Total<br>RM'000 |
|--|--------|----------------------------|-------------------------------|-----------------|
| Balance at 1.8.2002                            |        | 1,000                      | 12                            | 1,012           |
| Profit after taxation for the financial year   |        | -                          | 233                           | 233             |
| Balance at 31.7.2003/1.8.2003                  |        | 1,000                      | 245                           | 1,245           |
| Profit after taxation for the financial year   |        | -                          | 1,378                         | 1,378           |
| Balance at 31.7.2004/1.8.2004                  |        | 1,000                      | 1,623                         | 2,623           |
| Profit after taxation for the financial year   |        | -                          | 6,018                         | 6,018           |
| Dividends                                      | 5.2.28 | -                          | (2,200)                       | (2,200)         |
| Balance at 31.7.2005/1.8.2005                  |        | 1,000                      | 5,441                         | 6,441           |
| Profit after taxation for the financial period |        | -                          | 3,847                         | 3,847           |
| Balance at 28.2.2006/1.3.2006                  |        | 1,000                      | 9,288                         | 10,288          |
| Profit after taxation for the financial period |        | -                          | 3,979                         | 3,979           |
| Dividends                                      | 5.2.28 | -                          | (3,000)                       | (3,000)         |
| Balance at 31.10.2006                          |        | 1,000                      | 10,267                        | 11,267          |

## 5.2.5 ADJUSTMENTS AND RECLASSIFICATIONS

In preparing this report, certain adjustments were made to ensure consistency of presentation of information for comparison purposes. The details of the adjustments and reclassifications made are set out as follows:-

|                       | ← FYE 31 July → |                |                | Seven-month FPE<br>28 February | Eight-month FPE<br>31 October |
|-----------------------|-----------------|----------------|----------------|--------------------------------|-------------------------------|
|                       | 2003<br>RM'000  | 2004<br>RM'000 | 2005<br>RM'000 | 2006<br>RM'000                 | 2006<br>RM'000                |
| (i) Other receivables |                 |                |                |                                |                               |
| As per accounts       | 534             | 348            | 415            | 464                            | 2,922                         |
| Reclassification (a)  | (469)           | (76)           | -              | -                              | -                             |
| As restated           | 65              | 272            | 415            | 464                            | 2,922                         |
| (ii) PAT              |                 |                |                |                                |                               |
| As per accounts       | 251             | 1,399          | 5,979          | 3,847                          | 3,979                         |
| Adjustment (a)        | (18)            | (21)           | 39             | -                              | -                             |
| PAT - as restated     | 233             | 1,378          | 6,018          | 3,847                          | 3,979                         |

Notes:-

Reclassification

(a) Reclassification of amount owing by PR Marketing from other receivables.

Adjustment

(a) Deferred taxation liability provided.

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.2 PRM (CONT'D)

## 5.2.6 REVENUE

Revenue represents invoiced value of goods sold less trade discounts and returns, if any.

## 5.2.7 PROFIT BEFORE TAXATION

|  | ← FYE 31 July → |        | Seven-month FPE | Eight-month FPE 31 |        |       |
|--|-----------------|--------|-----------------|--------------------|--------|-------|
|  | 2003            | 2004   | 2006            | 2005*              | 2006   |       |
|  | RM'000          | RM'000 | RM'000          | RM'000             | RM'000 |       |
| Profit before tax is arrived at after charging/(crediting):- |                 |        |                 |                    |        |       |
| Amortisation of intangible assets                            | -               | -      | 76              | 9                  | 67     | 10    |
| Audit fees   | 6               | 7      | 16              | 16                 | 16     | -     |
| Bad debts written off  | -               | -      | 31              | -                  | 31     | -     |
| Depreciation of property, plant and equipment                | 193             | 319    | 1,381           | 640                | 950    | 775   |
| Directors' fees  | -               | 990    | -               | -                  | -      | -     |
| Directors' remuneration - other emoluments                   | 187             | 205    | 289             | 226                | 175    | 258   |
| Gain on disposal of plant and equipment                      | -               | -      | -               | (2)                | (2)    | -     |
| Gain on foreign exchange                                     | -               | (9)    | -               | (104)              | (94)   | (141) |
| Interest expense   | 143             | 201    | 274             | 223                | 220    | 369   |
| Interest income  | (2)             | (4)    | (6)             | -                  | (6)    | (13)  |
| Loss on foreign exchange                                     | -               | -      | 65              | 24                 | 28     | -     |
| Rental paid  | 4               | 1      | -               | 12                 | 9      | 154   |
| Rental income  | (10)            | (24)   | (24)            | (14)               | (16)   | (16)  |
| Staff costs  | 202             | 477    | 1,532           | 1,752              | 1,618  | 4,130 |
| Trademark registration written off                           | -               | -      | 43              | -                  | 43     | -     |

Note:-

\* Not audited and is included for comparison purposes only.

## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.2 PRM (CONT'D)

## 5.2.8 INCOME TAX EXPENSE

|   | ← FYE 31 July → |            |              | Seven-month FPE | Eight-month FPE 31 |            |
|---|-----------------|------------|--------------|-----------------|--------------------|------------|
|   | 2003            | 2004       | 2005         | 28 February     | October            |            |
|   | RM'000          | RM'000     | RM'000       | 2006            | 2005*              | 2006       |
|   |                 |            |              | RM'000          | RM'000             | RM'000     |
| In respect of current financial years/periods             |                 |            |              |                 |                    |            |
| -Malaysian income tax                                     | 23              | 99         | 892          | 1,159           | 1,556              | 774        |
| -Deferred taxation  | 18              | 21         | 204          | 119             | 139                | 105        |
|   | <u>41</u>       | <u>120</u> | <u>1,096</u> | <u>1,278</u>    | <u>1,695</u>       | <u>879</u> |
| Under/(Over)provision in previous financial years/periods |                 |            |              |                 |                    |            |
| -Malaysian income tax                                     | -               | -          | -            | 59              | -                  | 7          |
| -Deferred taxation  | -               | -          | -            | 20              | -                  | (38)       |
|   | <u>41</u>       | <u>120</u> | <u>1,096</u> | <u>1,357</u>    | <u>1,695</u>       | <u>848</u> |

A reconciliation of income tax expense applicable to the profit before tax at the statutory tax rate to income tax expense at the effective tax rate of PRM is as follows:-

|   | ← FYE 31 July → |            |              | Seven-month FPE | Eight-month FPE 31 |            |
|---|-----------------|------------|--------------|-----------------|--------------------|------------|
|   | 2003            | 2004       | 2005         | 28 February     | October            |            |
|   | RM'000          | RM'000     | RM'000       | 2006            | 2005*              | 2006       |
|   |                 |            |              | RM'000          | RM'000             | RM'000     |
| Profit before taxation                                  | 274             | 1,498      | 7,114        | 5,204           | 8,972              | 4,827      |
| Malaysian taxation at statutory rate                    | 77              | 419        | 1,992        | 1,457           | 2,512              | 1,303      |
| Tax effects of:-  |                 |            |              |                 |                    |            |
| Differential in tax rate                                | (8)             | (40)       | (40)         | (40)            | (40)               | (35)       |
| Non-deductible expenses                                 | 29              | 30         | 78           | 27              | 63                 | 116        |
| Depreciation on non-qualifying capital expenditure      | 11              | 9          | 114          | 4               | 27                 | 4          |
| Reinvestment allowances utilised                        | (68)            | (298)      | (1,045)      | (167)           | (774)              | (270)      |
| Double deduction tax relief                             | -               | -          | (3)          | (3)             | (93)               | (239)      |
|   | <u>41</u>       | <u>120</u> | <u>1,096</u> | <u>1,278</u>    | <u>1,695</u>       | <u>879</u> |
| Under/(Over)provision in previous financial year/period | -               | -          | -            | 79              | -                  | (31)       |
|   | <u>41</u>       | <u>120</u> | <u>1,096</u> | <u>1,357</u>    | <u>1,695</u>       | <u>848</u> |

Note:-

\* Not audited and is included for comparison purposes only.

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.2 PRM (CONT'D)

## 5.2.9 PROPERTY, PLANT AND EQUIPMENT

|  | Freehold land<br>and factory<br>buildings<br>RM'000 | Plant and<br>machinery<br>RM'000 | Motor<br>Vehicles<br>RM'000 | Air<br>Conditioners<br>RM'000 | Signboard,<br>office<br>equipment,<br>furniture and<br>fittings<br>RM'000 | Electrical<br>installation<br>and<br>renovation<br>RM'000 | Total<br>RM'000 |
|--|---|----------------------------------|-----------------------------|-------------------------------|---|---|-----------------|
| Net Book value at<br>1.8.2002            | -   | 83                               | 165                         | 4                             | 9   | 3   | 264             |
| Additions                                | 1,812   | 138                              | 63                          | 44                            | 129   | 327   | 2,513           |
| Depreciation charge                      | (15)  | (55)                             | (61)                        | (10)                          | (19)  | (33)  | (193)           |
| Net book value at<br>31.7.2003/ 1.8.2003 | 1,797   | 166                              | 167                         | 38                            | 119   | 297   | 2,584           |
| Additions                                | -   | 181                              | -                           | 5                             | 55  | 862   | 1,103           |
| Depreciation charge                      | (16)  | (91)                             | (61)                        | (11)                          | (21)  | (119)   | (319)           |
| Net book value at<br>31.7.2004/ 1.8.2004 | 1,781   | 256                              | 106                         | 32                            | 153   | 1,040   | 3,368           |
| Additions                                | 4,086   | 4,089                            | 447                         | 215                           | 305   | 410   | 9,552           |
| Depreciation charge                      | (82)  | (897)                            | (150)                       | (32)                          | (59)  | (161)   | (1,381)         |
| Net book value at<br>31.7.2005/ 1.8.2005 | 5,785   | 3,448                            | 403                         | 215                           | 399   | 1,289   | 11,539          |
| Additions                                | 1   | 403                              | -                           | 12                            | 42  | 111   | 569             |
| Disposals                                | -   | (11)                             | -                           | -                             | -   | -   | (11)            |
| Depreciation charge                      | (47)  | (327)                            | (71)                        | (54)                          | (41)  | (100)   | (640)           |
| Net book value at<br>28.2.2006/ 1.3.2006 | 5,739   | 3,513                            | 332                         | 173                           | 400   | 1,300   | 11,457          |
| Additions                                | 2,500   | 1,410                            | -                           | 3                             | 103   | 63  | 4,079           |
| Reversal                                 | -   | (6)                              | -                           | -                             | -   | -   | (6)             |
| Depreciation charge                      | (54)  | (436)                            | (74)                        | (37)                          | (58)  | (116)   | (775)           |
| Net book value at<br>31.10.2006          | 8,185   | 4,481                            | 258                         | 139                           | 445   | 1,247   | 14,755          |

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.2 PRM (CONT'D)

## 5.2.9 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

|                             | Freehold land<br>and factory<br>buildings<br>RM'000 | Plant and<br>machinery<br>RM'000 | Motor<br>Vehicles<br>RM'000 | Air<br>Conditioners<br>RM'000 | Signboard,<br>office<br>equipment,<br>furniture and<br>fittings<br>RM'000 | Electrical<br>installation<br>and<br>renovation<br>RM'000 | Total<br>RM'000 |
|-----------------------------|---|----------------------------------|-----------------------------|-------------------------------|---|---|-----------------|
| At 31.10.2006               |   |                                  |                             |                               |   |   |                 |
| At cost                     | 8,398   | 6,330                            | 752                         | 287                           | 652   | 1,777   | 18,196          |
| Accumulated<br>depreciation | (213)   | (1,849)                          | (494)                       | (148)                         | (207)   | (530)   | (3,441)         |
| Net book value              | 8,185   | 4,481                            | 258                         | 139                           | 445   | 1,247   | 14,755          |
| At 28.2.2006                |   |                                  |                             |                               |   |   |                 |
| At cost                     | 5,898   | 4,926                            | 752                         | 284                           | 548   | 1,714   | 14,122          |
| Accumulated<br>depreciation | (159)   | (1,413)                          | (420)                       | (111)                         | (148)   | (414)   | (2,665)         |
| Net book value              | 5,739   | 3,513                            | 332                         | 173                           | 400   | 1,300   | 11,457          |
| At 31.7.2005                |   |                                  |                             |                               |   |   |                 |
| At cost                     | 5,897   | 4,540                            | 752                         | 272                           | 506   | 1,603   | 13,570          |
| Accumulated<br>depreciation | (112)   | (1,092)                          | (349)                       | (57)                          | (107)   | (314)   | (2,031)         |
| Net book value              | 5,785   | 3,448                            | 403                         | 215                           | 399   | 1,289   | 11,539          |
| At 31.7.2004                |   |                                  |                             |                               |   |   |                 |
| At cost                     | 1,812   | 451                              | 304                         | 57                            | 201   | 1,194   | 4,019           |
| Accumulated<br>depreciation | (31)  | (195)                            | (198)                       | (25)                          | (48)  | (154)   | (651)           |
| Net book value              | 1,781   | 256                              | 106                         | 32                            | 153   | 1,040   | 3,368           |
| At 31.7.2003                |   |                                  |                             |                               |   |   |                 |
| At cost                     | 1,812   | 271                              | 304                         | 52                            | 146   | 331   | 2,916           |
| Accumulated<br>depreciation | (15)  | (105)                            | (137)                       | (14)                          | (27)  | (34)  | (332)           |
| Net book value              | 1,797   | 166                              | 167                         | 38                            | 119   | 297   | 2,584           |

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.2 PRM (CONT'D)

## 5.2.9 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Included in the net book value of the property, plant and equipment are the following assets acquired under hire purchase terms:-

|                     | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| Motor vehicles      | 1,048               | 1,048               | 1,847               | 1,847               | 258                  |
| Plant and machinery | 749                 | 733                 | 3,938               | 3,892               | 1,382                |
|                     | <u>1,797</u>        | <u>1,781</u>        | <u>5,785</u>        | <u>5,739</u>        | <u>1,640</u>         |

The following assets at net book value have been pledged to licensed banks for banking facilities granted to PRM:-

|                   | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|-------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| Freehold land     | 167                 | 106                 | 403                 | 332                 | 1,847                |
| Factory buildings | -                   | -                   | 1,638               | 1,519               | 3,837                |
|                   | <u>167</u>          | <u>106</u>          | <u>2,041</u>        | <u>1,851</u>        | <u>5,684</u>         |

As at 31 October 2006, the title to a freehold land and building of RM2,500,000 is in the process of being registered in the name of PRM.

