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**ACCOUNTANTS' REPORT**
(Prepared for inclusion in the Prospectus to be dated 31 July 2003)

28 July 2003

The Board of Directors
**AWC FACILITY SOLUTIONS BERHAD**
Third Floor, No. 79 (Room A)
Jalan SS 21/60
Damansara Utama
47400 Petaling Jaya
Selangor Darul Ehsan

Dear Sirs

This report has been prepared by Ernst & Young as an approved company auditor, for inclusion in the Prospectus to shareholders of AWC Facility Solutions Berhad ("AWC") in connection with the following exercises:

- **Restricted Offer for Subscription**

  Restricted offer for subscription of 5,000,000 new ordinary shares of AWC at an issue price of RM0.60 per share to certain existing shareholders of AWC;

- **Offer for Subscription**

  Offer for subscription of 17,100,000 new ordinary AWC shares of RM0.50 each comprising:-

  a) 4,100,000 new ordinary shares of RM0.50 each available for application by the Malaysian public;

  b) 1,000,000 new ordinary shares of RM0.50 each to the former minority shareholders of Trans Capital Holding Berhad ("TCHB"); and

  c) 12,000,000 new ordinary shares of RM0.50 each by way of placement

  at an issue price of RM0.60 per ordinary share payable in full on application.

- **Transfer of Listing Status**

  The transfer of the listing status of TCHB to AWC and the listing and quotation of the entire enlarged issued and paid up capital of AWC on the Second Board of the Kuala Lumpur

Stock Exchange ("KLSE") and the consequent de-listing of TCHB from the Second Board of the KLSE.

The above exercises formed part and parcel of the Corporate and Debt Restructuring Scheme of TCHB.

## A. GENERAL INFORMATION ON AWC GROUP

### (1) AWC

AWC was incorporated in Malaysia on 13 June 2001 as a public limited company. The present authorised share capital is RM500,000,000 comprising 1,000,000,000 ordinary shares of RM0.50 each. The issued and paid-up share capital is RM103,289,613.50 comprising 206,579,227 ordinary shares of RM0.50 each.

The changes in the issued and paid-up ordinary share capital of AWC since incorporation were as follows:-

| Date of allotment | Number of shares allotted | Par value RM | Consideration | Resultant issued and paid-up capital RM |
|---|---|---|---|---|
| 13.06.01 | 2 | 0.50 | Cash : Subscribers shares | 1 |
| 30.06.03 | 174,433,333 | 0.50 | Issued pursuant to the acquisitions of subsidiaries | 87,216,667.50 |
| 27.07.03 | 3,466,083 | 0.50 | Issued pursuant to Share Exchange | 88,949,709.00 |
| 27.07.03 | 28,679,809 | 0.50 | Issued pursuant to Debt Settlement Scheme | 103,289,613.50 |

AWC was established to become the investment holding company of M&C Engineering & Trading Sdn Bhd ("M&C(M)"), M&C Engineering & Trading (S) Pte Ltd ("M&C(S)"), Ambang Wira Sdn Bhd ("AWSB"), AW Facility Management Sdn Bhd ("AWFM"), Gold Green Landscape & Nursery Sdn Bhd ("GGLN") and Kejuruteraan Putrajaya Sdn Bhd ("KPSB")* (collectively referred to as "the AWC Group") and to assume the listing status of TCHB on the Second Board of the KLSE. The AWC Group is principally involved in dealing with equipment supplies and contracting work for building management and home automation systems, the provision of specialised services for mechanical and electrical engineering works, the provision of service and maintenance, and comprehensive facility management services including landscaping activities.

* *M&C(M), M&C(S), AWSB, AWFM, GGLN and KPSB are referred to as the Acquiree Companies.*

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**(2) M&C (M)**

M&C(M) was incorporated in Malaysia on 23 November 1981 as a private limited company. The authorised share capital and paid up share capital of M&C(M) are RM5,000,000 and RM2,000,000 respectively, divided into 5,000,000 and 2,000,000 ordinary shares of RM1 each respectively.

The changes in the issued and paid-up ordinary share capital of M&C(M) since incorporation were as follows:

| Date of allotment | Number of shares allotted | Par value RM | Consideration | Resultant issued and paid-up capital RM |
|---|---|---|---|---|
| 23.11.81 | 2 | 1.00 | Cash : Subscribers shares | 2 |
| 08.12.82 | 150,000 | 1.00 | Cash | 150,002 |
| 25.05.84 | 50,000 | 1.00 | Cash | 200,002 |
| 05.03.85 | 100,001 | 1.00 | Capitalisation of profit and loss appropriation account | 300,003 |
| 01.04.89 | 200,000 | 1.00 | Cash | 500,003 |
| 12.12.94 | 499,997 | 1.00 | Capitalisation of profit and loss appropriation account | 1,000,000 |
| 01.04.96 | 1,000,000 | 1.00 | Capitalisation of profit and loss appropriation account | 2,000,000 |

M&C is principally engaged in the design and installation of building and home automation systems, with core competencies in the control and monitoring of heating, ventilation and air-conditioning systems ("HVAC").

**(3) M&C(S)**

M&C(S), a 51% subsidiary of M&C(M), was incorporated in Singapore on 4 October 1996 as a private limited company, with an authorised share capital SGD1,000,000 divided into 1,000,000 ordinary shares, and issued and paid up share capital of SGD200,000, divided into 200,000 ordinary shares of SGD1 each. The issued and paid up share capital increased in 1999 to SGD500,000, divided into 500,000 ordinary shares of SGD1 each.

The changes in the issued and paid-up ordinary share capital of M&C(S) since incorporation were as follows:

| Date of allotment | Number of shares allotted | Par value | Consideration | Resultant issued and paid-up capital |
|---|---|---|---|---|
| | | SGD | | SGD |
| 04.10.96 | 200,000 | 1.00 | Cash : Subscribers' shares | 200,000 |
| 26.05.99 | 300,000 | 1.00 | Cash | 500,000 |

M&C(S) is principally engaged in the design and installation of building and home automation systems, with core competencies in the control and monitoring of heating, ventilation and air-conditioning systems. M&C(S) also specialises in engineering and trading for water balancing management systems, air conditioning control systems, industrial cooling systems, hydronic balancing systems, as well as systems service and maintenance.

(4) **AWSB**

AWSB was incorporated in Malaysia on 2 April 1993 as a private limited company. The authorised share capital and paid-up capital of AWSB is RM5,000,000 and RM3,000,000 respectively, divided into 5,000,000 and 3,000,000 ordinary shares of RM1.00 each respectively.

The changes in the issued and paid-up ordinary share capital of AWSB since incorporation were as follows:

| Date of allotment | Number of shares allotted | Par value | Consideration | Resultant issued and paid-up capital |
|---|---|---|---|---|
| | | RM | | RM |
| 02.04.93 | 2 | 1.00 | Cash : Subscribers' shares | 2 |
| 21.05.93 | 24,998 | 1.00 | Cash | 25,000 |
| 13.09.93 | 100,000 | 1.00 | Cash | 125,000 |
| 24.07.95 | 1,375,000 | 1.00 | Cash | 1,500,000 |
| 02.10.95 | 1,000,000 | 1.00 | Cash | 2,500,000 |
| 18.01.96 | 500,000 | 1.00 | Cash | 3,000,000 |

AWSB commenced operations on 1 June 1998 after signing a concession agreement to provide facility management, maintenance, upkeep and support services for the Federal Government's common user buildings in the States of Melaka, Negeri Sembilan, Johor and Sarawak.

(5) **AWFM**

AWFM was incorporated in Malaysia on 19 September 1998 as a private limited company. The authorised share capital of AWFM is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each, whilst its issued and fully paid-up share capital is RM600,000 comprising 600,000 ordinary shares of RM1.00 each.

The changes in the issued and paid-up ordinary share capital of AWC since incorporation were as follows:

| Date of allotment | Number of shares allotted | Par value RM | Consideration | Resultant issued and paid-up capital RM |
|---|---|---|---|---|
| 19.09.98 | 2 | 1.00 | Cash : Subscribers' shares | 2 |
| 17.03.99 | 300,000 | 1.00 | Cash | 300,002 |
| 05.06.00 | 299,298 | 1.00 | Cash | 600,000 |

AWFM is principally involved in the provision of one-stop solutions for facility management services. Among the services provided by AWFM include electrical and mechanical maintenance; civil and structural maintenance; energy and utilities management; vertical transport management; security and safety management; fire fighting equipment maintenance; landscaping and ground-care services; climate control maintenance and management; and cleaning and housekeeping services.

**(6) GGLN**

GGLN was incorporated in Malaysia on 22 August 1994 as a private limited company. The authorised and paid-up share capital of GGLN are RM100,000, divided into 100,000 ordinary shares of RM1 each respectively.

The changes in the issued and paid-up ordinary share capital of GGLN since incorporation were as follows:

| Date of allotment | Number of shares allotted | Par value RM | Consideration | Resultant issued and paid-up capital RM |
|---|---|---|---|---|
| 22.08.94 | 2 | 1.00 | Cash : Subscribers shares | 2 |
| 12.12.94 | 30,000 | 1.00 | Cash | 30,002 |
| 24.11.00 | 69,998 | 1.00 | Cash | 100,000 |

The principal activities of GGLN are the provision of landscaping and nursery services, which involve the planning, designing and creation of gardens, turfs, and other forms of horticultural environments. GGLN also supplies plants and provides maintenance services for gardens and various forms of landscapes.

**(7) KPSB**

KPSB was incorporated in Malaysia on 14 April 1997 as a private limited company. The authorised share capital and paid up share capital of KPSB are RM500,000 and RM300,000 respectively, divided into 500,000 and 300,000 ordinary shares of RM1 each respectively.

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The changes in the issued and paid-up ordinary share capital of KPSB since incorporation were as follows:

| Date of allotment | Number of shares allotted | Par value RM | Consideration | Resultant issued and paid-up capital RM |
|---|---|---|---|---|
| 14.04.97 | 2 | 1.00 | Cash : Subscribers shares | 2 |
| 30.04.98 | 299,998 | 1.00 | Cash | 300,000 |

KPSB is principally engaged in the supply, install, deliver, test and commissioning of electrical and mechanical engineering services for high-rise buildings, factories, hospitals, educational institutions, highways and government buildings.

## B. FINANCIAL STATEMENTS AND AUDITORS

Except otherwise stated, the financial statements included in this Report, which are the responsibility of the directors of the Acquiree Companies, have been prepared in accordance with applicable Approved Accounting Standards in Malaysia.

The financial statements of the Acquiree Companies (other than the financial statements of AWSB) for the relevant financial years/periods covered in this Report were audited by firms of chartered accountants other than Ernst & Young.

The reports under review were not subject to any qualification, except for GGLN's 1999 financial statements, in which the auditors' report was modified with respect to the appropriateness of using the going concern assumption in the preparation of the financial statements, due to insufficient shareholders' fund of RM65,351 as at 31 December 1999. However, the matter was rectified in 2000 when GGLN increased its issued and paid-up share capital to RM100,000 for cash, thereby reversing the deficit in shareholders' funds.

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## C. TRACK RECORD OF PROFIT PERFORMANCE OF THE PRO FORMA GROUP

We set out below the pro forma consolidated financial results of AWC Group, time-apportioned for the last five (5) financial years ended 31 December (except for companies which have been incorporated for less than five years) and three (3) months financial period ended 31 March 2003. The pro forma consolidated financial results are provided for illustrative purposes only, assuming that AWC had acquired the said subsidiaries prior to 1 January 1998.

The pro forma consolidated results are to be read in conjunction with the notes thereto:

| | <----------Year ended 31 December----------> | | | | | 3 months to |
|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 31.3.2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 39,171 | 49,877 | 69,483 | 63,250 | 65,587 | 14,426 |
| Profit before depreciation, interest and taxation | 8,908 | 7,926 | 13,745 | 12,058 | 12,706 | 3,158 |
| Interest expense | (62) | (97) | (227) | (459) | (440) | (46) |
| Depreciation | (470) | (617) | (1,602) | (2,003) | (1,586) | (221) |
| Profit before taxation | 8,376 | 7,212 | 11,916 | 9,596 | 10,680 | 2,891 |
| Taxation | (1,209) | (992) | (3,406) | (2,672) | (3,110) | (815) |
| Profit after taxation | 7,167 | 6,220 | 8,510 | 6,924 | 7,570 | 2,076 |
| Number of ordinary shares assumed in issue ('000)* | 228,679 | 228,679 | 228,679 | 228,679 | 228,679 | 228,679 |
| Gross earnings per share (RM) | 0.04 | 0.03 | 0.05 | 0.04 | 0.05 | 0.07^ |
| Net earnings per share (RM) | 0.03 | 0.03 | 0.04 | 0.03 | 0.03 | 0.05^ |

* Comprising shares to be issued pursuant to the Corporate and Debt Restructuring Scheme

^ Annualised to twelve (12) months period.