## 5.2.10 INTANGIBLE ASSETS

|                            | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|----------------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| At cost:-                  |                     |                     |                     |                     |                      |
| Trademark registration     | 9                   | 43                  | -                   | -                   | -                    |
| Product formulae           | 304                 | 304                 | 304                 | 304                 | 304                  |
|                            | <u>313</u>          | <u>347</u>          | <u>304</u>          | <u>304</u>          | <u>304</u>           |
| Accumulated Amortisation:- |                     |                     |                     |                     |                      |
| Trademark registration     | -                   | -                   | -                   | -                   | -                    |
| Product formulae           | -                   | -                   | 76                  | 85                  | 95                   |
|                            | <u>-</u>            | <u>-</u>            | <u>76</u>           | <u>85</u>           | <u>95</u>            |
| Carrying amount            | <u>313</u>          | <u>347</u>          | <u>228</u>          | <u>219</u>          | <u>209</u>           |

## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.2 PRM (CONT'D)

## 5.2.11 INVENTORIES

|                   | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|-------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| At cost:-         |                     |                     |                     |                     |                      |
| Finished goods    | 504                 | 1,378               | 948                 | 882                 | 1,951                |
| Packing materials | 104                 | 261                 | 3,061               | 2,436               | 3,659                |
| Raw materials     | 385                 | 774                 | 3,746               | 4,909               | 5,290                |
| Promotional gifts | -                   | -                   | -                   | -                   | 210                  |
|                   | <u>993</u>          | <u>2,413</u>        | <u>7,755</u>        | <u>8,227</u>        | <u>11,110</u>        |

None of the inventories was carried at fair value less costs to sell, at the balance sheet date.

## 5.2.12 TRADE RECEIVABLES

Included in trade receivables are the following amounts owing by related parties:-

|                                  | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| Amounts owing by related parties | <u>1,923</u>        | <u>7,669</u>        | <u>9,817</u>        | <u>5,359</u>        | <u>6,414</u>         |

The trade credit terms of PRM to its customers range from 30 to 60 days. The foreign currency exposure of trade receivables is as follows:-

|                      | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|----------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| Brunei Dollar        | -                   | #                   | 237                 | 1                   | 235                  |
| United States Dollar | <u>69</u>           | <u>-</u>            | <u>-</u>            | <u>24</u>           | <u>3,142</u>         |

Note:-

# Represents less than RM1,000

The trade receivables ageing analysis as at 31 October 2006 is set out below:-

|                             | 0 to 30<br>Days<br>RM'000 | 31 to 60<br>Days<br>RM'000 | 61 to 90<br>Days<br>RM'000 | 90 to 120<br>Days<br>RM'000 | 121 to 180<br>Days<br>RM'000 | Above 181<br>Days<br>RM'000 | Total<br>RM'000 |
|-----------------------------|---------------------------|----------------------------|----------------------------|-----------------------------|------------------------------|-----------------------------|-----------------|
| Balance as at<br>31.10.2006 | <u>6,681</u>              | <u>705</u>                 | <u>910</u>                 | <u>931</u>                  | <u>544</u>                   | <u>43</u>                   | <u>9,814</u>    |

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.2 PRM (CONT'D)

## 5.2.13 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

|                   | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|-------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| Other receivables | 25                  | 43                  | 55                  | 50                  | 76                   |
| Deposits          | 40                  | 217                 | 213                 | 102                 | 2,152                |
| Prepayments       | -                   | 12                  | 147                 | 312                 | 694                  |
|                   | <u>65</u>           | <u>272</u>          | <u>415</u>          | <u>464</u>          | <u>2,922</u>         |

## 5.2.14 AMOUNTS OWING BY RELATED PARTIES

The amounts owing by related parties are unsecured, interest free and not subject to fixed terms of repayment.

## 5.2.15 AMOUNTS OWING BY DIRECTORS

The amounts owing by directors were unsecured, interest free and not subject to fixed terms of repayment.

## 5.2.16 FIXED DEPOSITS WITH LICENSED BANKS

The fixed deposits have been pledged to licensed banks as securities for banking facilities granted to PRM as disclosed in Note 5.2.22.

The interest rates per annum of the fixed deposits at the balance sheet dates range from 3.7% to 4.0%, with a maturity period of one year.

## 5.2.17 SHARE CAPITAL

|                             | 31.7.2003               | 31.7.2004        | 31.7.2005        | 28.2.2006        | 31.10.2006       |
|-----------------------------|-------------------------|------------------|------------------|------------------|------------------|
|                             | <b>Number of shares</b> |                  |                  |                  |                  |
| Ordinary shares of RM1 each |                         |                  |                  |                  |                  |
| Authorised                  | <u>1,000,000</u>        | <u>1,000,000</u> | <u>1,000,000</u> | <u>1,000,000</u> | <u>1,000,000</u> |
| Issued and fully paid-up    | <u>1,000,000</u>        | <u>1,000,000</u> | <u>1,000,000</u> | <u>1,000,000</u> | <u>1,000,000</u> |
|                             | 31.7.2003               | 31.7.2004        | 31.7.2005        | 28.2.2006        | 31.10.2006       |
|                             | RM                      | RM               | RM               | RM               | RM               |
| Ordinary shares of RM1 each |                         |                  |                  |                  |                  |
| Authorised                  | <u>1,000,000</u>        | <u>1,000,000</u> | <u>1,000,000</u> | <u>1,000,000</u> | <u>1,000,000</u> |
| Issued and fully paid-up    | <u>1,000,000</u>        | <u>1,000,000</u> | <u>1,000,000</u> | <u>1,000,000</u> | <u>1,000,000</u> |

Subsequent to 31 October 2006, PRM authorised share capital and issued and paid up capital were increased from RM1,000,000 to RM5,000,000 as disclosed in Section 8 of the Accountants Report.

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.2 PRM (CONT'D)

## 5.2.18 LONG TERM BORROWINGS

|                                      | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|--------------------------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| Hire purchase payables (Note 5.2.23) | 115                 | 63                  | 1,294               | 949                 | 472                  |
| Term loans (Note 5.2.24)             | 885                 | 823                 | 2,304               | 2,186               | 2,129                |
|                                      | <u>1,000</u>        | <u>886</u>          | <u>3,598</u>        | <u>3,135</u>        | <u>2,601</u>         |

## 5.2.19 DEFERRED TAXATION

|                                    | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| As at the beginning of the FYE/FPE | -                   | 18                  | 39                  | 243                 | 382                  |
| Transfer from income statement     | 18                  | 21                  | 204                 | 139                 | 67                   |
| As at the end of the FYE/FPE       | <u>18</u>           | <u>39</u>           | <u>243</u>          | <u>382</u>          | <u>449</u>           |

Deferred tax liabilities are attributable to the following items:-

|  | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|--|---------------------|---------------------|---------------------|---------------------|----------------------|
| Deferred tax liabilities:-               |                     |                     |                     |                     |                      |
| - Excess of carrying value over tax base | 18                  | 39                  | 243                 | 382                 | 449                  |

## 5.2.20 TRADE PAYABLES

The normal trade credit terms granted to PRM range from 30 to 90 days. The foreign currency exposure of trade payables is as follows:-

|                      | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|----------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| Euro                 | -                   | -                   | 616                 | 1,199               | #                    |
| Singapore Dollar     | 12                  | 63                  | 213                 | 282                 | 367                  |
| United States Dollar | 62                  | 60                  | 2,299               | 1,345               | 831                  |

Note:-

# Represents less than RM1,000

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.2 PRM (CONT'D)

## 5.2.20 TRADE PAYABLES (CONT'D)

The trade payables ageing analysis as at 31 October 2006 is set out below:-

|                             | 0 to 30<br>Days<br>RM'000 | 31 to 60<br>Days<br>RM'000 | 61 to 90<br>Days<br>RM'000 | 90 to 120<br>Days<br>RM'000 | 121 to 180<br>Days<br>RM'000 | Above 181<br>Days<br>RM'000 | Total<br>RM'000 |
|-----------------------------|---------------------------|----------------------------|----------------------------|-----------------------------|------------------------------|-----------------------------|-----------------|
| Balance as at<br>31.10.2006 | 3,454                     | 2,339                      | 1,599                      | 1,131                       | 934                          | 465                         | 9,922           |

## 5.2.21 OTHER PAYABLES AND ACCRUALS

|                     | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| Other payables      | 133                 | 1,397               | 2,855               | 3,052               | 4,289                |
| Payroll liabilities | 34                  | 67                  | 194                 | 246                 | 1,587                |
| Accrued expenses    | 53                  | 1,145               | 331                 | 874                 | 537                  |
|                     | 220                 | 2,609               | 3,380               | 4,172               | 6,413                |

## 5.2.22 SHORT TERM BORROWINGS

|                                      | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|--------------------------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| Bankers' acceptances                 | 1,535               | 1,316               | 2,025               | 1,251               | 8,921                |
| Trust receipts                       | 443                 | 386                 | -                   | -                   | -                    |
| Hire purchase payables (Note 5.2.23) | 53                  | 52                  | 709                 | 693                 | 712                  |
| Term loans (Note 5.2.24)             | 56                  | 59                  | 195                 | 198                 | 209                  |
|                                      | 2,087               | 1,813               | 2,929               | 2,142               | 9,842                |

The interest rates per annum of the bankers' acceptances at the balance sheet dates range from 4.30% to 5.45%, and are drawn for a period of up to 139 days.

The interest rates per annum of the trust receipts at the balance sheet dates is charge at 5.0%, and are drawn for a period of up to 120 days.

## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.2 PRM (CONT'D)

## 5.2.22 SHORT TERM BORROWINGS (CONT'D)

Bankers' acceptances and trust receipts are secured as follows:-

- (i) by the joint and several guarantees by all the directors of PRM;
- (ii) by the corporate guarantee of PR Marketing;
- (iii) by way of legal charges over the landed properties of PRM;
- (iv) by way of fixed and floating charges over the assets of PRM;
- (v) by a pledge on the fixed deposits of PRM; and
- (vi) by way of guarantee from Credit Guarantee Corporation Malaysia.

## 5.2.23 HIRE PURCHASE PAYABLES

|   | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|---|---------------------|---------------------|---------------------|---------------------|----------------------|
| Minimum hire purchase payment:                      |                     |                     |                     |                     |                      |
| - not later than one year                           | 65                  | 65                  | 797                 | 783                 | 768                  |
| - later than one year and not later than five years | 142                 | 77                  | 1,453               | 997                 | 488                  |
|   | <u>207</u>          | <u>142</u>          | <u>2,250</u>        | <u>1,780</u>        | <u>1,256</u>         |
| Less : Future finance charges                       | (39)                | (27)                | (247)               | (138)               | (72)                 |
| Present value of hire purchase payment              | <u>168</u>          | <u>115</u>          | <u>2,003</u>        | <u>1,642</u>        | <u>1,184</u>         |

The net hire purchase liabilities are repayable as follows:-

|   | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|---|---------------------|---------------------|---------------------|---------------------|----------------------|
| Current:  |                     |                     |                     |                     |                      |
| - not later than one year (Note 5.2.22)                           | 53                  | 52                  | 709                 | 693                 | 712                  |
| Non-current:  |                     |                     |                     |                     |                      |
| - later than one year and not later than five years (Note 5.2.18) | 115                 | 63                  | 1,294               | 949                 | 472                  |
|   | <u>168</u>          | <u>115</u>          | <u>2,003</u>        | <u>1,642</u>        | <u>1,184</u>         |

The hire purchase liabilities bore interest rates at the balance sheet dates which range from 4.83% to 9.58% per annum.