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**Notes:**

(1) The AWC Group's pro forma consolidated financial results have been prepared on a time-apportioned basis and comprise the audited financial statements of AWC and its subsidiaries i.e. M&C(M), M&C(S), AWSB, AWFM, GGLN and KPSB, for the following financial years/periods:

a) audited financial statements of AWC for the financial period from 13 June 2001 (date of incorporation) to 30 June 2002, and financial periods from 1 July 2002 to 31 December 2002 and from 1 January 2003 to 31 March 2003;

b) audited financial statements of M&C(M) for the financial years ended 31 December 1998 to 2002 and financial period from 1 January 2003 to 31 March 2003;

c) audited financial statements of M&C(S) for the financial years ended 31 December 1998 to 2002 and financial period from 1 January 2003 to 31 March 2003;

d) audited financial statements of AWSB for the financial years ended 31 January 1999 to 2003;

e) audited financial statements of AWFM for the financial period from 19 September 1998 (date of incorporation) to 31 December 1999, financial years ended 31 December 2000 to 2002 and financial period from 1 January 2003 to 31 March 2003;

f) audited financial statements of GGLN for the financial years ended 31 December 1998 to 2002 and financial period from 1 January 2003 to 31 March 2003; and

g) audited financial statements of KPSB for the financial period from 1 January 1998 to 30 June 1998, financial years ended 30 June 1999 to 2002, financial periods from 1 July 2002 to 31 December 2002 and from 1 January 2003 to 31 March 2003.

We have made the relevant reclassifications as we considered appropriate, based on the audited results of the respective subsidiaries, in arriving at the pro forma consolidated financial results of AWC Group.

(2) The pro forma consolidated financial results have been prepared without the results of TCHB Group as the Group will be liquidated after the completion of the listing exercise of AWC Group. The non-consolidation of the financial results of TCHB Group is in accordance with the requirements of applicable Approved Accounting Standards.

(3) The pro forma consolidated results have been prepared based on accounting policies consistent with those previously adopted in the preparation of the audited financial statements of the individual companies.

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(4) As M&C(S) was incorporated outside Malaysia, its audited financial results were translated into Malaysian Ringgit based on the exchange rate prevailing as at 31 March 2003 of SGD1.00 : RM2.20.

(5) There were no extraordinary or exceptional items for the financial years/periods under review.

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## D. INFORMATION ON M&C GROUP

### 1.0 SUMMARISED RESULTS OF M&C GROUP

We set out below the summarised results of M&C Group based on the audited financial statements for the last five (5) financial years ended 31 December 2002 and three (3) months financial period ended 31 March 2003, as follows:

| | <------Year ended 31 December------> | | | | | 3 months to |
|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 31.3.2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 23,019 | 21,699 | 27,577 | 21,732 | 19,298 | 4,780 |
| Cost of Sales | (14,911) | (13,615) | (16,912) | (14,706) | (13,522) | (3,268) |
| Gross profit | 8,108 | 8,084 | 10,665 | 7,026 | 5,776 | 1,512 |
| Other income | 243 | 138 | 138 | 358 | 130 | 106 |
| Operating expenses | (3,596) | (4,356) | (4,446) | (4,978) | (4,541) | (1,100) |
| Profit before depreciation and interest | 4,755 | 3,866 | 6,357 | 2,406 | 1,365 | 518 |
| Interest expense | (21) | (34) | (10) | (7) | (11) | - |
| Depreciation | (328) | (380) | (405) | (425) | (250) | (42) |
| Profit before taxation | 4,406 | 3,452 | 5,942 | 1,974 | 1,104 | 476 |
| Taxation | (1,184) | (258) | (1,687) | (531) | (323) | (131) |
| Profit after taxation | 3,222 | 3,194 | 4,255 | 1,443 | 781 | 345 |
| Minority interest | (317) | (360) | (582) | (243) | (187) | (38) |
| Net profit for the year | 2,905 | 2,834 | 3,673 | 1,200 | 594 | 307 |
| Retained earnings brought forward | 5,329* | 6,984 | 8,568 | 12,241 | 13,337* | 13,617* |
| Dividends | (1,250) | (1,250) | - | - | (432) | - |
| Retained earnings carried forward | 6,984 | 8,568 | 12,241 | 13.441 | 13,499 | 13,924 |
| Weighted average number of ordinary shares in issue | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Gross earnings per share (RM) | 2.20 | 1.73 | 2.97 | 0.99 | 0.55 | 0.24 |
| Net earnings per share (RM) | 1.45 | 1.42 | 1.84 | 0.60 | 0.30 | 0.17 |
| Gross dividend rate (%) | 86.8 | 86.8 | - | - | 30.0 | - |

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**Notes:**

(1) There were no extraordinary or exceptional items in the financial years under review.

* Retained profits brought forward for 1998, 2002 and 2003 are different from that carried forward from the previous year due to translation adjustment made by the Group, as follows:

| | 1998 RM'000 | 2002 RM'000 | 2003 RM'000 |
|---|---|---|---|
| Balance brought forward from the previous financial year | 5,289 | 13,441 | 13,499 |
| Currency translation adjustments | 40 | (104) | 118 |
| Balance as at 1 January (restated) | 5,329 | 13,337 | 13,617 |

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## 1.1 SUMMARISED BALANCE SHEETS OF M&C GROUP

We set out below the summarised balance sheets of M&C Group based on the audited financial statements as at 31 December 1998 to 2002 and 31 March 2003, as follows:

| | <------Year ended 31 December------> | | | | | 3 months to |
|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 31.3.2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **NON-CURRENT ASSETS** | | | | | | |
| Property, plant and equipment | 1,420 | 2,435 | 2,764 | 3,729 | 2,885 | 2,853 |
| Unquoted investment | - | - | - | - | - | 35 |
| | 1,420 | 2,435 | 2,764 | 3,729 | 2,885 | 2,888 |
| **CURRENT ASSETS** | | | | | | |
| Inventories | 3,767 | 4,462 | 3,975 | 4,065 | 3,411 | 3,600 |
| Trade receivables | 9,009 | 9,449 | 11,960 | 11,320 | 9,839 | 10,128 |
| Other receivables | 99 | 142 | 169 | 696 | 1,753 | 2,062 |
| Fixed deposits with licensed banks | 1,330 | 886 | 1,350 | 1,388 | 2,132 | 2,143 |
| Cash and bank balances | 780 | 1,758 | 1,397 | 1,244 | 2,237 | 1,564 |
| | 14,985 | 16,697 | 18,851 | 18,713 | 19,372 | 19,497 |
| **CURRENT LIABILITIES** | | | | | | |
| Short term borrowings | 92 | 42 | 37 | 37 | - | - |
| Trade payables | 3,294 | 3,889 | 3,094 | 2,953 | 2,568 | 2,812 |
| Other payables | 333 | 508 | 400 | 511 | 439 | 252 |
| Amount owing to a director | 438 | 438 | - | - | 14 | - |
| Taxation | 1,261 | 285 | 698 | 162 | 88 | 87 |
| Dividend payable | - | - | - | - | 432 | - |
| | 5,418 | 5,162 | 4,229 | 3,663 | 3,541 | 3,151 |
| **NET CURRENT ASSETS** | 9,567 | 11,535 | 14,622 | 15,050 | 15,831 | 16,346 |
| | 10,987 | 13,970 | 17,386 | 18,779 | 18,716 | 19,234 |