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**12. ACCOUNTANTS' REPORT (cont'd)****5 AUDITED FINANCIAL STATEMENTS (CONT'D)****5.2 PRM (CONT'D)****5.2.24 TERM LOANS**

|  | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|--|---------------------|---------------------|---------------------|---------------------|----------------------|
| Current portion:                             |                     |                     |                     |                     |                      |
| - repayable within one year<br>(Note 5.2.22) | 56                  | 59                  | 195                 | 198                 | 209                  |
| Non-current portion:                         |                     |                     |                     |                     |                      |
| - repayable between one and<br>two years     | 59                  | 63                  | 206                 | 197                 | 222                  |
| - repayable between two and<br>five years    | 169                 | 212                 | 592                 | 577                 | 713                  |
| - repayable more than five years             | 657                 | 548                 | 1,506               | 1,412               | 1,194                |
| Total non-current portion (Note 5.2.18)      | 885                 | 823                 | 2,304               | 2,186               | 2,129                |
|  | 941                 | 882                 | 2,499               | 2,384               | 2,338                |

Details of the repayment terms are as follows:-

| Term loan | Number of Monthly<br>Instalments | Monthly Instalment<br>RM | Date of Commencement<br>of Repayment |
|-----------|----------------------------------|--------------------------|--------------------------------------|
| 1         | 180                              | 9,360                    | August 2002                          |
| 2         | 96                               | 21,027                   | August 2006                          |

The term loans bore interest rates at the balance sheet dates which range from 4.50% to 8.00% per annum. The term loans are secured in the same manner as the short term borrowings as disclosed in Note 5.2.22.

**5.2.25 BANK OVERDRAFTS**

The bank overdraft bore interest rates at the balance sheet dates which range from 7.00% to 8.75% per annum.

The bank overdrafts are secured in the same manner as the short term borrowings as disclosed in Note 5.2.22.

## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.2 PRM (CONT'D)

## 5.2.26 PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

|   | ← FYE 31 July → |              |              | Seven-month FPE | Eight-month FPE 31 |              |
|---|-----------------|--------------|--------------|-----------------|--------------------|--------------|
|   | 2003            | 2004         | 2005         | 28 February     | 2005*              | 2006         |
|   | RM'000          | RM'000       | RM'000       | RM'000          | RM'000             | RM'000       |
| Cost of property, plant and equipment purchased | 2,513           | 1,103        | 9,552        | 569             | 7,080              | 4,079        |
| Amount financed through hire purchase           | (1,051)         | -            | (2,171)      | -               | (1,770)            | -            |
|   | <u>1,462</u>    | <u>1,103</u> | <u>7,381</u> | <u>569</u>      | <u>5,310</u>       | <u>4,079</u> |

Note:-

\* Not audited and is included for comparison purposes only.

## 5.2.27 CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:-

|                                    | 31.7.2003    | 31.7.2004 | 31.7.2005  | 28.2.2006    | 31.10.2005*    | 31.10.2006   |
|------------------------------------|--------------|-----------|------------|--------------|----------------|--------------|
|                                    | RM'000       | RM'000    | RM'000     | RM'000       | RM'000         | RM'000       |
| Fixed deposits with licensed banks | 74           | 140       | 196        | 231          | 203            | 444          |
| Cash and bank balances             | 1            | 10        | 310        | 1,799        | 448            | 1,129        |
| Bank overdrafts                    | (536)        | (125)     | (136)      | -            | (2,035)        | (258)        |
|                                    | <u>(461)</u> | <u>25</u> | <u>370</u> | <u>2,030</u> | <u>(1,384)</u> | <u>1,315</u> |

Note:-

\* Not audited and is included for comparison purposes only.

## 5.2.28 DIVIDENDS

|                                     | ← FYE 31 July → |          |              | Seven-month FPE | Eight-month FPE 31 |              |
|-------------------------------------|-----------------|----------|--------------|-----------------|--------------------|--------------|
|                                     | 2003            | 2004     | 2005         | 28 February     | 2005*              | 2006         |
|                                     | RM'000          | RM'000   | RM'000       | RM'000          | RM'000             | RM'000       |
| Interim tax-exempt dividends        | -               | -        | 1,100        | -               | 1,100              | 3,000        |
| Interim dividends less 28% taxation | -               | -        | 1,100        | -               | 1,100              | -            |
|                                     | <u>-</u>        | <u>-</u> | <u>2,200</u> | <u>-</u>        | <u>2,200</u>       | <u>3,000</u> |

Note:-

\* Not audited and is included for comparison purposes only.

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.2 PRM (CONT'D)

## 5.2.29 CAPITAL COMMITMENT

|  | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|--|---------------------|---------------------|---------------------|---------------------|----------------------|
| Property, plant and equipment<br>- approved and contracted | -                   | 1,775               | 280                 | 105                 | 16,760               |

On 1 September 2006, PRM had entered into 10 Sale and Purchase Agreements with a third party to acquire industrial land with infrastructure measuring a total of 71,722 square metre for an aggregate purchase consideration of RM15.289 million.

## 5.2.30 CONTINGENT LIABILITIES

|   | 31.7.2003<br>RM'000 | 31.7.2004<br>RM'000 | 31.7.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|---|---------------------|---------------------|---------------------|---------------------|----------------------|
| Corporate guarantee given to financial institutions for credit facilities granted to PR Marketing | -                   | 2,000               | 9,400               | 9,400               | 7,400                |
| Corporate guarantee given to third party for PR Nenergy to purchase goods                         | -                   | -                   | -                   | -                   | 558                  |
|   | -                   | 2,000               | 9,400               | 9,400               | 7,958                |

## 5.2.31 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced sale or liquidation.

The following methods are used to estimate the fair value of each class of financial assets and liabilities of PRM:-

**(a) Bank balances and other short term receivables**

The carrying amounts approximate to their fair values due to the relatively short term maturity of these instruments.

**(b) Amounts owing by related parties/directors**

It is not practicable to estimate the fair values of the amounts owing by related parties/directors due principally to a lack of fixed repayment terms. However, PRM does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would eventually be received.

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**12. ACCOUNTANTS' REPORT** *(cont'd)*

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**5 AUDITED FINANCIAL STATEMENTS (CONT'D)****5.2 PRM (CONT'D)****5.2.31 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONT'D)****(c) Short term borrowings and other current liabilities**

The carrying amounts approximate to their fair values because of the short period to maturity of these instruments.

**(d) Long term bank loans**

The carrying amounts approximate to their fair values as these instruments bear interest at variable rates.

## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.3 PR MARKETING

## 5.3.1 INCOME STATEMENTS OF PR MARKETING

|   | NOTE  | FYE 29/28 February |                |                | Eight-month FPE 31 October |                    |
|---|-------|--------------------|----------------|----------------|----------------------------|--------------------|
|   |       | 2004<br>RM'000     | 2005<br>RM'000 | 2006<br>RM'000 | 2005*<br>RM'000            | 2006<br>RM'000     |
| Revenue   | 5.3.6 | 12,266             | 49,703         | 96,374         | 65,038                     | 92,437             |
| Other income  |       | 5                  | 12             | 64             | 1                          | 17                 |
| Changes in inventories of finished goods                                  |       | 370                | (227)          | 20             | 2,109                      | 1,878              |
| Cost of trading goods sold  |       | (7,912)            | (28,910)       | (61,257)       | (40,875)                   | (64,279)           |
| Staff costs   |       | (1,159)            | (1,802)        | (2,807)        | (2,016)                    | (2,127)            |
| Depreciation  |       | (282)              | (570)          | (822)          | (527)                      | (534)              |
| Other operating expenses  |       | (3,628)            | (15,950)       | (16,244)       | (12,076)                   | (11,347)           |
| LBT/PBT   |       | (340)              | 2,256          | 15,328         | 11,654                     | 16,045             |
| Depreciation  |       | 282                | 570            | 822            | 527                        | 534                |
| Interest expense  |       | 51                 | 75             | 398            | 217                        | 229                |
| Interest income   |       | (4)                | (12)           | (17)           | -                          | -                  |
| (Loss)/Earnings before interest, tax, depreciation and amortisation       |       | (11)               | 2,889          | 16,531         | 12,398                     | 16,808             |
| Depreciation  |       | (282)              | (570)          | (822)          | (527)                      | (534)              |
| Interest expense  |       | (51)               | (75)           | (398)          | (217)                      | (229)              |
| Interest income   |       | 4                  | 12             | 17             | -                          | -                  |
| LBT/PBT   | 5.3.7 | (340)              | 2,256          | 15,328         | 11,654                     | 16,045             |
| Income tax expense  | 5.3.8 | -                  | (645)          | (4,422)        | (3,378)                    | (4,854)            |
| LAT/PAT   |       | (340)              | 1,611          | 10,906         | 8,276                      | 11,191             |
| PBT Margin (%)  |       | #                  | 4.54           | 15.90          | 17.92                      | 17.36              |
| PAT Margin (%)  |       | #                  | 3.24           | 11.32          | 12.72                      | 12.11              |
| Effective tax rate (%)  |       | -                  | 28.59          | 28.85          | 28.99                      | 30.25              |
| Interest coverage (times)   |       | #                  | 31.08          | 39.51          | 54.71                      | 71.07              |
| Weighted average number of ordinary shares of RM1.00 each in issue ('000) |       | 116                | 734            | 1,600          | 1,600                      | 1,600              |
| Gross LPS/EPS (RM)  |       | (2.93)             | 3.07           | 9.58           | 10.93 <sup>^</sup>         | 15.04 <sup>^</sup> |
| Net LPS/EPS (RM)  |       | (2.93)             | 2.19           | 6.82           | 7.76 <sup>^</sup>          | 10.49 <sup>^</sup> |

## Notes:-

# Not applicable.

<sup>^</sup> Annualised

\* The income statements for the eight-month financial period ended 31 October 2005 are unaudited and are included for comparison purposes only.

(a) There were no exceptional or extraordinary items for the Relevant Financial Periods under review.

(b) The gross LPS/EPS and net LPS/EPS were computed by dividing the LBT/PBT and LAT/PAT respectively by the weighted average number of ordinary shares in issue during the period.

(c) Revenue for FYE 29 February 2004 increased by approximately RM5.64 million or 85% from RM6.63 million in FYE 28 February 2003 to RM12.27 million in FYE 29 February 2004. During FYE 29 February 2004, PR Marketing launched its new instant premixed coffee range, Ali Café and canned beverage range, Ali Café 250 ml and Power Root Perl 250 ml. Increase in sales for FYE 29 February 2004 was also contributed by the increase in advertising and sales promotional activities.

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**12. ACCOUNTANTS' REPORT (cont'd)****5 AUDITED FINANCIAL STATEMENTS (CONT'D)****5.3 PR MARKETING (CONT'D)****5.3.1 INCOME STATEMENTS OF PR MARKETING (CONT'D)**

Revenue for FYE 28 February 2005 increased by approximately RM37.43 million or approximately 305% from RM12.27 million in FYE 29 February 2004 to RM49.70 million in FYE 28 February 2005. This increase in revenue was due to the Company's continued employment of aggressive and extended mass media advertising through radio and television networks.

Revenue increased by RM46.67 million or 94% from RM49.70 million recorded in FYE 28 February 2005 to RM96.37 million in FYE 28 February 2006. The increase was mainly attributed by the increase in sales for Ali Café instant premixed coffee range products by approximately RM21.69 million or 113% from a total of RM19.18 million sales recorded for FYE 28 February 2005 to RM40.87 million recorded for FYE 28 February 2006.

During eight-month FPE 31 October 2006, PR Marketing recorded revenue of RM92.44 million. The increase in revenue was mainly due to the increase in sales for Ali Café instant premix coffee range products by approximately 47% as compared to the prorated FYE 28 February 2006. Increase in revenue for the period was also derived from the introduction of new range of products comprising Ali Café and Per'l Café non sugar added 12gm, Carbonated Power Root Extra Honey 250ml, Alitea 20gm and Per'l Café 250ml. The new products have contributed approximately 6.9% of PR Marketing revenue for the period.

- (d) For FYE 29 February 2004, PR Marketing recorded a LBT of RM340,000, compared to the loss before taxation of RM51,000 for FYE 28 February 2003. PR Marketing continued with its aggressive marketing efforts via the increase in advertisement and sales promotion, and TV advertisement mainly to promote its new range of products launched within the FYE 29 February 2004.

PBT for FYE 28 February 2005 improved by approximately RM2.60 million to RM2.26 million. The PBT margin record for FYE 28 February 2005 was 4.5%. Increase in pre tax profits was mainly due to the increase in revenue.

PBT increased by RM13.07 million or 578% from RM2.26 million in FYE 28 February 2005 to RM15.33 million in FYE 28 February 2006. Similarly, PBT margin increased from 4.54% for FYE 28 February 2005 to 15.90% for FYE 28 February 2006. The increase in PBT margin was mainly due to the reduction of advertisement and promotional expenditure for PR Marketing as the bulk of advertisement and promotional expenditure was borne by PRM.

During eight-month FPE 31 October 2006, PR Marketing recorded PBT of RM16.05 million. PBT margin increased to 17.36% mainly due to the Company's decision that all brand building expenditure is to be borne by PRM.

- (e) The effective tax rate for FYE 28 February 2005 to 2006 and eight-month FPE 31 October 2006 of 28.59%, 28.85% and 30.25% respectively, were higher than the statutory tax rate was mainly due to certain non-deductible expenses being added back for tax purposes.

## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.3 PR MARKETING (CONT'D)

## 5.3.2 BALANCE SHEETS OF PR MARKETING

|   | NOTE   | 29.2.2004<br>RM'000 | 28.2.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|---|--------|---------------------|---------------------|---------------------|----------------------|
| <b>ASSETS</b>   |        |                     |                     |                     |                      |
| <b>NON-CURRENT ASSETS</b>                                       |        |                     |                     |                     |                      |
| Property, plant and equipment                                   | 5.3.9  | 1,013               | 4,868               | 5,581               | 5,251                |
| Investment in an associate                                      | 5.3.10 | 300                 | 300                 | -                   | -                    |
|   |        | 1,313               | 5,168               | 5,581               | 5,251                |
| <b>CURRENT ASSETS</b>   |        |                     |                     |                     |                      |
| Inventories   | 5.3.11 | 451                 | 224                 | 244                 | 3,296                |
| Trade receivables   | 5.3.12 | 3,537               | 12,602              | 18,502              | 27,856               |
| Other receivables, deposits and prepayments                     | 5.3.13 | 63                  | 570                 | 166                 | 207                  |
| Amounts owing by related parties                                | 5.3.14 | -                   | -                   | -                   | 208                  |
| Tax recoverable   |        | 75                  | -                   | -                   | -                    |
| Fixed deposits with licensed banks                              | 5.3.15 | 155                 | 377                 | 540                 | 540                  |
| Cash and bank balances  |        | 314                 | 1,855               | 802                 | 3,059                |
|   |        | 4,595               | 15,628              | 20,254              | 35,166               |
| <b>TOTAL ASSETS</b>   |        | 5,908               | 20,796              | 25,835              | 40,417               |
| <b>EQUITY AND LIABILITIES</b>                                   |        |                     |                     |                     |                      |
| <b>EQUITY</b>   |        |                     |                     |                     |                      |
| Share capital   | 5.3.16 | 400                 | 1,600               | 1,600               | 1,600                |
| (Accumulated loss)/Retained profits                             |        | (302)               | 1,309               | 11,415              | 22,606               |
| <b>SHAREHOLDERS' EQUITY</b>                                     |        | 98                  | 2,909               | 13,015              | 24,206               |
| <b>NON-CURRENT LIABILITIES</b>                                  |        |                     |                     |                     |                      |
| Long term borrowings  | 5.3.17 | 654                 | 3,308               | 3,466               | 3,085                |
| <b>CURRENT LIABILITIES</b>                                      |        |                     |                     |                     |                      |
| Trade payables  | 5.3.18 | 3,104               | 6,261               | 5,359               | 6,897                |
| Other payables and accruals                                     | 5.3.19 | 1,207               | 6,628               | 934                 | 2,089                |
| Amounts owing to related parties                                | 5.3.14 | 218                 | 28                  | -                   | 6                    |
| Amounts owing to directors                                      | 5.3.20 | 150                 | -                   | -                   | -                    |
| Provision for taxation  |        | -                   | 413                 | 236                 | 1,851                |
| Short term borrowings   | 5.3.21 | 477                 | 1,066               | 2,825               | 2,283                |
| Bank overdrafts   | 5.3.24 | -                   | 183                 | -                   | -                    |
|   |        | 5,156               | 14,579              | 9,354               | 13,126               |
| <b>TOTAL LIABILITIES</b>  |        | 5,810               | 17,887              | 12,820              | 16,211               |
| <b>TOTAL EQUITY AND LIABILITIES</b>                             |        | 5,908               | 20,796              | 25,835              | 40,417               |
| <i>Number of ordinary shares at RM1.00 each in issue ('000)</i> |        |                     |                     |                     |                      |
|   |        | 400                 | 1,600               | 1,600               | 1,600                |
| <i>NTA (RM'000)</i>   |        |                     |                     |                     |                      |
|   |        | 98                  | 2,909               | 13,015              | 24,206               |
| <i>NTA per ordinary share (RM) **</i>                           |        |                     |                     |                     |                      |
|   |        | 0.25                | 1.82                | 8.13                | 15.13                |
| <i>Inventories turnover ratio (times)</i>                       |        |                     |                     |                     |                      |
|   |        | 28.35               | 86.20               | 261.69              | 52.88 <sup>^</sup>   |
| <i>Trade receivables turnover ratio (times)</i>                 |        |                     |                     |                     |                      |
|   |        | 3.47                | 3.94                | 5.21                | 4.98 <sup>^</sup>    |
| <i>Trade payables turnover ratio (times)</i>                    |        |                     |                     |                     |                      |
|   |        | 2.55                | 4.62                | 11.43               | 13.98 <sup>^</sup>   |
| <i>Gearing ratio (times)</i>                                    |        |                     |                     |                     |                      |
|   |        | 11.54               | 1.57                | 0.48                | 0.22                 |

Notes:-

<sup>^</sup> Annualised<sup>\*\*</sup> NTA per ordinary share is calculated based on the ordinary shares in issue as at the end of financial year under review.

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.3 PR MARKETING (CONT'D)

## 5.3.3 CASHFLOW STATEMENTS OF PR MARKETING

| NOTE  | FYE 29/28 February |                |                | Eight-month FPE 31 October |                |
|---|--------------------|----------------|----------------|----------------------------|----------------|
|   | 2004<br>RM'000     | 2005<br>RM'000 | 2006<br>RM'000 | 2005*<br>RM'000            | 2006<br>RM'000 |
| <b>CASH FLOW FROM/(FOR) OPERATING ACTIVITIES</b>                |                    |                |                |                            |                |
| (Loss)/Profit before taxation                                   | (340)              | 2,256          | 15,328         | 11,654                     | 16,045         |
| Adjustments for:-   |                    |                |                |                            |                |
| Allowance for doubtful debts                                    | -                  | 216            | 518            | 325                        | 386            |
| Bad debts written off   | -                  | 45             | 67             | 38                         | 44             |
| Depreciation of property, plant and equipment                   | 282                | 570            | 822            | 527                        | 534            |
| Plant and equipment written off                                 | 3                  | 3              | 11             | -                          | 4              |
| Loss/(Gain) on disposal of equipment                            | 4                  | -              | 6              | 7                          | (12)           |
| Interest expense  | 51                 | 75             | 398            | 217                        | 229            |
| Interest income   | (4)                | (12)           | (17)           | -                          | -              |
| Operating (loss)/profit before working capital changes          | (4)                | 3,153          | 17,133         | 12,768                     | 17,230         |
| (Increase)/Decrease in inventories                              | (370)              | 226            | (20)           | (2,109)                    | (3,053)        |
| Increase in trade and other receivables                         | (1,802)            | (9,833)        | (6,080)        | (4,722)                    | (9,825)        |
| Increase in amounts owing by related parties                    | -                  | -              | -              | -                          | (208)          |
| Decrease/(Increase) in amounts owing by a directors             | 158                | -              | -              | (1,966)                    | -              |
| Increase/(Decrease) in trade and other payables                 | 2,224              | 8,388          | (6,596)        | (3,063)                    | 2,693          |
| Increase/(Decrease) in amounts owing to related parties         | 218                | -              | (28)           | -                          | 7              |
| Increase in amounts owing to directors                          | 450                | 550            | -              | -                          | -              |
| <b>CASH FROM OPERATIONS</b>                                     | <b>874</b>         | <b>2,484</b>   | <b>4,409</b>   | <b>908</b>                 | <b>6,844</b>   |
| Interest paid   | (51)               | (75)           | (398)          | (217)                      | (229)          |
| Income tax paid   | (56)               | (156)          | (4,600)        | (1,435)                    | (3,239)        |
| <b>NET CASH FROM/(FOR) OPERATING ACTIVITIES CARRIED FORWARD</b> | <b>767</b>         | <b>2,253</b>   | <b>(589)</b>   | <b>(744)</b>               | <b>3,376</b>   |



## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.3 PR MARKETING (CONT'D)

## 5.3.3 CASHFLOW STATEMENTS OF PR MARKETING

| NOTE   | ← FYE 29/28 February →   |                |                | Eight-month FPE 31 October |                |
|--------|--|----------------|----------------|----------------------------|----------------|
|        | 2004<br>RM'000   | 2005<br>RM'000 | 2006<br>RM'000 | 2005*<br>RM'000            | 2006<br>RM'000 |
|        | <b>NET CASH FROM/(FOR) OPERATING ACTIVITIES BOUGHT FORWARD</b>       |                |                |                            |                |
|        | 767  | 2,253          | (589)          | (744)                      | 3,376          |
|        | <b>CASH FLOWS FOR INVESTING ACTIVITIES</b>                           |                |                |                            |                |
|        | Interest received  | 4              | 12             | 17                         | -              |
|        | Proceeds from disposal of investment                                 | -              | -              | 300                        | 300            |
|        | Proceeds from disposal of plant and equipment                        | 39             | -              | 4                          | 4              |
| 5.3.25 | Purchase of property, plant and equipment                            | (186)          | (3,321)        | (596)                      | (564)          |
|        | <b>NET CASH FOR INVESTING ACTIVITIES</b>                             | <b>(143)</b>   | <b>(3,309)</b> | <b>(275)</b>               | <b>(260)</b>   |
|        | <b>CASH FLOWS (FOR)/FROM FINANCING ACTIVITIES</b>                    |                |                |                            |                |
|        | Dividends paid   | (130)          | -              | (800)                      | -              |
|        | Net drawdown of bankers' acceptances                                 | 9              | 202            | 1,638                      | 2,509          |
|        | Net drawdown/(repayment) of term loans                               | -              | 2,379          | (156)                      | (102)          |
|        | Net repayment of hire purchases obligation                           | (179)          | (445)          | (525)                      | (442)          |
|        | Proceeds from issuance of shares                                     | -              | 500            | -                          | -              |
|        | <b>NET CASH (FOR)/FROM FINANCING ACTIVITIES</b>                      | <b>(300)</b>   | <b>2,636</b>   | <b>157</b>                 | <b>1,965</b>   |
|        | <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>          | <b>324</b>     | <b>1,580</b>   | <b>(707)</b>               | <b>961</b>     |
|        | <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEARS</b> | <b>145</b>     | <b>469</b>     | <b>2,049</b>               | <b>2,049</b>   |
| 5.3.26 | <b>CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEARS</b>       | <b>469</b>     | <b>2,049</b>   | <b>1,342</b>               | <b>3,010</b>   |

Notes:-

\* Not audited and is included for comparison purposes only.

## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.3 PR MARKETING (CONT'D)

## 5.3.4 STATEMENTS OF CHANGES IN EQUITY OF PR MARKETING

|  | NOTE   | Share<br>Capital<br>RM'000 | Retained<br>Profits/<br>(Accumulated<br>Loss)<br>RM'000 | Total<br>RM'000 |
|--|--------|----------------------------|---|-----------------|
| Balance at 1.3.2003                            |        | 400                        | 168   | 568             |
| Loss after taxation for the financial year     |        | -                          | (340)   | (340)           |
| Dividends                                      | 5.3.27 | -                          | (130)   | (130)           |
| Balance at 28.2.2004/1.3.2004                  |        | 400                        | (302)   | 98              |
| Issue of shares                                |        | 1,200                      | -   | 1,200           |
| Profit after taxation for the financial year   |        | -                          | 1,611   | 1,611           |
| Balance at 28.2.2005/1.3.2005                  |        | 1,600                      | 1,309   | 2,909           |
| Profit after taxation for the financial year   |        | -                          | 10,906  | 10,906          |
| Dividends                                      | 5.3.27 | -                          | (800)   | (800)           |
| Balance at 28.2.2006                           |        | 1,600                      | 11,415  | 13,015          |
| Profit after taxation for the financial period |        | -                          | 11,191  | 11,191          |
| Balance at 31.10.2006                          |        | 1,600                      | 22,606  | 24,206          |

## 5.3.5 ADJUSTMENTS AND RECLASSIFICATIONS

In preparing this report, certain adjustments were made to ensure consistency of presentation of information for comparison purposes. The details of the adjustments and reclassifications made are set out as follows:-

|                                 | FYE 29/28 February |        |        | Eight-month FPE |
|---------------------------------|--------------------|--------|--------|-----------------|
|                                 | 2004               | 2005   | 2006   | 2006            |
|                                 | RM'000             | RM'000 | RM'000 | RM'000          |
| (i) Trade receivables           |                    |        |        |                 |
| - as per accounts               | 4,160              | 12,602 | 18,502 | 27,856          |
| Adjustment (a)                  | (623)              | -      | -      | -               |
| Trade receivables - as restated | 3,537              | 12,602 | 18,502 | 27,856          |
| (ii) Other payables             |                    |        |        |                 |
| - as per accounts               | 1,425              | 6,656  | 934    | 2,089           |
| Reclassification (a)            | (218)              | (28)   | -      | -               |
| Other payables - as restated    | 1,207              | 6,628  | 934    | 2,089           |

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.3 PR MARKETING (CONT'D)

## 5.3.5 ADJUSTMENTS AND RECLASSIFICATIONS (CONT'D)

|   | ← FYE 29/28 February → |                |                | Eight-month FPE<br>31 October |
|---|------------------------|----------------|----------------|-------------------------------|
|   | 2004<br>RM'000         | 2005<br>RM'000 | 2006<br>RM'000 | 2006<br>RM'000                |
| <b>(iii) Turnover</b>                             |                        |                |                |                               |
| - as per accounts                                 | 12,806                 | 48,610         | 96,374         | 92,437                        |
| Adjustment (a)                                    | (623)                  | -              | -              | -                             |
| Adjustment (b)                                    | 83                     | 623            | -              | -                             |
| Reclassification (b)                              | -                      | 470            | -              | -                             |
| Turnover - as restated                            | <u>12,266</u>          | <u>49,703</u>  | <u>96,374</u>  | <u>92,437</u>                 |
| <b>(iv) (Loss)/Profit before tax</b>              |                        |                |                |                               |
| - as per accounts                                 | 200                    | 1,633          | 15,328         | 16,045                        |
| Adjustment (a)                                    | (623)                  | -              | -              | -                             |
| Adjustment (b)                                    | 83                     | 623            | -              | -                             |
| (Loss)/ Profit before tax - as restated           | <u>(340)</u>           | <u>2,256</u>   | <u>15,328</u>  | <u>16,045</u>                 |
| <b>(v) (Loss)/Profit after tax</b>                |                        |                |                |                               |
| - as per accounts                                 | 128                    | 1,079          | 10,906         | 11,191                        |
| Adjustment (a)                                    | (623)                  | -              | -              | -                             |
| Adjustment (b)                                    | 83                     | 623            | -              | -                             |
| Adjustment (c)                                    | 72                     | (91)           | -              | -                             |
| (Loss)/ Profit after tax - as restated            | <u>(340)</u>           | <u>1,611</u>   | <u>10,906</u>  | <u>11,191</u>                 |
| <b>(vi) (Accumulated loss)/Retained profits</b>   |                        |                |                |                               |
| - as per accounts                                 | 231                    | 1,309          | 11,415         | 22,606                        |
| Adjustment (a)                                    | (623)                  | -              | -              | -                             |
| Adjustment (c)                                    | 72                     | -              | -              | -                             |
| Adjustment (d)                                    | 18                     | -              | -              | -                             |
| (Accumulated loss)/Retained profits - as restated | <u>(302)</u>           | <u>1,309</u>   | <u>11,415</u>  | <u>22,606</u>                 |

## Notes:-

## Adjustments

- (a) Adjustment for sales realised prior to delivery of goods.  
 (b) Opening balance adjustment in subsequent year for sales realised prior to delivery of goods.  
 (c) Adjustment for taxation over/(under) provided.  
 (d) Opening balance adjustment for tax overprovided.

## Reclassifications

- (a) Reclassification of amount owing to PRM from other payables.  
 (b) Reclassification of sales commission taken as discount allowed.

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.3 PR MARKETING (CONT'D)

## 5.3.6 REVENUE

Revenue represents invoiced value of goods sold less trade discounts and returns, if any.

## 5.3.7 (LOSS)/PROFIT BEFORE TAXATION

|   | ← FYE 29/28 February → |                |                | Eight-month FPE 31 October |                |
|---|------------------------|----------------|----------------|----------------------------|----------------|
|   | 2004<br>RM'000         | 2005<br>RM'000 | 2006<br>RM'000 | 2005*<br>RM'000            | 2006<br>RM'000 |
| (Loss)/Profit before tax is arrived at after charging/(crediting):- |                        |                |                |                            |                |
| Allowance for doubtful debts  | -                      | 216            | 518            | 325                        | 386            |
| Audit fees  | 5                      | 15             | 13             | -                          | -              |
| Bad debts written off   | -                      | 45             | 67             | 38                         | 44             |
| Bad debts recovered   | -                      | -              | (42)           | (1)                        | (5)            |
| Depreciation of property, plant and equipment                       | 282                    | 570            | 822            | 527                        | 534            |
| Directors' fees   | 542                    | 600            | -              | -                          | -              |
| Directors' remuneration - other emoluments                          | 116                    | 208            | 635            | 244                        | 514            |
| Interest expense  | 51                     | 75             | 398            | 217                        | 229            |
| Interest income   | (4)                    | (12)           | (17)           | -                          | -              |
| Loss/(Gain) on disposal of equipment                                | 4                      | 1              | 7              | 7                          | (12)           |
| Plant and equipment written off                                     | 4                      | 2              | 11             | -                          | 4              |
| Rental paid   | 48                     | 61             | 32             | 16                         | 16             |
| Staff costs   | 1,159                  | 1,802          | 2,807          | 2,016                      | 2,127          |

Note:-

\* Not audited and is included for comparison purposes only.

## 5.3.8 INCOME TAX EXPENSE

|  | ← FYE 29/28 February → |                |                | Eight-month FPE 31 October |                |
|--|------------------------|----------------|----------------|----------------------------|----------------|
|  | 2004<br>RM'000         | 2005<br>RM'000 | 2006<br>RM'000 | 2005*<br>RM'000            | 2006<br>RM'000 |
| Income tax for the financial years         | -                      | 645            | 4,418          | 3,378                      | 4,840          |
| Underprovision in previous financial years | -                      | -              | 4              | -                          | 14             |
|  | -                      | 645            | 4,422          | 3,378                      | 4,854          |

Note:-

\* Not audited and is included for comparison purposes only.

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.3 PR MARKETING (CONT'D)

## 5.3.8 INCOME TAX EXPENSE (CONT'D)

A reconciliation of income tax expense applicable to the (loss)/profit before tax at the statutory tax rate to income tax expense at the effective tax rate of PR Marketing is as follows:-

|   | ← FYE 29/28 February → |        |        | Eight-month FPE 31<br>October |        |
|---|------------------------|--------|--------|-------------------------------|--------|
|   | 2004                   | 2005   | 2006   | 2005*                         | 2006   |
|   | RM'000                 | RM'000 | RM'000 | RM'000                        | RM'000 |
| (Loss)/Profit before taxation                             | (340)                  | 2,256  | 15,328 | 11,654                        | 16,045 |
| Malaysian taxation at statutory rate                      | (95)                   | 632    | 4,292  | 3,263                         | 4,332  |
| Tax effects of:-  |                        |        |        |                               |        |
| Differential in tax rate                                  | -                      | (40)   | (40)   | (40)                          | (35)   |
| Non-deductible expenses                                   | 10                     | 86     | 45     | 12                            | 217    |
| Non taxable income  | -                      | (2)    | -      | -                             | -      |
| Deferred tax assets not recognised                        | 84                     | -      | 31     | 127                           | 220    |
| Reversal of deferred tax assets not recognised previously | -                      | (42)   | -      | -                             | -      |
| Depreciation on non-qualifying capital expenditure        | 1                      | 53     | 85     | 16                            | 106    |
| Others  | -                      | (42)   | 5      | -                             | -      |
| Underprovision in previous financial year                 | -                      | -      | 4      | -                             | 14     |
|   | -                      | 645    | 4,422  | 3,378                         | 4,854  |

Note:-

\* Not audited and is included for comparison purposes only.

## 5.3.9 PROPERTY, PLANT AND EQUIPMENT

|                                       | Freehold land and building | Motor Vehicles | Office furniture, fittings and equipment | Renovation and electrical installation | Total  |
|---------------------------------------|----------------------------|----------------|--|--|--------|
|                                       | RM'000                     | RM'000         | RM'000                                   | RM'000                                 | RM'000 |
| Net Book value at 1.3.2003            | -                          | 480            | 92                                       | 12                                     | 584    |
| Additions                             | -                          | 687            | 70                                       | -                                      | 757    |
| Disposals/Written off                 | -                          | (41)           | (5)                                      | -                                      | (46)   |
| Depreciation charge                   | -                          | (253)          | (27)                                     | (2)                                    | (282)  |
| Net book value at 29.2.2004/ 1.3.2004 | -                          | 873            | 130                                      | 10                                     | 1,013  |
| Additions                             | 3,116                      | 1,116          | 195                                      | 1                                      | 4,428  |
| Disposals/Written off                 | -                          | -              | (3)                                      | -                                      | (3)    |
| Depreciation charge                   | (28)                       | (476)          | (64)                                     | (2)                                    | (570)  |
| Net book value at 28.2.2005/ 1.3.2005 | 3,088                      | 1,513          | 258                                      | 9                                      | 4,868  |
| Additions                             | 170                        | 986            | 345                                      | 55                                     | 1,556  |
| Disposals/Written off                 | -                          | -              | (12)                                     | (9)                                    | (21)   |
| Depreciation charge                   | (31)                       | (673)          | (112)                                    | (6)                                    | (822)  |
| Net book value at 28.2.2006/ 1.3.2006 | 3,227                      | 1,826          | 479                                      | 49                                     | 5,581  |
| Additions                             | -                          | 213            | 30                                       | -                                      | 243    |
| Disposals/Written off                 | -                          | (30)           | (9)                                      | -                                      | (39)   |
| Depreciation charge                   | (21)                       | (439)          | (70)                                     | (4)                                    | (534)  |
| Net book value at 31.10.2006          | 3,206                      | 1,570          | 430                                      | 45                                     | 5,251  |

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.3 PR MARKETING (CONT'D)

## 5.3.9 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

|                          | Freehold<br>land and<br>building<br>RM'000 | Motor<br>Vehicles<br>RM'000 | Office<br>furniture,<br>fittings and<br>equipment<br>RM'000 | Renovation<br>and electrical<br>installation<br>RM'000 | Total<br>RM'000 |
|--------------------------|--|-----------------------------|---|--|-----------------|
| At 31.10.2006            |  |                             |   |  |                 |
| At cost                  | 3,286                                      | 3,505                       | 718   | 55   | 7,564           |
| Accumulated depreciation | (80)                                       | (1,935)                     | (288)   | (10)   | (2,313)         |
| Net book value           | 3,206                                      | 1,570                       | 430   | 45   | 5,251           |
| At 28.2.2006             |  |                             |   |  |                 |
| At cost                  | 3,286                                      | 3,368                       | 699   | 55   | 7,408           |
| Accumulated depreciation | (59)                                       | (1,542)                     | (220)   | (6)  | (1,827)         |
| Net book value           | 3,227                                      | 1,826                       | 479   | 49   | 5,581           |
| At 28.2.2005             |  |                             |   |  |                 |
| At cost                  | 3,116                                      | 2,382                       | 376   | 15   | 5,889           |
| Accumulated depreciation | (28)                                       | (869)                       | (118)   | (6)  | (1,021)         |
| Net book value           | 3,088                                      | 1,513                       | 258   | 9  | 4,868           |
| At 29.2.2004             |  |                             |   |  |                 |
| At cost                  | -  | 1,265                       | 185   | 15   | 1,465           |
| Accumulated depreciation | -  | (392)                       | (55)  | (5)  | (452)           |
| Net book value           | -  | 873                         | 130   | 10   | 1,013           |

Included in the net book value of the property, plant and equipment are the following assets acquired under hire purchase terms:-

|                | 29.2.2004<br>RM'000 | 28.2.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|----------------|---------------------|---------------------|---------------------|----------------------|
| Motor vehicles | 873                 | 1,513               | 1,826               | 1,445                |

The following assets at net book value have been pledged to licensed banks for banking facilities granted to PR Marketing:-

|                  | 29.2.2004<br>RM'000 | 28.2.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|------------------|---------------------|---------------------|---------------------|----------------------|
| Freehold land    | -                   | 1,716               | 1,716               | 1,716                |
| Factory building | -                   | 1,372               | 1,511               | 1,490                |
|                  | -                   | 3,088               | 3,227               | 3,206                |

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.3 PR MARKETING (CONT'D)

## 5.3.10 INVESTMENT IN AN ASSOCIATE

|                                 | 29.2.2004 | 28.2.2005 | 28.2.2006 | 31.10.2006 |
|---------------------------------|-----------|-----------|-----------|------------|
|                                 | RM'000    | RM'000    | RM'000    | RM'000     |
| Unquoted shares, at cost        | 300       | 300       | -         | -          |
| Equity interest held in PRM (%) | 30%       | 30%       | -         | -          |

## 5.3.11 INVENTORIES

|                   | 29.2.2004 | 28.2.2005 | 28.2.2006 | 31.10.2006 |
|-------------------|-----------|-----------|-----------|------------|
|                   | RM'000    | RM'000    | RM'000    | RM'000     |
| At cost:-         |           |           |           |            |
| Finished goods    | 451       | 224       | 244       | 2,122      |
| Promotional gifts | -         | -         | -         | 1,174      |
|                   | 451       | 224       | 244       | 3,296      |

None of the inventories was carried at fair value less costs to sell, at the balance sheet date.