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| | <------Year ended 31 December | | | | ------> | 3 months to |
|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 31.3.2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **FINANCED BY:** | | | | | | |
| Share capital | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Retained profits | 6,984 | 8,568 | 12,241 | 13,441 | 13,499 | 13,924 |
| Revaluation reserve | - | 720 | 720 | 720 | 720 | 720 |
| Translation reserve | 182 | 162 | 229 | 323 | 60 | 1 |
| Shareholders' equity | 9,166 | 11,450 | 15,190 | 16,484 | 16,279 | 16,645 |
| Minority interests | 835 | 1,534 | 2,050 | 2,200 | 2,387 | 2,539 |
| | 10,001 | 12,984 | 17,240 | 18,684 | 18,666 | 19,184 |
| Amount due to holding company* | 813 | 837 | 28 | - | - | - |
| Deferred taxation | 42 | 45 | 49 | 59 | 50 | 50 |
| Hire purchase payables | 131 | 104 | 69 | 36 | - | - |
| Non-current liabilities | 986 | 986 | 146 | 95 | 50 | 50 |
| | 10,987 | 13,970 | 17,386 | 18,779 | 18,716 | 19,234 |

* M&C(M) ceased to be a subsidiary of Linear Corporation Berhad during the financial year ended 31 December 2001.

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# E. INFORMATION ON M&C(M)

## 1.0 SUMMARISED RESULTS OF M&C(M)

We set out below the summarised results of M&C(M) based on the audited financial statements for the last five (5) financial years ended 31 December 2002 and three (3) months financial period ended 31 March 2003, as follows:

| | <------Year ended 31 December | | | | ------> | 3 months to |
|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 31.3.2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 15,937 | 13,585 | 17,016 | 12,208 | 10,721 | 3,303 |
| Cost of sales | (10,915) | (9,295) | (10,568) | (8,332) | (7,646) | (2,408) |
| Gross profit | 5,022 | 4,290 | 6,448 | 3,876 | 3,075 | 895 |
| Other income | 236 | 177 | 206 | 325 | 149 | 106 |
| Operating expenses | (1,553) | (1,757) | (1,972) | (2,500) | (2,365) | (656) |
| Profit before depreciation and interest | 3,705 | 2,710 | 4,682 | 1,701 | 859 | 345 |
| Depreciation | (193) | (241) | (284) | (323) | (191) | (32) |
| Interest expense | (12) | (12) | (1) | - | - | - |
| Profit before taxation | 3,500 | 2,457 | 4,397 | 1,378 | 668 | 313 |
| Taxation | (924) | 1 | (1,256) | (459) | (243) | (120) |
| Profit after taxation | 2,576 | 2,458 | 3,141 | 919 | 425 | 193 |
| Retained profits brought forward | 5,024 | 6,350 | 7,558 | 10,699 | 11,618 | 11,611 |
| Profit available for appropriation | 7,600 | 8,808 | 10,699 | 11,618 | 12,043 | 11,804 |
| Dividend | (1,250) | (1,250) | - | - | (432) | - |
| Retained profits carried forward | 6,350 | 7,558 | 10,699 | 11,618 | 11,611 | 11,804 |
| Weighted average number of ordinary shares in issue | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Gross earnings per share (RM) | 1.75 | 1.23 | 2.20 | 0.69 | 0.33 | 0.15 |
| Net earnings per share (RM) | 1.29 | 1.23 | 1.57 | 0.46 | 0.21 | 0.10 |
| Gross dividend rate (%) | 86.8 | 86.8 | - | - | 30.0 | - |

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**Notes:**

(1) From 1998 to 2002 (except for the year 2000), revenue of the Company decreased gradually due to sluggish construction activities in certain segments of the property market, particularly in the commercial property sector as a result of over supply of office space and retail outlets. In 2000, there was an improvement in revenue due to the Company secured contracts from the privatisation of several public infrastructure projects.

(2) The overall gross profit margin dropped from 32% (in 1998 to 2001) to 29% in 2002 despite the fluctuation in revenue, as a result of higher proportion of revenue from the sales of valves as compared to projects revenue generated, which carried lower gross profit margins. Gross margin for 2000 was higher (38%) mainly contributed by projects revenue in that year.

(3) The effective tax rates in 2001 and 2002 were higher than the statutory tax rate due to certain expenses disallowed for taxation purposes. However, in 1998, the effective tax rate was lower than the statutory rate due to the reversal of over provision for taxation in 1997 amounted to RM59,000. There was no tax charge for 1999 as the amount payable was waived in accordance with the provisions of Income Tax (Amendment) Act, 1999.

(4) Interim dividend of 86.8% net of income tax of 28.0%, amounting to RM1,250,000, were declared and paid in 1998 and 1999 respectively.

In respect of year 2002, M&C(M) declared a first and final dividend of 30% less 28% taxation amounting to RM432,000 on 10 December 2002.