## 5.3.12 TRADE RECEIVABLES

|                              | 29.2.2004 | 28.2.2005 | 28.2.2006 | 31.10.2006 |
|------------------------------|-----------|-----------|-----------|------------|
|                              | RM'000    | RM'000    | RM'000    | RM'000     |
| Trade receivables            | 3,537     | 12,818    | 19,094    | 28,717     |
| Allowance for doubtful debts | -         | (216)     | (592)     | (861)      |
|                              | 3,537     | 12,602    | 18,502    | 27,856     |

The normal trade credit terms of PR Marketing range from 14 to 75 days.

The trade receivables ageing analysis as at 31 October 2006 is set out below:-

|                                       | 0 to 30<br>Days | 31 to 60<br>Days | 61 to 90<br>Days | 90 to 120<br>Days | 121 to 180<br>Days | Above 181<br>Days | Total  |
|---------------------------------------|-----------------|------------------|------------------|-------------------|--------------------|-------------------|--------|
|                                       | RM'000          | RM'000           | RM'000           | RM'000            | RM'000             | RM'000            | RM'000 |
| Balance as at<br>31.10.2006           | 8,978           | 11,630           | 5,587            | 1,118             | 281                | 1,123             | 28,717 |
| Less: Allowance for<br>doubtful debts | -               | -                | -                | -                 | -                  | (861)             | (861)  |
| Net trade debtors                     | 8,978           | 11,630           | 5,587            | 1,118             | 281                | 262               | 27,856 |

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.3 PR MARKETING (CONT'D)

## 5.3.13 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

|                   | 29.2.2004<br>RM'000 | 28.2.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|-------------------|---------------------|---------------------|---------------------|----------------------|
| Other receivables | -                   | 106                 | 30                  | 68                   |
| Deposits          | 20                  | 385                 | 36                  | 6                    |
| Prepayments       | 43                  | 79                  | 100                 | 133                  |
|                   | <u>63</u>           | <u>570</u>          | <u>166</u>          | <u>207</u>           |

## 5.3.14 AMOUNTS OWING BY/(TO) RELATED PARTIES

The amounts owing by/(to) related parties are unsecured, interest free and not subject to fixed terms of repayment.

## 5.3.15 FIXED DEPOSITS WITH LICENSED BANKS

The fixed deposits have been pledged to licensed banks as securities for banking facilities granted to PR Marketing as disclosed in Note 5.3.21.

The interest rates per annum of the fixed deposits at the balance sheet dates range from 3.7% to 4.0%, with a maturity period of one year.

## 5.3.16 SHARE CAPITAL

|   | 29.2.2004        | 28.2.2005        | 28.2.2006        | 31.10.2006       |
|---|------------------|------------------|------------------|------------------|
|   | Number of shares |                  |                  |                  |
| Ordinary shares of RM1 each                 |                  |                  |                  |                  |
| Authorised                                  |                  |                  |                  |                  |
| As at the beginning of the FYE/FPE          | 100,000          | 500,000          | 5,000,000        | 5,000,000        |
| Increase during the financial years/period  | 400,000          | 4,500,000        | -                | -                |
| As at the end of the FYE/FPE                | <u>500,000</u>   | <u>5,000,000</u> | <u>5,000,000</u> | <u>5,000,000</u> |
| Issued and fully paid-up                    |                  |                  |                  |                  |
| As at the beginning of the FYE/FPE          | 100,000          | 400,000          | 1,600,000        | 1,600,000        |
| Allotment during the financial years/period | 300,000          | 1,200,000        | -                | -                |
| As at the end of the FYE/FPE                | <u>400,000</u>   | <u>1,600,000</u> | <u>1,600,000</u> | <u>1,600,000</u> |



## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.3 PR MARKETING (CONT'D)

## 5.3.16 SHARE CAPITAL (CONT'D)

|   | 29.2.2004<br>RM | 28.2.2005<br>RM  | 28.2.2006<br>RM  | 31.10.2006<br>RM |
|---|-----------------|------------------|------------------|------------------|
| Ordinary shares of RM1 each                 |                 |                  |                  |                  |
| Authorised                                  |                 |                  |                  |                  |
| As at the beginning of the FYE/FPE          | 100,000         | 500,000          | 5,000,000        | 5,000,000        |
| Increase during the financial years/period  | 400,000         | 4,500,000        | -                | -                |
| As at the end of the FYE/FPE                | <u>500,000</u>  | <u>5,000,000</u> | <u>5,000,000</u> | <u>5,000,000</u> |
| Issued and fully paid-up                    |                 |                  |                  |                  |
| As at the beginning of the FYE/FPE          | 100,000         | 400,000          | 1,600,000        | 1,600,000        |
| Allotment during the financial years/period | 300,000         | 1,200,000        | -                | -                |
| As at the end of the FYE/FPE                | <u>400,000</u>  | <u>1,600,000</u> | <u>1,600,000</u> | <u>1,600,000</u> |

## 5.3.17 LONG TERM BORROWINGS

|                                      | 29.2.2004<br>RM'000 | 28.2.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|--------------------------------------|---------------------|---------------------|---------------------|----------------------|
| Hire purchase payables (Note 5.3.22) | 654                 | 1,093               | 1,384               | 1,099                |
| Term loan (Note 5.3.23)              | -                   | 2,215               | 2,082               | 1,986                |
|                                      | <u>654</u>          | <u>3,308</u>        | <u>3,466</u>        | <u>3,085</u>         |

## 5.3.18 TRADE PAYABLES

Trade payables represent amounts owing to related parties and the normal trade credit term granted to PR Marketing is 30 days.

## 5.3.19 OTHER PAYABLES AND ACCRUALS

|                     | 29.2.2004<br>RM'000 | 28.2.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|---------------------|---------------------|---------------------|---------------------|----------------------|
| Other payables      | 352                 | 6,333               | 601                 | 471                  |
| Payroll liabilities | 108                 | 45                  | 81                  | 446                  |
| Accrued expenses    | 747                 | 250                 | 252                 | 1,172                |
|                     | <u>1,207</u>        | <u>6,628</u>        | <u>934</u>          | <u>2,089</u>         |

## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.3 PR MARKETING (CONT'D)

## 5.3.20 AMOUNTS OWING TO DIRECTORS

The amounts owing to directors are unsecured, interest free and not subject to fixed terms of repayment.

## 5.3.21 SHORT TERM BORROWINGS

|                                      | 29.2.2004<br>RM'000 | 28.2.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|--------------------------------------|---------------------|---------------------|---------------------|----------------------|
| Bankers' acceptances                 | 298                 | 500                 | 2,138               | 1,587                |
| Hire purchase payables (Note 5.3.22) | 179                 | 402                 | 546                 | 547                  |
| Term loan (Note 5.3.23)              | -                   | 164                 | 141                 | 149                  |
|                                      | <u>477</u>          | <u>1,066</u>        | <u>2,825</u>        | <u>2,283</u>         |

The interest rates per annum of the bankers' acceptances at the balance sheet dates range from 4.30% to 5.62%, and are drawn for a period of up to 90 days.

Bankers' acceptances are secured as follows:-

- (i) by the joint and several guarantees by all the directors of PR Marketing and of PRM;
- (ii) by the corporate guarantee of PRM;
- (iii) by way of legal charges over the landed properties of PR Marketing and of PRM;
- (iv) by way of fixed and floating charges over the assets of PR Marketing; and
- (v) by a pledge on the fixed deposits of PR Marketing and PRM.

## 5.3.22 HIRE PURCHASE PAYABLES

|   | 29.2.2004<br>RM'000 | 28.2.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|---|---------------------|---------------------|---------------------|----------------------|
| Minimum hire purchase payment:                      |                     |                     |                     |                      |
| - not later than one year                           | 252                 | 478                 | 653                 | 634                  |
| - later than one year and not later than five years | 758                 | 1,307               | 1,502               | 1,177                |
|   | <u>1,010</u>        | <u>1,785</u>        | <u>2,155</u>        | <u>1,811</u>         |
| Less : Future finance charges                       | (177)               | (290)               | (225)               | (165)                |
| Present value of hire purchase payment              | <u>833</u>          | <u>1,495</u>        | <u>1,930</u>        | <u>1,646</u>         |

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.3 PR MARKETING (CONT'D)

## 5.3.22 HIRE PURCHASE PAYABLES (CONT'D)

|   | 29.2.2004<br>RM'000 | 28.2.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|---|---------------------|---------------------|---------------------|----------------------|
| Current:  |                     |                     |                     |                      |
| - not later than one year (Note 5.3.22)                           | 179                 | 402                 | 546                 | 547                  |
| Non-current:  |                     |                     |                     |                      |
| - later than one year and not later than five years (Note 5.3.17) | 654                 | 1,093               | 1,384               | 1,099                |
|   | <u>833</u>          | <u>1,495</u>        | <u>1,930</u>        | <u>1,646</u>         |

The hire purchase liabilities bore interest rates at the balance sheet dates which range from 4.46% to 9.62% per annum.

## 5.3.23 TERM LOAN

|   | 29.2.2004<br>RM'000 | 28.2.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|---|---------------------|---------------------|---------------------|----------------------|
| Current portion:                          |                     |                     |                     |                      |
| - repayable within one year (Note 5.3.22) | -                   | 164                 | 141                 | 149                  |
| Non-current portion:                      |                     |                     |                     |                      |
| - repayable between one and two years     | -                   | 141                 | 109                 | 106                  |
| - repayable between two and five years    | -                   | 350                 | 375                 | 367                  |
| - repayable more than five years          | -                   | 1,724               | 1,598               | 1,513                |
| Total non-current portion (Note 5.3.17)   | -                   | <u>2,215</u>        | <u>2,082</u>        | <u>1,986</u>         |
|   | -                   | <u>2,379</u>        | <u>2,223</u>        | <u>2,135</u>         |

Details of the repayment terms are as follows:-

| Term loan | Number of Monthly Instalments | Monthly Instalment RM | Date of Commencement of Repayment |
|-----------|-------------------------------|-----------------------|-----------------------------------|
| 1         | 180                           | 21,305                | February 2005                     |

The term loan bore interest rates at the balance sheet dates which range from 3.88% to 5.00% per annum. The term loan is secured in the same manner as the short term borrowings as disclosed in Note 5.3.21.

## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.3 PR MARKETING (CONT'D)

## 5.3.24 BANK OVERDRAFTS

The bank overdraft bore interest rates at the balance sheet dates which range from 6.0% to 7.0% per annum.

The bank overdrafts are secured in the same manner as the short term borrowings as disclosed in Note 5.3.21.

## 5.3.25 PURCHASE OF PROPERTY, PLANT AND EQUIPMENT

|   | ← FYE 29/28 February → |         |        | Eight-month FPE 31<br>October |        |
|---|------------------------|---------|--------|-------------------------------|--------|
|   | 2004                   | 2005    | 2006   | 2005*                         | 2006   |
|   | RM'000                 | RM'000  | RM'000 | RM'000                        | RM'000 |
| Cost of property, plant and equipment purchased | 757                    | 4,428   | 1,556  | 1,376                         | 243    |
| Amount financed through hire purchase           | (571)                  | (1,107) | (960)  | (812)                         | (111)  |
|   | 186                    | 3,321   | 596    | 564                           | 132    |

Note:-

\* Not audited and is included for comparison purposes only.

## 5.3.26 CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:-

|                                    | 29.2.2004 | 28.2.2005 | 28.2.2006 | 31.10.2005* | 31.10.2006 |
|------------------------------------|-----------|-----------|-----------|-------------|------------|
|                                    | RM'000    | RM'000    | RM'000    | RM'000      | RM'000     |
| Fixed deposits with licensed banks | 155       | 377       | 540       | 497         | 540        |
| Cash and bank balances             | 314       | 1,855     | 802       | 2,513       | 3,059      |
| Bank overdrafts                    | -         | (183)     | -         | -           | -          |
|                                    | 469       | 2,049     | 1,342     | 3,010       | 3,599      |

Note:-

\* Not audited and is included for comparison purposes only.

## 5.3.27 DIVIDENDS

|                                     | ← FYE 29/28 February → |        |        | Eight-month FPE 31<br>October |        |
|-------------------------------------|------------------------|--------|--------|-------------------------------|--------|
|                                     | 2004                   | 2005   | 2006   | 2005*                         | 2006   |
|                                     | RM'000                 | RM'000 | RM'000 | RM'000                        | RM'000 |
| Interim dividends less 28% taxation | 130                    | -      | 800    | -                             | -      |

Note:-

\* Not audited and is included for comparison purposes only.

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.3 PR MARKETING (CONT'D)

## 5.3.28 CONTINGENT LIABILITIES

|  | 29.2.2004<br>RM'000 | 28.2.2005<br>RM'000 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|--|---------------------|---------------------|---------------------|----------------------|
| Corporate guarantee given to financial institutions for credit facilities granted to PRM | 4,700               | 6,460               | 7,497               | 15,937               |

## 5.3.29 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced sale or liquidation.

The following methods are used to estimate the fair value of each class of financial assets and liabilities of PR Marketing:-

**(a) Bank balances and other short term receivables**

The carrying amounts approximate to their fair values due to the relatively short term maturity of these instruments.

**(b) Amounts owing by/(to) related parties/directors**

It is not practicable to estimate the fair values of the amounts owing by/(to) related parties/directors due principally to a lack of fixed repayment terms. However, PR Marketing does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would eventually be received or settled.

**(c) Short term borrowings and other current liabilities**

The carrying amounts approximate to their fair values because of the short period to maturity of these instruments.

**(d) Long term bank loans**

The carrying amounts approximate to their fair values as these instruments bear interest at variable rates.

## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.4 PR MANUFACTURING

## 5.4.1 INCOME STATEMENTS OF PR MANUFACTURING

|  | Note  | Financial period from<br>23 March<br>2005 to<br>28 February<br>2006<br>RM'000 | Eight-month<br>FPE 31<br>October 2006<br>RM'000 |
|--|-------|---|---|
| Revenue  | 5.4.5 | -   | 337   |
| Changes in inventories of finished goods                         |       | -   | 248   |
| Raw materials and consumables used                               |       | -   | (413)   |
| Operating overheads<br>(LBT)/PBT                                 | 5.4.6 | (8)   | (113)   |
| Income tax expense<br>(LAT)/PAT                                  | 5.4.7 | -   | (12)  |
|  |       | (8)   | 47  |
| <i>PBT Margin (%)</i>  |       | N/A   | 17.50   |
| <i>PAT Margin (%)</i>  |       | N/A   | 13.95   |
| <i>Effective tax rate (%)</i>                                    |       | N/A   | 20.34   |
| <i>Weighted average number of ordinary shares of RM1.00 each</i> |       | #   | #   |
| <i>Gross (LPS)/EPS (RM'000)</i>                                  |       | (3)   | 30 <sup>^</sup>                                 |
| <i>Net (LPS)/EPS (RM'000)</i>                                    |       | ^(3)  | 24 <sup>^</sup>                                 |

## Notes:-

\* Represents three (3) ordinary shares of RM1.00 each

<sup>^</sup> Annualised

<sup>N/A</sup> Not Applicable

(i) There were no exceptional or extraordinary items for the financial period under review.

(ii) The gross LPS/EPS and net LPS/EPS were computed by dividing the LBT/PBT and LAT/PAT respectively by the weighted average number of ordinary shares in issue during the period.

(iii) The operating overheads of PR Manufacturing for the financial period from 23 March 2005 to 28 February 2006 represents preliminary expenses and pre-operating expenses.

(iv) No comparative statements for PR Manufacturing were included in this report as PR Manufacturing remained dormant for the financial period from 23 March 2005 to 31 October 2005.

(v) PR Manufacturing recorded revenue of RM0.3 million for eight-month FPE 31 October 2006, being sales made to PR Marketing for distribution within Malaysia.

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.4 PR MANUFACTURING (CONT'D)

## 5.4.2 BALANCE SHEETS OF PR MANUFACTURING

|  | Note   | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|--|--------|---------------------|----------------------|
| <b>ASSETS</b>  |        |                     |                      |
| <b>CURRENT ASSETS</b>                                  |        |                     |                      |
| Inventories  | 5.4.8  | -                   | 386                  |
| Trade receivable                                       | 5.4.9  | -                   | 334                  |
| Deposits   |        | -                   | 2                    |
| Cash and bank balances                                 |        | ^                   | 7                    |
|  |        | ^                   | 729                  |
| <b>TOTAL ASSETS</b>                                    |        | ^                   | 729                  |
| <b>EQUITY AND LIABILITIES</b>                          |        |                     |                      |
| <b>EQUITY</b>  |        |                     |                      |
| Share capital  | 5.4.10 | #                   | #                    |
| (Accumulated loss)/Retained profit                     |        | (8)                 | 39                   |
| <b>SHAREHOLDERS' DEFICIT/EQUITY</b>                    |        | (8)                 | 39                   |
| <b>CURRENT LIABILITIES</b>                             |        |                     |                      |
| Trade payables   | 5.4.11 | -                   | 442                  |
| Other payables and accruals                            |        | 8                   | 46                   |
| Amount owing to a related party                        | 5.4.12 | -                   | 197                  |
| Provision for taxation                                 |        | -                   | 5                    |
|  |        | 8                   | 690                  |
| <b>TOTAL EQUITY AND LIABILITIES</b>                    |        | ^                   | 729                  |
| <i>NTL/NTA (RM'000)</i>                                |        | (8)                 | 39                   |
| <i>NTL/NTA per ordinary share (RM'000)<sup>1</sup></i> |        | (3)                 | 13                   |

Notes:-

^ Represents RM3

# Represents three (3) ordinary shares of RM1.00 each

<sup>1</sup> NTA per ordinary share is calculated based on the ordinary shares in issue as at the end of the financial periods under review.

## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.4 PR MANUFACTURING (CONT'D)

## 5.4.3 CASHFLOW STATEMENTS OF PR MANUFACTURING

|   | Financial period from<br>23 March<br>2005 to<br>28 February<br>2006<br>RM'000 | Eight-month<br>FPE 31<br>October<br>2006<br>RM'000 |
|---|---|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                     |   |  |
| (LBT)/PBT   | (8)   | 59   |
| Adjustment for:-  |   |  |
| Increase in inventories   | -   | (386)  |
| Increase in trade receivable and deposits                                       | -   | (336)  |
| Increase in trade and other payables  | 8   | 480  |
| Increase in amount owing to a related party                                     | -   | 198  |
| <b>CASHFLOW FROM OPERATIONS</b>   | -   | 15   |
| Income tax paid   | -   | (8)  |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>                                       | -   | 7  |
| <b>CASH FROM FINANCING ACTIVITY</b>   |   |  |
| Proceeds from issuance of shares  | #   | -  |
| <b>NET CASH FROM FINANCING ACTIVITY</b>   | #   | -  |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                | #   | 7  |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD</b>           | -   | #  |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD</b> | #   | 7  |

Note:-

# Represents RM3

## 5.4.4 STATEMENT OF CHANGES IN EQUITY OF PR MANUFACTURING

|                                 | Share<br>Capital<br>RM'000 | (Accumulated<br>Loss)/<br>Retained<br>Profit<br>RM'000 | Total<br>RM'000 |
|---------------------------------|----------------------------|--|-----------------|
| At 23.3.2005                    | -                          | -  | -               |
| Issue of share capital          | #                          | -  | #               |
| Loss for the financial period   | -                          | (8)  | (8)             |
| Balance at 28.2.2006/1.3.2006   | #                          | (8)  | (8)             |
| Profit for the financial period | -                          | 47   | 47              |
| Balance at 31.10.2006           | #                          | 39   | 39              |

Note:-

# Represents RM3

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.4 PR MANUFACTURING (CONT'D)

## 5.4.5 REVENUE

Revenue represents invoiced value of good sold less trade discount and returns, if any.

## 5.4.6 (LOSS)/PROFIT BEFORE TAXATION

|                                    | Financial period from<br>23 March<br>2005 to<br>28 February<br>2006<br>RM'000 | Eight-month<br>FPE 31<br>October<br>2006<br>RM'000 |
|------------------------------------|---|--|
| (LBT)/PBT is arrived at charging:- |   |  |
| Audit fee                          | ^   | -  |

Note:-

^ Represents RM500

## 5.4.7 INCOME TAX EXPENSE

|   | Financial period from<br>23 March<br>2005 to<br>28 February<br>2006<br>RM'000 | Eight-month<br>FPE 31<br>October<br>2006<br>RM'000 |
|---|---|--|
| Income tax in respect of current financial period | -   | 12   |

A reconciliation of the income tax expense applicable to the (loss)/profit before tax at the statutory tax rate to income tax expense at the effective tax rate of PR Manufacturing is as follows:-

|                                     | Financial period from<br>23 March<br>2005 to<br>28 February<br>2006<br>RM'000 | Eight-month<br>FPE 31<br>October<br>2006<br>RM'000 |
|-------------------------------------|---|--|
| (Loss)/Profit before taxation       | (8)   | 59   |
| Malaysia taxation at statutory rate | (2)   | 16   |
| Tax effects of:-                    |   |  |
| Differential in tax rate            | -   | (4)  |
| Non-deductible expenses             | 2   | #  |
| Tax for the financial period        | -   | 12   |

Note:-

# Represents less than RM1,000

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## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.4 PR MANUFACTURING (CONT'D)

## 5.4.8 INVENTORIES

|                   | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|-------------------|---------------------|----------------------|
| At cost:-         |                     |                      |
| Finished goods    | -                   | 248                  |
| Packing materials | -                   | 12                   |
| Raw materials     | -                   | 126                  |
|                   | -                   | <u>386</u>           |

None of the inventories was carried at fair value less costs to sell, at the balance sheet date.

## 5.4.9 TRADE RECEIVABLE

This represents amount owing by a related party and is not subject to fixed terms of repayment.

## 5.4.10 SHARE CAPITAL

|                             | 28.2.2006<br>Number of shares | 31.10.2006<br>Number of shares | 28.2.2006<br>RM | 31.10.2006<br>RM |
|-----------------------------|-------------------------------|--------------------------------|-----------------|------------------|
| Ordinary shares of RM1 each |                               |                                |                 |                  |
| Authorised                  | 1,000,000                     | 1,000,000                      | 1,000,000       | 1,000,000        |
| Issued and fully paid-up    | #                             | #                              | #               | #                |

Note:-

\* Represents three (3) ordinary shares of RM1.00 each

## 5.4.11 TRADE PAYABLES

Included in trade payables is the following amount owing to a related party:-

|                                 | 28.2.2006<br>RM'000 | 31.10.2006<br>RM'000 |
|---------------------------------|---------------------|----------------------|
| Amount owing to a related party | -                   | <u>326</u>           |

The normal trade credit terms granted to PR Manufacturing are 30 to 60 days.

## 5.4.12 AMOUNT OWING TO A RELATED PARTY

The amount owing to a related party is unsecured, interest-free and not subject to fixed terms of repayment.

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**12. ACCOUNTANTS' REPORT (cont'd)**

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**5 AUDITED FINANCIAL STATEMENTS (CONT'D)****5.4 PR MANUFACTURING (CONT'D)****5.4.13 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced sale or liquidation.

The following methods are used to estimate the fair value of each class of financial assets and liabilities of PR Manufacturing:-

**(a) Bank balances and other short term receivables**

The carrying amounts approximate to their fair values due to the relatively short term maturity of these instruments.

**(b) Short term borrowings and other current liabilities**

The carrying amounts approximate to their fair values because of the short period to maturity of these instruments.

**(c) Amounts owing to a related party**

It is not practicable to estimate the fair values of the amounts owing to a related party due principally to a lack of fixed repayment terms. However, PR Manufacturing does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would eventually be paid.

## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.5 PR NERGY

## 5.5.1 INCOME STATEMENT OF PR NERGY

|  | Note  | Financial period from 2 May 2006 to 31 October 2006<br>RM'000 |
|--|-------|---|
| Revenue  | 5.5.5 | 629   |
| Changes in inventories of finished goods                         |       | 376   |
| Raw materials and consumables used                               |       | (598)   |
| Depreciation   |       | (1)   |
| Operating overheads  |       | (117)   |
| PBT  | 5.5.6 | 289   |
| Income tax expense   | 5.5.7 | (58)  |
| PAT  |       | 231   |
| <i>PBT Margin (%)</i>  |       | 45.95%  |
| <i>PAT Margin (%)</i>  |       | 36.73%  |
| <i>Effective tax rate (%)</i>                                    |       | 20.07%  |
| <i>Weighted average number of ordinary shares of RM1.00 each</i> |       | #   |
| <i>Gross EPS (RM'000)</i>  |       | 193 <sup>^</sup>  |
| <i>Net EPS (RM'000)</i>  |       | 154 <sup>^</sup>  |

## Notes:-

\* Represents three (3) ordinary shares of RM1.00 each

<sup>^</sup> Annualised

(i) There were no exceptional or extraordinary items for the financial period under review.