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

## 2.0 SUMMARISED BALANCE SHEETS OF M&C(M)

We set out below the summarised balance sheets of M&C(M) based on the audited financial statements as at 31 December 1998 to 2002 and 31 March 2003, as follows:

| | <---As at 31 December | | | | ---> | 31 March |
|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **NON-CURRENT ASSETS** | | | | | | |
| Property, plant and equipment | 995 | 2,042 | 2,440 | 3,466 | 2,820 | 2,788 |
| Unquoted investment | - | - | - | - | - | 35 |
| Investment in a subsidiary | 184 | 524 | 524 | 524 | 524 | 524 |
| | 1,179 | 2,566 | 2,964 | 3,990 | 3,344 | 3,347 |
| **CURRENT ASSETS** | | | | | | |
| Inventories | 2,429 | 2,307 | 2,359 | 2,127 | 2,049 | 1,861 |
| Trade receivables | 6,518 | 6,417 | 7,703 | 5,682 | 5,428 | 6,333 |
| Other receivables | 56 | 93 | 101 | 607 | 1,622 | 1,926 |
| Amount due from customer for projects | - | - | - | 548 | 382 | 369 |
| Amount due from a subsidiary | 501 | 360 | 434 | 407 | 459 | 27 |
| Cash and bank balances | 713 | 1,497 | 766 | 1,016 | 938 | 297 |
| Fixed deposits with licensed banks | 1,100 | 647 | 1,104 | 1,138 | 1,900 | 1,900 |
| | 11,317 | 11,321 | 12,467 | 11,525 | 12,778 | 12,713 |
| **CURRENT LIABILITIES** | | | | | | |
| Trade payables | 1,772 | 2,190 | 1,555 | 1,001 | 1,181 | 1,443 |
| Other payables | 534 | 560 | 149 | 125 | 133 | 48 |
| Amount due to holding company | 813 | 836 | 28 | - | - | - |
| Dividend payable | - | - | - | - | 432 | - |
| Taxation | 999 | - | 251 | - | - | - |
| | 4,118 | 3,586 | 1,983 | 1,126 | 1,746 | 1,491 |

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| | <-----As at 31 December | | | | ----> | 31 March |
|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **NET CURRENT ASSETS** | 7,199 | 7,735 | 10,484 | 10,399 | 11,032 | 11,222 |
| | 8,378 | 10,301 | 13,448 | 14,389 | 14,376 | 14,569 |
| **FINANCED BY:** | | | | | | |
| Share capital | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Retained profits | 6,350 | 7,558 | 10,699 | 11,618 | 11,611 | 11,804 |
| Revaluation reserve | - | 720 | 720 | 720 | 720 | 720 |
| Shareholders' equity | 8,350 | 10,278 | 13,419 | 14,338 | 14,331 | 14,524 |
| Hire purchase payables | 5 | - | - | - | - | - |
| Deferred taxation | 23 | 23 | 29 | 51 | 45 | 45 |
| Non-current liabilities | 28 | 23 | 29 | 51 | 45 | 45 |
| | 8,378 | 10,301 | 13,448 | 14,389 | 14,376 | 14,569 |
| Net Tangible Assets per ordinary share (RM) | 4.18 | 5.14 | 6.71 | 7.17 | 7.17 | 7.26 |

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## 3.0 STATEMENT OF ASSETS AND LIABILITIES OF M&C(M) AS AT 31 MARCH 2003

The following statement of assets and liabilities is based on the audited financial statements of M&C(M) as at 31 March 2003 and should be read in conjunction with the notes thereon:

| | Note | RM'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Property, plant and equipment | 4.2 | 2,788 |
| Unquoted investment | 4.3 | 35 |
| Investment in a subsidiary | 4.4 | 524 |
| | | 3,347 |
| **CURRENT ASSETS** | | |
| Inventories | 4.5 | 1,861 |
| Trade receivables | 4.6 | 6,333 |
| Other receivables | 4.7 | 1,926 |
| Amount due from customer for projects | 4.8 | 369 |
| Amount due from a subsidiary | 4.9 | 27 |
| Cash and bank balances | | 297 |
| Fixed deposits with licensed banks | 4.10 | 1,900 |
| | | 12,713 |
| **CURRENT LIABILITIES** | | |
| Trade payables | 4.11 | 1,443 |
| Other payables | | 48 |
| | | 1,491 |
| **NET CURRENT ASSETS** | | 11,222 |
| | | 14,569 |
| **FINANCED BY:** | | |
| Share capital | 4.12 | 2,000 |
| Retained profits | 4.13 | 11,804 |
| Revaluation reserve | 4.14 | 720 |
| Shareholders' equity | | 14,524 |
| Deferred taxation | 4.15 | 45 |
| | | 14,569 |

Note : Statement of Changes in Equity is not separately presented as there is no major movement in reserves other than those disclosed in this Report.

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## 4.0 NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES

## 4.1 SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The financial statements of the Company have been prepared under the historical cost convention. The financial statements comply with the provisions of the Companies Act 1965 and applicable Approved Accounting Standards in Malaysia.

### (b) Revenue

Revenue from sale of goods is recognised when the goods are delivered. Rental and interest income are accounted for on an accrual basis.

Revenue from construction contracts is accounted for by the percentage of completion method.

### (c) Inventories

Inventories are valued at the lower of cost (using weighted average method), and net realisable value. Cost of inventories represents cost of purchase, and the relevant import duties, handling, transport and other direct costs.

### (d) Amount due from customers for projects

When costs incurred on construction contracts plus recognised profits (less recognised losses) exceeds progress billings, the balance is shown as amount due from customers on projects. When progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as amount due to customers on projects.

### (e) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised in the income statement whenever the carrying amount of an item of plant and equipment exceeds its recoverable amount

Property, plant and equipment, except freehold land, are depreciated over their estimated useful lives on a straight line basis. Freehold land is stated at cost and is not depreciated.

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The principal rates of depreciation used are as follows:

| | |
|---|---|
| Freehold Building | 2% |
| Freehold apartments | 2% |
| Leasehold condominiums | Over remaining lease period of 96 years |
| Motor vehicles | 15% - 20% |
| Furniture, fittings and equipment | 10% - 20% |
| Office renovations | 10% - 20% |
| Machinery | 10% |

(f) **Currency conversions**

Transactions in foreign currencies are converted into Ringgit at the exchange rates ruling at the transaction dates unless hedged by forward exchange contracts, in which case the rate specified in such forward contracts are used. Monetary assets and liabilities in foreign currencies at balance sheet date are translated into Ringgit at rates of exchange ruling at that date unless hedged by forward exchange contracts, in which case the rate specified in such forward contracts are used. All exchange differences are taken to the income statement.

The principal exchange rate for every unit of foreign currency ruling at balance sheet date used is as follows:

| | **RM** |
|---|---|
| Singapore dollar | 2.20 |

(g) **Deferred taxation**

The tax expense for the year is based on the profit for the year, as adjusted for tax purposes, together with a charge or credit for deferred taxation.

Deferred taxation is provided for under the liability method for all timing differences except when there is reasonable evidence that these timing differences will not reverse in the foreseeable future. Deferred tax benefits are only recognised when there is a reasonable expectation of realisation in the near future.

(h) **Financial instruments**

Financial instruments are recognised in the balance sheet when the Company has become a party to the contractual provisions of the instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. The particular recognition method adopted for financial instruments recognised in the balance sheet is disclosed in the individual accounting policies associated with each item.

(i) **Investment in a subsidiary**

Investment in a subsidiary is stated at cost less provision for any impairment loss. Such provision is made when there is a decline other than temporary in the value of investments and is recognised as an expense in the period in which the decline occurred. On disposal of an investment, the difference between net disposal proceeds and its carrying amount is charged or credited to the income statement.

(j) **Trade and other receivables**

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

(k) **Payables**

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

(l) **Equity instruments**

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction, net of tax in equity from the proceeds.

Dividends in ordinary shares are recognised in equity in the period in which they are declared.

(m) **Cash and cash equivalents**

Cash and cash equivalents represent cash in hand, at bank and fixed deposits with licensed banks.

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## 4.2 PROPERTY, PLANT AND EQUIPMENT

| Cost/Valuation | Freehold land and building RM'000 | Apartments and condo-miniums RM'000 | Motor vehicles RM'000 | Furniture, fittings and equipment RM'000 | Office renovation RM'000 | Machinery RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2003 | 1,200 | 1,372 | 366 | 247 | 296 | 103 | 3,584 |
| Additions | - | - | 330 | - | - | - | 330 |
| Disposal/ Written off | - | - | (330) | - | - | - | (330) |
| At 31 March 2003 | 1,200 | 1,372 | 366 | 247 | 296 | 103 | 3,584 |
| **Representing** | | | | | | | |
| At cost | - | 1,372 | 366 | 247 | 296 | 103 | 2,384 |
| At valuation | 1,200 | - | - | - | - | - | 1,200 |
| | 1,200 | 1,372 | 366 | 247 | 296 | 103 | 3,584 |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2003 | 47 | 53 | 251 | 151 | 249 | 13 | 764 |
| Charge for the period | 3 | 5 | 8 | 6 | 8 | 2 | 32 |
| Disposal/ Written off | - | - | | - | - | - | - |
| At 31 March 2003 | 50 | 58 | 259 | 157 | 257 | 15 | 796 |
| **Net Book Value** | | | | | | | |
| At cost | - | 1,314 | 107 | 90 | 39 | 88 | 1,638 |
| At valuation | 1,150 | - | - | - | - | - | 1,150 |
| | 1,150 | 1,314 | 107 | 90 | 39 | 88 | 2,788 |

a) The freehold land and building is pledged to a financial institution for banking facilities granted to the Company.

b) Freehold land and building were revalued by the directors of the Company in 1998 based on a valuation report by an independent valuer.

c) Separate strata titles for the condominiums have yet to be issued by the relevant authority.

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## 4.3 UNQUOTED INVESTMENT

| | 31.3.2003 RM'000 |
|---|---|
| Club membership | 35 |

## 4.4 INVESTMENT IN A SUBSIDIARY

| | 31.3.2003 RM'000 |
|---|---|
| Unquoted shares – at cost | 524 |

The subsidiary company is:

| | Principal Activities | Country of incorporation | Effective interest at 31.3.2003 |
|---|---|---|---|
| M & C Engineering and Trading (S) Pte. Ltd. | Distributors of mechanical and electrical Inventories and engineering contractors | Singapore | 51% |

## 4.5 INVENTORIES

| | 31.3.2003 RM'000 |
|---|---|
| At cost :- | |
| Valves | 270 |
| Controllers | 1,591 |
| | 1,861 |

## 4.6 TRADE RECEIVABLES

| | 31.3.2003 RM'000 |
|---|---|
| Trade receivables | 6,910 |
| Less: Provision for doubtful debts | (577) |
| | 6,333 |

The Company's normal trade credit terms ranges from 60 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

The Company has no significant concentration of credit risk that may arise from exposures to a single debtor or to groups of debtors.

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## 4.7 OTHER RECEIVABLES

| | 31.3.2003 RM'000 |
|---|---|
| Staff loans and advances | 12 |
| Sundry deposits | 29 |
| Sundry receivables | 922 |
| Prepayments | 963 |
| | 1,926 |

## 4.8 AMOUNT DUE FROM CUSTOMERS FOR PROJECTS

| | 31.3.2003 RM'000 |
|---|---|
| Aggregate costs incurred to date | 1,223 |
| Add: Attributable profits | 784 |
| | 2,007 |
| Less: Progress billings | (1,638) |
| | 369 |

## 4.9 AMOUNT DUE FROM A SUBSIDIARY

| | 31.3.2003 RM'000 |
|---|---|
| Amount due from a subsidiary | |
| - trade | 27 |

The amount due from a subsidiary is unsecured, bears no interest and has no fixed terms of repayment.

## 4.10 FIXED DEPOSITS WITH LICENSED BANKS

A deposit of RM100,000 is held under lien for banking facilities granted to the Company.

The weighted average interest rate during the financial year was 3.2% and its maturities of deposit as at 31 March 2003 ranged from 30 to 120 days.

## 4.11 TRADE PAYABLES

Trade payables mainly relate to suppliers of fire dampers, balancing valves, butterfly valves, various types of controllers and other miscellaneous building management system's equipment.

The normal trade credit term granted to the Company ranges from 30 to 60 days.

## 4.12 SHARE CAPITAL

| | 31.3.2003 RM'000 |
|---|---|
| Authorised : | |
| 5,000,000 ordinary shares of RM1 each | 5,000 |
| Issued and fully paid : | |
| 2,000,000 ordinary shares of RM1 each | 2,000 |

## 4.13 RETAINED PROFITS

As at 31 March 2003, the Company has tax exempt profits available for distribution of approximately RM2,700,000 subject to the agreement of the Inland Revenue Board.

The Company has sufficient tax credit under Section 108 of the Income Tax Act 1967 and the balance in the tax exempt income account to frank the payment of dividends out of its entire retained profits as at 31 March 2003.

## 4.14 REVALUATION RESERVE

The revaluation reserve represents the surplus on revaluation of freehold land and building.

## 4.15 DEFERRED TAXATION

| | 31.3.2003 RM'000 |
|---|---|
| Balance at 1 January/31 December | 45 |

No provision is made for deferred taxation of RM35,999 arising from the revaluation of freehold land and building, as they are held for long term purposes.

## 4.16 BANKING FACILITIES

The Company has banking facilities in the form of overdraft, bank guarantee and trust receipt, which are secured by:-

(1) a debenture stamped for RM1,200,000 over all the fixed and floating assets of the Company;

(2) a first legal charge over the Company's freehold land and building; and

(3) a lien over the Company's fixed deposit with the bank.