(ii) The gross EPS and net EPS were computed by dividing the PBT and PAT respectively by the weighted average number of ordinary shares in issue during the period.

(iii) PR Nergy recorded revenue of RM0.6 million for the financial period from 2 May 2006 to 31 October 2006, being sales made to PR Marketing for distribution within Malaysia.

## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.5 PR NNERGY (CONT'D)

## 5.5.2 BALANCE SHEET OF PR NNERGY

|  | NOTE   | 31.10.2006<br>RM'000 |
|--|--------|----------------------|
| <b>ASSETS</b>                            |        |                      |
| NON CURRENT ASSET                        |        |                      |
| Equipment                                |        | 2                    |
| CURRENT ASSETS                           |        |                      |
| Inventories                              | 5.5.8  | 477                  |
| Trade receivable                         | 5.5.9  | 474                  |
| Cash and bank balances                   |        | 17                   |
|  |        | 968                  |
| <b>TOTAL ASSETS</b>                      |        | <b>970</b>           |
| <b>EQUITY AND LIABILITIES</b>            |        |                      |
| EQUITY                                   |        |                      |
| Share capital                            | 5.5.10 | #                    |
| Retained profit                          |        | 231                  |
| SHAREHOLDERS' EQUITY                     |        | 231                  |
| CURRENT LIABILITIES                      |        |                      |
| Trade payables                           | 5.5.11 | 361                  |
| Other payables and accruals              |        | 265                  |
| Amount owing to a related party          | 5.5.12 | 62                   |
| Provision for taxation                   |        | 51                   |
|  |        | 739                  |
| <b>TOTAL EQUITY AND LIABILITIES</b>      |        | <b>970</b>           |
| <i>NTA (RM'000)</i>                      |        | 231                  |
| <i>NTA per ordinary share (RM'000)**</i> |        | 77                   |

## Notes:-

\* Represents three (3) ordinary shares of RM1.00 each

\*\* NTA per ordinary share is calculated based on the ordinary shares in issue as at the end of the financial periods under review.

## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.5 PR NERGY (CONT'D)

## 5.5.3 CASHFLOW STATEMENT OF PR NERGY

|   | Financial<br>period from<br>2 May 2006<br>to 31<br>October 2006<br>RM'000 |
|---|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                   |   |
| PBT   | 289   |
| Adjustment for:-  |   |
| Depreciation of equipment   | 1   |
| Operating profit before working capital changes                               | 290   |
| Increase in inventories   | (477)   |
| Increase in trade receivable  | (474)   |
| Increase in trade and other payables  | 626   |
| Increase in amount owing to a related party                                   | 62  |
| <b>CASHFLOW FROM OPERATIONS</b>   | 27  |
| Income tax paid   | (7)   |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>                                     | 20  |
| <b>CASH FOR INVESTING ACTIVITY</b>  |   |
| Purchase of equipment   | (3)   |
| <b>CASH FROM FINANCING ACTIVITY</b>   |   |
| Proceeds from issuance of shares  | #   |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS<br/>FOR THE FINANCIAL PERIOD</b> | <b>17</b>   |

Note:-

# Represents RM3

## 5.5.4 STATEMENT OF CHANGES IN EQUITY OF PR NERGY

|                                 | Share<br>Capital<br>RM'000 | Retained<br>Profit<br>RM'000 | Total<br>RM'000 |
|---------------------------------|----------------------------|------------------------------|-----------------|
| At 2.5.2006                     | -                          | -                            | -               |
| Issue of share capital          | #                          | -                            | #               |
| Profit for the financial period | -                          | 231                          | 231             |
| Balance at 31.10.2006           | #                          | 231                          | 231             |

Note:-

# Represents RM3

Horwath Offices in Malaysia:

Johor Bahru • Klang • Kota Kinabalu • Kuala Lumpur • Kuching • Labuan • Melaka • Penang • Prai • Sungai Petani

## 12. ACCOUNTANTS' REPORT (cont'd)



## 5 AUDITED FINANCIAL STATEMENTS (CONT'D)

## 5.5 PR NERGY (CONT'D)

## 5.5.5 REVENUE

Revenue represents invoiced value of good sold less trade discount and returns, if any.

## 5.5.6 PROFIT BEFORE TAXATION

|                              | Financial<br>period from<br>2 May 2006<br>to 31<br>October 2006<br>RM'000 |
|------------------------------|---|
| PBT is arrived at charging:- |   |
| Depreciation of equipment    | <u>1</u>  |

## 5.5.7 INCOME TAX EXPENSE

|   | Financial<br>period from<br>2 May 2006<br>to 31<br>October<br>2006<br>RM'000 |
|---|--|
| Income tax in respect of current financial period | <u>58</u>  |

A reconciliation of the income tax expense applicable to the profit before tax at the statutory tax rate to income tax expense at the effective tax rate of PR Nergy is as follows:-

|                                     | Financial<br>period from<br>2 May 2006<br>to 31<br>October<br>2006<br>RM'000 |
|-------------------------------------|--|
| PBT                                 | <u>289</u>   |
| Malaysia taxation at statutory rate | 78   |
| Tax effects of:-                    |  |
| Differential in tax rate            | (20)   |
| Non-deductible expenses             | <u>#</u>   |
| Tax for the financial period        | <u>58</u>  |
| <i>Note:-</i>                       |  |
| # Represents less than RM1,000      |  |

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**12. ACCOUNTANTS' REPORT (cont'd)****5 AUDITED FINANCIAL STATEMENTS (CONT'D)****5.5 PR NERGY (CONT'D)****5.5.8 INVENTORIES**

|                   | 31.10.2006<br>RM'000 |
|-------------------|----------------------|
| At cost:-         |                      |
| Finished goods    | 376                  |
| Packing materials | 3                    |
| Raw materials     | 98                   |
|                   | <u>477</u>           |

None of the inventories was carried at fair value less costs to sell, at the balance sheet date.

**5.5.9 TRADE RECEIVABLE**

This represents amount owing by a related party and is not subject to fixed terms of repayment.

**5.5.10 SHARE CAPITAL**

|                             | 31.10.2006<br>Number of<br>Shares | 31.10.2006<br>RM |
|-----------------------------|-----------------------------------|------------------|
| Ordinary shares of RM1 each |                                   |                  |
| Authorised                  | 100,000                           | 100,000          |
| Issued and fully paid-up    | <u>#</u>                          | <u>#</u>         |

Note:-

\* Represents three (3) ordinary shares of RM1.00 each

**5.5.11 TRADE PAYABLES**

The normal trade credit terms granted to PR Nergy are 30 to 60 days.

**5.5.12 AMOUNT OWING TO A RELATED PARTY**

The amount owing to a related party is unsecured, interest-free and not subject to fixed terms of repayment.



**12. ACCOUNTANTS' REPORT (cont'd)**

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**5 AUDITED FINANCIAL STATEMENTS (CONT'D)****5.5 PR NENERGY (CONT'D)****5.5.13 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced sale or liquidation.

The following methods are used to estimate the fair value of each class of financial assets and liabilities of PR Nenergy:-

**(a) Bank balances and other short term receivables**

The carrying amounts approximate to their fair values due to the relatively short term maturity of these instruments.

**(b) Short term borrowings and other current liabilities**

The carrying amounts approximate to their fair values because of the short period to maturity of these instruments.

**(c) Amount owing to a related party**

It is not practicable to estimate the fair values of the amount owing to a related party due principally to a lack of fixed repayment terms. However, PR Nenergy does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would eventually be paid.

**12. ACCOUNTANTS' REPORT (cont'd)****6. DIVIDENDS FOR THE RELEVANT FINANCIAL PERIODS**

The details of dividends paid by the subsidiaries, namely PRM and PR Marketing in respect of the Relevant Financial Periods under review are as follows:-

| Year/Period Ended   | Dividend               | Issued and Paid-up Share Capital<br>RM | Dividend Rate<br>% | Net Dividend<br>RM |
|---------------------|------------------------|--|--------------------|--------------------|
| <b>PRM</b>          |                        |  |                    |                    |
| 31.07.2005          | Tax Exempt Dividends   | 1,000,000                              | 110.00             | 1,100,000          |
| 31.07.2005          | Dividends Less 28% Tax | 1,000,000                              | 152.78             | 1,100,000          |
| 31.10.2006          | Tax Exempt Dividends   | 1,000,000                              | 300.00             | 3,000,000          |
| <b>PR Marketing</b> |                        |  |                    |                    |
| 28.02.2004          | Dividends Less 28% Tax | 100,000                                | 180.00             | 129,600            |
| 28.02.2006          | Dividends Less 28% Tax | 1,600,000                              | 69.44              | 800,000            |

**7. RESTATEMENT TO THE AUDITED FINANCIAL STATEMENTS**

The restatement to the audited financial statements of PRM and PR Marketing are set out in Sections 5.2.5 and 5.3.5 respectively.

**8. SUBSEQUENT EVENTS**

Subsequent to the date of the last financial statements used in the preparation of this report:-

- (a) on 23 November 2006, PRM increased its authorised share capital from RM1,000,000 to RM5,000,000;
- (b) on 12 December 2006, PRM increased its issued and paid-up capital from RM1,000,000 to RM5,000,000 by way of a bonus issue of RM4,000,000 ordinary shares of RM1.00 each in the ratio of 4 bonus shares for every one existing share held. The bonus shares were issued by way of capitalisation of RM4,000,000 from the retained profits. The new shares issued rank pari passu in all respects with the existing shares of PRM;
- (c) on 5 January 2007, PRM paid tax exempt interim dividends (RM0.34 per ordinary share) of RM1,700,000; and
- (d) on 5 January 2007, PR Marketing paid interim dividends less taxation (approximately RM2.83 per ordinary share) of RM3,300,000.

12. ACCOUNTANTS' REPORT (cont'd)

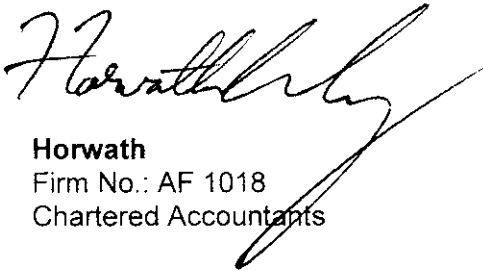
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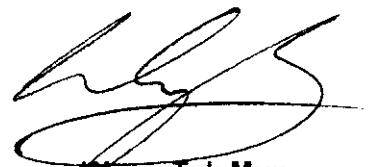
9. AUDITED FINANCIAL STATEMENTS

As of the date of this report, no audited financial statements have been prepared in respect of any period subsequent to 31 October 2006 for Natural Bio, PRM, PR Marketing, PR Manufacturing and PR Nergy.

Yours faithfully



**Horwath**  
Firm No.: AF 1018  
Chartered Accountants



**Wong Tak Mun**  
Approval No: 1793/09/08 (J)  
Partner

## 13. DIRECTORS' REPORT



**Natural Bio Resources Berhad** (Co.No.733268-U)  
No.8, Jalan Sri Plentong 5, Taman Perindustrian Sri Plentong,  
81750 Masai, Johor Darul Ta'zim, Malaysia.  
Tel: 607-386 6868 Fax: 607-386 6688

**Registered Office:**  
30-05, Level 30  
Menara Landmark  
Mail Box 172  
12 Jalan Ngee Heng  
80000 Johor Bahru  
Johor Darul Ta'zim

10 April 2007

The Shareholders,  
NATURAL BIO RESOURCES BERHAD

Dear Sir/Madam

On behalf of the Directors of Natural Bio Resources Berhad ("Natural Bio"), I report after due inquiry that during the period from 31 October 2006 (being the date to which the last audited financial statements of Natural Bio and its subsidiaries have been made) to 10 April 2007 (being a date not earlier than fourteen (14) days before the issue of this Prospectus):

- (a) the business of Natural Bio and its subsidiaries ("Group") has, in the opinion of the Directors, been satisfactorily maintained;
- (b) there have, in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of the companies forming the Group which have adversely affected the trading or the values of the assets of the Group;
- (c) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) there are no contingent liabilities arisen by reason of any guarantees or indemnities given by the Group;
- (e) as far as the Directors are aware, there have been, since the last audited financial statements of the companies forming the Group, no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings; and
- (f) save as disclosed in this Prospectus since the last audited financial statements of the companies forming the Group, there have been no material changes in the published reserves or any unusual factors affecting the profits of the Group.

Yours faithfully  
For and on behalf of the Board of Directors of  
**NATURAL BIO RESOURCES BERHAD**

  
Low Chee Yen  
Managing Director