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## 4.17 FINANCIAL INSTRUMENTS

### (a) Financial risk management objectives and policies

The Company's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Company's businesses whilst managing its interest rate, foreign exchange, liquidity and credit risks. The Company operates within clearly defined guidelines, and the policy is to not engage in speculative transactions.

### (b) Interest rate risk

The investment in financial assets are short term in nature and they are not held for speculative purposes but have been mostly placed in short term deposits with licensed banks.

### (c) Foreign currency risk

The subsidiary of the Company is exposed to Singapore Dollars. The Company is not exposed to significant foreign currency risk as the majority of the Company's transactions, assets and liabilities are denominated in Ringgit Malaysia. Foreign currency denominated assets and liabilities together with expected future cash flows from highly probable purchases and sales give rise to foreign exchange exposures.

The net unhedged financial asset of the Company as at 31 March 2003 that is not denominated in its functional currencies is as follows:

| Functional currency of the Company | Singapore Dollars RM'000 |
|---|---|
| **Amount Due From A Subsidiary** | |
| - Trade (Malaysia Ringgit) | 27 |

### (d) Liquidity risk

The Company actively manages its operating cash flows and the availability of funding to ensure all financing, repayment and funding needs are met.

### (e) Credit risk

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised and monitored via strictly limiting the Company's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via Company management reporting procedures.

The Company does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instrument.

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**(f) Fair values**

The aggregate fair value of financial assets carried on the balance sheet as at 31 March is presented in the following table:

| | Carrying amount RM'000 | Fair value RM'000 |
|---|---|---|
| **Financial assets** | | |
| Club membership (Note 4.3) | 35 | * |
| Non-current unquoted shares (Note 4.4) | 524 | * |

* It is not practical to estimate the fair value of the Company's club membership and unquoted shares because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

The carrying amounts of the following financial assets and liabilities approximate their fair values: cash and bank balances (including fixed deposits with licensed banks), amounts owing from a subsidiary, amount due from customers for projects, receivables and payables.

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## 5.0 STATEMENT OF CASH FLOW FOR THE THREE (3) MONTHS PERIOD ENDED 31 MARCH 2003

| | RM'000 |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Profit before taxation | 313 |
| Adjustment for: | |
| Depreciation | 32 |
| Written off of motor vehicle | 102 |
| Interest received | (14) |
| Rental received | (11) |
| Management fee received | (6) |
| Unrealised exchange loss | 106 |
| Operating profit before working capital changes | 522 |
| Decrease in inventories | 188 |
| Increase in receivables | (803) |
| Increase in payables | 130 |
| Cash generated from operations | 37 |
| Tax paid | (140) |
| Net cash used in operating activities | (103) |
| | |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Insurance claims on property, plant and equipment | 228 |
| Interest received | 14 |
| Management fee received | 6 |
| Rental received | 11 |
| Purchase of investment | (35) |
| Purchase of property, plant and equipment | (330) |
| Net cash used in investing activities | (106) |
| | |
| CASH FLOWS FROM FINANCING ACTIVITY | |
| Dividend paid, representing net cash used in financing activity | (432) |
| | |
| Net decrease in cash and cash equivalents | (641) |
| Cash and cash equivalents at 1 January | 2,838 |
| Cash and cash equivalents at 31 March | 2,197 |
| | |
| Cash and cash equivalents comprise: | |
| Cash and bank balances | 297 |
| Fixed deposits with licensed banks | 1,900 |
| | 2,197 |

## 6.0 AUDITED FINANCIAL STATEMENTS

No audited financial statements of M&C(M) have been prepared in respect of any period subsequent to 31 March 2003 as at the date of this report.

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## F. INFORMATION ON M&C(S)

### 1.0 SUMMARISED RESULTS OF M&C(S)

We set out below the summarised results of M&C(S) based on the audited financial statements for the last five (5) financial years ended 31 December 2002 and three (3) months financial period ended 31 March 2003, as follows:

| | <------------ | ------------Year ended 31 December | ------------ | ------------ | ------------> | 3 months to |
|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 31.3.2003 |
| | SGD'000 | SGD'000 | SGD'000 | SGD'000 | SGD'000 | SGD'000 |
| Revenue | 3,110 | 3,535 | 4,810 | 4,567 | 4,089 | 671 |
| Cost of Sales | (1,903) | (2,057) | (3,021) | (3,035) | (2,798) | (391) |
| Gross profit | 1,207 | 1,478 | 1,789 | 1,532 | 1,291 | 280 |
| Other income | 6 | 12 | 3 | 3 | 4 | - |
| Other operating expenses | (756) | (988) | (998) | (1,213) | (1,044) | (235) |
| Profit before depreciation and interest | 457 | 502 | 794 | 322 | 251 | 45 |
| Interest expense | (4) | (9) | (3) | (2) | (3) | - |
| Depreciation | (59) | (60) | (55) | (49) | (28) | (5) |
| Profit before taxation | 394 | 433 | 736 | 271 | 220 | 40 |
| Taxation | (113) | (113) | (196) | (34) | (38) | (5) |
| Profit after taxation | 281 | 320 | 540 | 237 | 182 | 35 |
| Retained earnings brought forward | 260 | 541 | 861 | 1,401 | 1,638 | 1,820 |
| Retained earnings carried forward | 541 | 861 | 1,401 | 1,638 | 1,820 | 1,855 |
| Weighted average number of ordinary shares in issue | 200 | 375 | 500 | 500 | 500 | 500 |
| Gross earnings per share (SGD) | 1.97 | 1.15 | 1.47 | 0.54 | 0.44 | 0.08 |
| Net earnings per share (SGD) | 1.41 | 0.85 | 1.08 | 0.47 | 0.36 | 0.07 |
| Gross dividend rate (%) | - | - | - | - | - | - |

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**Notes:**

(1) The revenue of M&C(S) had been on an increasing trend for year 1998 to 2000 due to the increase in number of projects obtained and good acceptance of hydronic balancing technologies especially the introduction of butterfly valves by M&C(S) in 2000. However in 2001 and 2002, the revenue decreased by approximately 5% and 11% respectively as a result of a more competitive industry and a downturn in the Singapore economy following a technical recession in these years.

(2) The gross margin had been consistent for the financial years under review except for 2001 and 2002 due to the management's decision to accept projects with lower gross profit margins in these years, in order to ensure continuing revenue in the face of increased competition, and a downturn in the Singapore economy.

(3) There was an increase in operating expenses by 30.6% in 1999 as compared to 1998 mainly due to the increase in staff costs. The number of employees increased from an average of 14 employees in 1998 to 17 due to business expansion. In 2001, the increase in operating expenses was mainly due to higher provisions for doubtful debts, higher staff costs and accrued contracted director's fees for both 2000 and 2001. In 2002, the decrease mainly resulted from the reduced in staff costs due to optimization of staff strength as compared to 2001.

(4) The effective tax rates in 1998 to 2000 were higher than the statutory tax rate due to certain expenses being disallowed for taxation purposes. However, in 2001 and 2002, the effective tax rates were lower than the statutory rate due to overprovision of taxation in previous years amounted to SGD22,000 and SGD3,000 respectively, and tax exempt income related to tax incentive given to profit making companies amounted to SGD52,500 each for both years.

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

(6) There was no dividend declared or paid during the years under review.

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## 2.0 SUMMARISED BALANCE SHEETS OF M&C(S)

We set out below the summarised balance sheets of M&C(S) based on the audited financial statements as at 31 December 1998 to 2002 and 31 March 2003, as follows:

| | <------------------------ | As at 31 December | --------------------- | ----------------------- | --------> | 31 March |
|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| | SGD'000 | SGD'000 | SGD'000 | SGD'000 | SGD'000 | SGD'000 |
| **NON-CURRENT ASSET** | | | | | | |
| Plant and equipment | 185 | 171 | 139 | 111 | 31 | 29 |
| **CURRENT ASSETS** | | | | | | |
| Inventories | 582 | 937 | 692 | 845 | 733 | 898 |
| Trade receivables | 1,084 | 1,318 | 1,875 | 2,275 | 1,834 | 1,450 |
| Other receivables | 33 | 28 | 34 | 43 | 56 | 62 |
| Cash and bank balances | 29 | 114 | 282 | 90 | 619 | 576 |
| Fixed deposits with licensed banks | 100 | 104 | 107 | 109 | 110 | 110 |
| | 1,828 | 2,501 | 2,990 | 3,362 | 3,352 | 3,096 |
| **CURRENT LIABILITIES** | | | | | | |
| Short term borrowings | 18 | 18 | 18 | 18 | - | - |
| Trade payables | 661 | 739 | 666 | 863 | 660 | 622 |
| Other payables | 130 | 170 | 106 | 171 | 146 | 93 |
| Amount due to holding company | 275 | 200 | 200 | 3 | 13 | 13 |
| Taxation | 114 | 124 | 197 | 62 | 42 | 40 |
| | 1,198 | 1,251 | 1,187 | 1,117 | 861 | 768 |
| **NET CURRENT ASSETS** | 630 | 1,250 | 1,803 | 2,245 | 2,491 | 2,328 |
| | 815 | 1,421 | 1,942 | 2,356 | 2,522 | 2,357 |
| **FINANCED BY:** | | | | | | |
| Share capital | 200 | 500 | 500 | 500 | 500 | 500 |
| Retained profits | 541 | 861 | 1,401 | 1,638 | 1,820 | 1,855 |
| Shareholder's equity | 741 | 1,361 | 1,901 | 2,138 | 2,320 | 2,355 |

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| | <-----As at 31 December | | | | -----> | 31 March |
|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| | SGD'000 | SGD'000 | SGD'000 | SGD'000 | SGD'000 | SGD'000 |
| Amount due to holding company | - | - | - | 200 | 200 | - |
| Deferred taxation | 8 | 10 | 9 | 3 | 2 | 2 |
| Hire purchase payables | 66 | 50 | 32 | 15 | - | - |
| Non-current liabilities | 74 | 60 | 41 | 218 | 202 | 2 |
| | 815 | 1,421 | 1,942 | 2,356 | 2,522 | 2,357 |
| Net Tangible Assets per ordinary share (SGD) | 3.71 | 2.72 | 3.80 | 4.28 | 4.64 | 4.71 |

**Note:**

(1) M&C(S) increased its paid-up capital from SGD200,000 to SGD500,000 in 1999 by issuing 300,000 ordinary shares of SGD1.00 each to provide for additional working capital.

(2) The above balance sheets have been adjusted to reflect the classifications as adopted in the latest audited financial statements.

(3) The amount due to holding company of SGD200,000 disclosed as long term liability was subsequently repaid in January 2003.

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## 3.0 STATEMENT OF ASSETS AND LIABILITIES OF M&C(S) AS AT 31 MARCH 2003

The following statement of assets and liabilities is based on the audited financial statements of M&C(S) as at 31 March 2003 and should be read in conjunction with the notes thereon:

| | Note | SGD'000 |
|---|---|---|
| **NON-CURRENT ASSET** | | |
| Plant and equipment | 4.2 | 29 |
| **CURRENT ASSETS** | | |
| Inventories | 4.3 | 898 |
| Trade receivables | 4.4 | 1,450 |
| Other receivables | 4.5 | 62 |
| Cash and bank balances | | 576 |
| Fixed deposits with licensed banks | 4.6 | 110 |
| | | 3,096 |
| **CURRENT LIABILITIES** | | |
| Trade payables | 4.7 | 622 |
| Other payables | | 93 |
| Amount due to holding company | 4.8 | 13 |
| Taxation | | 40 |
| | | 768 |
| **NET CURRENT ASSETS** | | 2,328 |
| | | 2,357 |
| **FINANCED BY:** | | |
| Share capital | 4.9 | 500 |
| Retained profits | | 1,855 |
| Shareholder's equity | | 2,355 |
| Deferred taxation | 4.10 | 2 |
| | | 2,357 |

Note : Statement of Changes in Equity is not separately presented as there is no major movement in reserves other than those disclosed in this Report.

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## 4.0 NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES

### 4.1 SIGNIFICANT ACCOUNTING POLICIES

**(a) Statement of compliance**

These financial statements have been prepared in accordance with the Singapore Statements of Accounting Standard issued by the Institute of Certified Public Accountants of Singapore, and the disclosure requirements of the Singapore Companies Act, Chapter 50.

**(b) Basis of accounting**

The financial statements of the Company, expressed in Singapore Dollars, have been prepared in accordance with the historical cost convention.

**(c) Income tax**

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantively enacted at the balance sheet date.

At each balance sheet date, the company re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The Company recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Company conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised.

Deferred tax assets are recognised for all deductible temporary differences and carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax losses can be utilised.

**(d) Plant and equipment, and depreciation**

Plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The carrying amounts of plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. An impairment loss is recognised in the income statement whenever the carrying amount of an item of plant and equipment exceeds its recoverable amount.

Depreciation is provided on a straight-line basis to write off the cost of the plant and equipment over their estimated useful lives which are as follows: