

12.0 ACCOUNTANTS' REPORT



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ACCOUNTANTS' REPORT

(Prepared for inclusion in the Prospectus
to be dated 28 February 2004)

Mail Address :
W.D.T. 46,
91009 Tawau.

19 February 2004

The Board of Directors
Cymao Holdings Berhad
Room 2.01, 2nd Floor
Alliance Bank Building
TB 1086, Jalan Utara
91000 Tawau
Sabah

Dear Sirs,

1. INTRODUCTION

This report has been prepared by Ernst & Young, approved company auditors, for inclusion in the Prospectus of Cymao Holdings Berhad ("Cymao") to be dated 28 February 2004 in connection with:

- a) the public issue of 9,000,000 new ordinary shares of RM1.00 each in Cymao at an issue price of RM2.50 per share, and
- b) the listing of and quotation for Cymao's enlarged issued and fully paid-up share capital on the Main Board of Malaysia Securities Exchange Berhad.

The abovementioned shall hereinafter be referred to as "the Listing Exercise".

2. GENERAL INFORMATION

2.1 Cymao

a) Incorporation and Principal Activities

Cymao was incorporated in Malaysia as a public limited company under the Companies Act, 1965 on 5 September 1997 as Green Energy Holdings Berhad. On 11 November 2000, it changed its name to Cymao Holdings Berhad and assumed its present name since then.

The principal activity of Cymao is that of an investment holding company. The principal activities of its subsidiary company are set out in Section 2.3 of this report.

12.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

2. GENERAL INFORMATION (Contd.)

2.1 Cymao (Contd.)

b) Issued and Paid-up Share Capital

The present authorised share capital of Cymao is RM100,000,000 divided into 100,000,000 ordinary shares of RM1.00 each and the issued and fully paid-up share capital is RM51,000,000 comprising 51,000,000 ordinary shares of RM1.00 each.

The changes in the issued and fully paid-up share capital of Cymao since the date of its incorporation are as follows:

Date of allotment	No. of ordinary shares of RM1.00 each	Consideration	Cumulative RM
05.09.1997	2	Subscribers' shares	2
03.11.2003	50,999,998	Acquisition of subsidiary company	51,000,000

The issued and fully paid-up share capital of Cymao will be increased to RM60,000,000 upon the completion of the Public Issue.

2.2 The Listing Scheme

In connection with and as an integral part of the Listing Exercise, Cymao has undertaken a listing scheme, which was approved by the Securities Commission ("SC"), Ministry of International Trade and Industry ("MITI"), and Foreign Investment Committee ("FIC") on the dates set out below:

Authority	Date of Approval
SC	10 September 2003
MITI	10 August 2001
FIC	19 July 2001

12.0 ACCOUNTANTS' REPORT (Cont'd)



2. GENERAL INFORMATION (Contd.)

2.2 The Listing Scheme (Contd.)

The details of the listing scheme are as follows:

- a) the acquisition by Cymao of the entire issued and paid-up share capital of Cymao Plywood Sdn Bhd ("CPSB") comprising 51,000,000 ordinary shares of RM1.00 each for a purchase consideration of RM72,863,088 fully satisfied by the issuance of 50,999,998 new ordinary shares of RM1.00 each in Cymao, at approximately RM1.43 per share, credited as fully paid-up ("the Acquisition");

The Acquisition has been completed on 3 November 2003.

- b) the public issue of 9,000,000 new ordinary shares of RM1.00 each in Cymao at an issue price of RM2.50 per share ("the Public Issue"); and
- c) the listing of and quotation for Cymao's enlarged issued and fully paid-up share capital on the Main Board of Malaysia Securities Exchange Berhad.

2.3 Subsidiary Company

a) Incorporation and Principal Activities

Currently, CPSB is the wholly-owned subsidiary company of Cymao. CPSB was incorporated in Malaysia as a private limited company under the Companies Act, 1965 on 9 April 1990.

The principal activities of CPSB are the manufacturing and sales of veneer, plywood, decorative plywood, engineering wood flooring and lay-on.

b) Issued and Paid-up Share Capital

The present authorised share capital of CPSB is RM100,000,000 divided into 100,000,000 ordinary shares of RM1.00 each and the issued and fully paid-up share capital is RM51,000,000 comprising 51,000,000 ordinary shares of RM1.00 each.

12.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

2. GENERAL INFORMATION (Contd.)

2.3 Subsidiary Company (Contd.)

b) Issued and Paid-up Share Capital (Contd.)

The changes in the issued and fully paid-up share capital of CPSB since the date of its incorporation are as follows:

Date of allotment	No. of ordinary shares of RM1.00 each	Consideration	Cumulative RM
09.04.1990	2	Subscribers' shares	2
06.05.1991	3,499,998	Cash	3,500,000
26.08.1993	3,000,000	Cash	6,500,000
01.07.1996	5,318,182	Bonus issue declared out of revenue reserve on the basis of 1 new ordinary share for every 1.22 existing shares held	11,818,182
01.01.2000	10,000,000	Capitalisation of debts	21,818,182
15.01.2000	29,181,818	Bonus issue declared out of revenue reserve on the basis of 1.34 new ordinary shares for every 1 existing shares held	51,000,000

2.4 Dividends

No dividends were declared by Cymao in respect of the financial years/period covered in this report.

On 28 June 2003, CPSB paid an interim tax exempt dividend of 49.02% amounting to RM25,000,000 in respect of the financial period ended 31 August 2003. Other than this, no dividends were declared by CPSB in respect of other financial years/period covered in this report.

12.0 ACCOUNTANTS' REPORT (Cont'd)



3 AUDITORS AND AUDITED FINANCIAL STATEMENTS

Ernst & Young have been the statutory auditors of Cymao and CPSB for the financial years/period under review. The audited financial statements of Cymao and CPSB were reported upon without any audit qualification during the period covered in this report.

4. ACCOUNTING POLICIES AND STANDARDS

This report is prepared on bases and accounting principles consistent with those previously adopted in the preparation of the audited financial statements of Cymao and its subsidiary company, and in accordance with applicable Approved Accounting Standards in Malaysia in those relevant financial years/period under review.

12.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS

5.1 Proforma Cymao Group

The summarised proforma consolidated income statements of Cymao and its subsidiary company ("Cymao Group" or "the Group") for the past 5 financial years ended 31 December 2002 and the 8-month period ended 31 August 2003 are set out below and should be read in conjunction with the notes thereto:

	Year ended 31 December					8-month period ended
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	31 August 2003 RM'000
Revenue	50,813	69,774	74,793	116,310	139,613	108,508
Profit before depreciation, finance costs and taxation	9,623	14,334	16,830	18,618	20,264	16,259
Depreciation	(4,093)	(4,129)	(4,290)	(4,529)	(4,791)	(3,544)
Finance costs	(895)	(48)	(160)	(246)	(154)	(21)
Profit before taxation	4,635	10,157	12,380	13,843	15,319	12,694
Taxation (note (iii))	(1,210)	2,107	683	835	(949)	(1,863)
Profit after taxation	3,425	12,264	13,063	14,678	14,370	10,831
Number of ordinary shares assumed in issue *	51,000	51,000	51,000	51,000	51,000	51,000
Gross earnings share (sen)	9.09	19.92	24.27	27.14	30.04	**37.34
Net earnings per share (sen)	6.72	24.05	25.61	28.78	28.18	**31.86
Tax exempt dividend rate (%) ***	-	-	-	-	-	49.02%

* The assumed issued and paid-up share capital of 51,000,000 ordinary shares in issue of RM1.00 each is based on the issued and paid-up share capital of Cymao after the Acquisition but before the Public Issue.

** Annualised

*** Based on number of ordinary shares assumed in issue.

12.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)**5.1 Proforma Cymao Group (Contd.)**

Notes:

- i) The proforma consolidated income statements are prepared based on the audited financial statements of Cymao and CPSB for the relevant financial years/period and are provided for illustrative purposes only on the assumption that the Cymao Group had been in existence throughout the period under review, after making such adjustments considered necessary.
- ii) The proforma consolidated income statements have been prepared based on accounting policies consistent with those previously adopted in the preparation of the audited financial statements of Cymao and CPSB.
- iii) The summarised proforma consolidated income statements for the financial years 1998 to 2002 have been restated to incorporate the prior year adjustment made in the 8-month period ended 31 August 2003. The prior year adjustment was in relation to the change in accounting policy on deferred taxation arising from the adoption of Standard No. 25, Income Taxes issued by the Malaysian Accounting Standards Board amounting to:
 - RM1.210 million of tax expense for the financial year 1998;
 - RM2.107 million, RM0.683 million, and RM0.835 million tax income for the financial years 1999 to 2001 respectively; and
 - RM0.949 million tax expense for the financial year 2002.
- iv) Revenue represented invoiced value of veneer, plywood, decorative plywood, engineering wood flooring and lay-on less returns and discount.
- v) For the financial year ended 31 December 1999, the improvement in revenue and profit before taxation was mainly attributed to the regional economic recovery that boosted sales volume and selling prices, and the increase in exports to the United States of America which fetched higher selling prices.
- vi) For the financial year ended 31 December 2000, the increase in revenue and profit before taxation was mainly attributed to CPSB's focus on the production and marketing of decorative plywood which fetched better margin.

12.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)**5.1 Proforma Cymao Group (Contd.)**

- vii) For the financial year ended 31 December 2001, the significant increase in revenue despite the sluggish global demand was mainly attributed to the increase in sales volume of plywood, in particular, to the United States of America. This was led by the research and development and marketing efforts of the company to supply quality plywood with various specifications to meet customer requirements. Despite a 55.51% increase in revenue, profit before taxation increased by 11.82% only. This was mainly due to lower average selling prices of timber products affected by the sluggish global demand.
- viii) For the financial year ended 31 December 2002 and the 8-month period ended 31 August 2003, the increase in revenue and profit before taxation was mainly attributed to the efforts to increase sales by obtaining repeat orders and securing a new major customer from the United States of America.
- ix) CPSB was granted pioneer status (100% of the adjusted income) under the Promotion of Investment Act, 1986 for its plain plywood and decorative plywood operations until 31 August 1997, which was subsequently extended to 31 August 2002.
- x) For the financial years ended 31 December 1998 to 2001, the Cymao Group was not liable for tax on profits from its plain plywood and decorative plywood operations in view of the pioneer status granted. Profits generated from veneer operation were not taxable due to the availability of capital allowances. Tax income and tax expense for these financial years were in respect of the origination and reversal of deductible temporary differences. The deductible temporary differences related to capital expenditures incurred for pioneer operations during the pioneer period which were deemed to be incurred on the first day of the post pioneer period (1 September 2002) as the application of the company for pioneer status was made prior to 1 January 1991.
- xi) For the financial year ended 31 December 2002 and the 8-month period ended 31 August 2003, the Cymao Group was not liable for tax on profits generated from operations in view of the availability of unabsorbed capital allowances. Tax expense for these financial year/period represented reversal of the deductible temporary differences previously provided.
- xii) There were no exceptional or extraordinary items for the relevant financial years/period under review.

12.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.1 Proforma Cymao Group (Contd.)

- xiii) The gross and net earnings per share have been calculated based on the profit before and after taxation respectively and the adjusted number of ordinary shares in issue for each financial year/period under review. The gross and net loss per share for the 8-month period ended 31 August 2003 have been calculated on an annualised basis.
- xiv) The Cymao Group does not have any associated companies and has not been involved in any joint ventures during the financial years/period under review.

5.2 Cymao

The summarised audited income statements of Cymao for the past 5 financial years ended 31 December 2002 and the 8-month period ended 31 August 2003 are set out below and should be read in conjunction with the notes thereto:

	Year ended 31 December					8-month period ended 31 August
	1998 RM	1999 RM	2000 RM	2001 RM	2002 RM	2003 RM
Revenue	-	-	-	-	-	-
Loss before depreciation, finance costs and taxation	-	-	-	(5,940)	(512)	(300)
Depreciation	-	-	-	-	-	-
Finance costs	-	-	-	-	-	-
Loss before taxation	-	-	-	(5,940)	(512)	(300)
Taxation	-	-	-	-	-	-
Loss after taxation	-	-	-	(5,940)	(512)	(300)
Number of ordinary shares in issue	2	2	2	2	2	2
Gross loss per share	-	-	-	(2,970.00)	(256.00)	*(225.00)
Net loss per share	-	-	-	(2,970.00)	(256.00)	*(225.00)
Gross dividend rate (%)	-	-	-	-	-	-

* Annualised

12.0 ACCOUNTANTS' REPORT (*Cont'd*)



5. SUMMARISED INCOME STATEMENTS (*Contd.*)

5.2 Cymao (*Contd.*)

Notes:

- i) Cymao was dormant during the financial years ended 31 December 1998, 1999 and 2000. All administrative expenses incurred had been capitalised as preliminary and pre-operating expenses.
- ii) The loss before taxation incurred for the financial year ended 31 December 2001 was mainly due to preliminary and pre-operating expenses written-off.
- iii) For the financial year ended 31 December 2002 and the 8-month period ended 31 August 2003, the losses before taxation were in respect of administrative expenses incurred.
- iv) There were no exceptional or extraordinary items for the relevant financial years/period under review.
- v) The gross and net loss per share have been calculated based on the loss before and after taxation respectively and the weighted average number of ordinary shares in issue for each financial year/period under review. The gross and net loss per share for the 8-month period ended 31 August 2003 have been calculated on an annualised basis.
- vi) Cymao does not have any associated companies and has not been involved in any joint ventures during the financial years/period under review.

12.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)

5.3 CPSB

The summarised audited income statements of CPSB for the past 5 financial years ended 31 December 2002 and the 8-month period ended 31 August 2003 are set out below and should be read in conjunction with the notes thereto:

	Year ended 31 December					8-month period ended 31 August
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000
Revenue	50,813	69,774	74,793	116,310	139,613	108,508
Profit before depreciation, finance costs and taxation	9,623	14,334	16,830	18,624	20,265	16,259
Depreciation	(4,093)	(4,129)	(4,290)	(4,529)	(4,791)	(3,544)
Finance costs	(895)	(48)	(160)	(246)	(154)	(21)
Profit before taxation	4,635	10,157	12,380	13,849	15,320	12,694
Taxation (note (i))	(1,210)	2,107	683	835	(949)	(1,863)
Profit after taxation	3,425	12,264	13,063	14,684	14,371	10,831
Number of ordinary shares in issue	11,818	11,818	51,000	51,000	51,000	51,000
Adjusted number of ordinary shares in issue	51,000	51,000	51,000	51,000	51,000	51,000
Gross earnings share (sen)	9.09	19.92	24.27	27.15	30.04	*37.34
Net earnings per share (sen)	6.72	24.05	25.61	28.79	28.18	*31.86
Tax exempt dividend rate (%)	-	-	-	-	-	49.02%

* Annualised

12.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (Contd.)**5.3 CPSB (Contd.)**

Notes:

- i) The summarised income statements for the financial years 1998 to 2002 have been restated to incorporate the prior year adjustment made in the 8-month period ended 31 August 2003. The prior year adjustment was in relation to the change in accounting policy on deferred taxation arising from the adoption of Standard No. 25, Income Taxes issued by the Malaysian Accounting Standards Board amounting to:
 - RM1.210 million of tax expense for the financial year 1998;
 - RM2.107 million, RM0.683 million, and RM0.835 million tax income for the financial years 1999 to 2001 respectively; and
 - RM0.949 million tax expense for the financial year 2002.
- ii) Revenue represented invoiced value of veneer, plywood, decorative plywood, engineering wood flooring and lay-on less returns and discount.
- iii) For the financial year ended 31 December 1999, the improvement in revenue and profit before taxation was mainly attributed to the regional economic recovery that boosted sales volume and selling prices, and the increase in exports to the United States of America which fetched higher selling prices.
- iv) For the financial year ended 31 December 2000, the increase in revenue and profit before taxation was mainly attributed to CPSB's focus on the production and marketing of decorative plywood which fetched better margin.
- v) For the financial year ended 31 December 2001, the significant increase in revenue despite the sluggish global demand was mainly attributed to the increase in sales volume of plywood, in particular, to the United States of America. This was led by the research and development and marketing efforts of the company to supply quality plywood with various specifications to meet customer requirements. Despite a 55.51% increase in revenue, profit before taxation increased by 11.87% only. This was mainly due to lower average selling prices of timber products affected by the sluggish global demand.
- vi) For the financial year ended 31 December 2002 and the 8-month period ended 31 August 2003, the increase in revenue and profit before taxation was mainly attributed to the efforts to increase sales by obtaining repeat orders and securing a new major customer from the United States of America.

12.0 ACCOUNTANTS' REPORT (*Cont'd*)



AF: 0039

5. SUMMARISED INCOME STATEMENTS (*Contd.*)

5.3 CPSB (*Contd.*)

- vii) CPSB was granted pioneer status (100% of the adjusted income) under the Promotion of Investment Act, 1986 for its plain plywood and decorative plywood operations until 31 August 1997, which was subsequently extended to 31 August 2002.
- viii) For the financial years ended 31 December 1998 to 2001, CPSB was not liable for tax on profits from its plain plywood and decorative plywood operations in view of the pioneer status granted. Profits generated from veneer operation were not taxable due to the availability of capital allowances. Tax income and tax expense for these financial years were in respect of the origination and reversal of deductible temporary differences. The deductible temporary differences related to capital expenditures incurred for pioneer operations during the pioneer period which were deemed to be incurred on the first day of the post pioneer period (1 September 2002) as the application of the company for pioneer status was made prior to 1 January 1991.
- ix) For the financial year ended 31 December 2002 and the 8-month period ended 31 August 2003, CPSB was not liable for tax on profits generated from operations in view of the availability of unabsorbed capital allowances. Tax expense for these financial year/period represented reversal of the deductible temporary differences previously provided.
- x) There were no exceptional or extraordinary items for the relevant financial years/period under review.
- xi) The gross and net earnings per share have been calculated based on the profit before and after taxation respectively and the adjusted number of ordinary shares in issue for each financial year/period under review. The adjusted number of ordinary shares was arrived at after adjusting for the capitalisation of debts and bonus issue in the financial year ended 31 December 2000. The gross and net earnings per share for the 8-month period ended 31 August 2003 have been calculated on an annualised basis.
- xii) CPSB does not have any associated companies and has not been involved in any joint ventures during the financial years/period under review.

12.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

6. SUMMARISED BALANCE SHEETS

The proforma consolidated balance sheet of Cymao Group using the acquisition method of accounting for the consolidation of CPSB resulted in a negative goodwill on consolidation of RM21.848 million as shown in section 8 below. The negative goodwill on consolidation would be different for each of the financial years/period covered in this report. As such, the proforma consolidated balance sheets for Cymao Group for each of the financial years/period covered under this report were not presented as the information would not be relevant. Accordingly, the proforma consolidated balance sheet of Cymao Group has been presented by way of proforma statement of assets and liabilities as at 31 August 2003. The proforma statement of assets and liabilities has been prepared based on the audited balance sheets of Cymao and CPSB as at 31 August 2003 after incorporating the effects of the Acquisition and the Public Issue, as shown in section 8 below.

6.1 Cymao

The summarised audited balance sheets of Cymao for the relevant financial years/period covered in this report are as follows:

	As at					
	31.12.1998	31.12.1999	31.12.2000	31.12.2001	31.12.2002	31.8.2003
	RM	RM	RM	RM	RM	RM
Deferred expenditure	3,652	4,423	5,288	-	-	-
Current assets	2	2	2	2	526,685	596,736
Current liabilities	(3,652)	(4,423)	(5,288)	(5,940)	(533,135)	(603,486)
Net current liabilities	(3,650)	(4,421)	(5,286)	(5,938)	(6,450)	(6,750)
	2	2	2	(5,938)	(6,450)	(6,750)
Share capital	2	2	2	2	2	2
Accumulated losses	-	-	-	(5,940)	(6,452)	(6,752)
	2	2	2	(5,938)	(6,450)	(6,750)
Net liabilities per share	(1,825.00)	(2,210.50)	(2,643.00)	(2,969.00)	(3,225.00)	(3,375.00)

12.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

5. SUMMARISED BALANCE SHEETS (Contd.)

6.2 CPSB

The summarised audited balance sheets of CPSB for the relevant financial years/period covered in this report are as follows:

	As at						
	31.12.1997	31.12.1998	31.12.1999	31.12.2000	31.12.2001	31.12.2002	31.8.2003
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	41,035	41,527	38,374	36,826	34,616	35,023	39,580
Deferred tax assets *	5,386	4,172	6,279	6,962	7,797	6,848	5,003
Current assets	28,326	19,585	29,476	48,127	61,929	74,678	66,451
Current liabilities	(33,505)	(20,738)	(17,367)	(12,090)	(9,833)	(7,669)	(16,323)
Net current (liabilities)/ assets	(5,179)	(1,153)	12,109	36,037	52,096	67,009	50,128
Long term liabilities	(164)	(48)	-	-	-	-	-
	41,078	44,498	56,762	79,825	94,509	108,880	94,711
Share capital	11,818	11,818	11,818	51,000	51,000	51,000	51,000
Retained profits *	29,260	32,680	44,944	28,825	43,509	57,880	43,711
	41,078	44,498	56,762	79,825	94,509	108,880	94,711
Net tangible assets per share (RM)	3.48	3.77	4.80	1.57	1.85	2.13	1.86

* The deferred tax assets and retained profits as at 31 December 1998 to 2002 have been restated to incorporate the prior year adjustment made in the 8-month period ended 31 August 2003. The prior year adjustment was in relation to the change in accounting policy on deferred taxation arising from the adoption of Standard No. 25, Income Taxes issued by the Malaysian Accounting Standards Board.

12.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

7. PROFORMA CONSOLIDATED CASH FLOW STATEMENT

The following proforma consolidated cash flow statement of Cymao Group has been prepared for illustrative purposes only, based on the audited financial statements of Cymao and CPSB for the 8-month period ended 31 August 2003 on the assumption that the Cymao Group had been in existence throughout the said financial period, and should be read in conjunction with the notes thereto:

	Note	Proforma Group RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation		12,694
Adjustments for:		
Depreciation of property, plant and equipment		3,544
Gain on disposal of property, plant and equipment		(124)
Interest income		(29)
Finance costs		21
		<u>3,412</u>
Operating profit before working capital changes		16,106
Decrease in inventories		3,671
Decrease in receivables		5,071
Increase in payables		3,772
		<u>12,514</u>
Cash generated from operations		28,620
Interest paid		(21)
Taxes paid		(10)
Net cash generated from operating activities		<u>28,589</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment		152
Purchase of property, plant and equipment		(8,129)
Interest received		29
Net cash used in investing activities		<u>(7,948)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid		(25,000)
Increase in export credit refinancing		4,873
Net cash used in financing activities		<u>(20,127)</u>
Net increase in cash and cash equivalents		514
Cash and cash equivalents at beginning of period		<u>3,734</u>
Cash and cash equivalents at end of period	7.2	<u>4,248</u>

12.0 ACCOUNTANTS' REPORT (Cont'd)



7. CASH FLOW STATEMENT (Contd.)

7.1 Cash and Cash Equivalents – Accounting Policy

For the purposes of the proforma consolidated cash flow statement, cash and cash equivalents include cash on hand and at banks, deposits at call and short term highly liquid investments which have an insignificant risk of changes in value, net of outstanding bank overdrafts.

7.2 Cash and Cash Equivalents

	RM'000				
Cash on hand and at banks	3,488				
Deposits with a licensed bank	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; width: 80%;"></td> <td style="text-align: right; border-top: 1px solid black;">760</td> </tr> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black; width: 80%;"></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">4,248</td> </tr> </table>		760		4,248
	760				
	4,248				

Deposits with a licensed bank are held under lien by the bank to secure banking facility granted to CPSB.

The average effective interest rate of deposits, which are renewable yearly, at the balance sheet date was 4.00% per annum.

12.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES

The following proforma statement of assets and liabilities of Cymao Group has been prepared for illustrative purposes only, based on the audited balance sheets of Cymao and CPSB as at 31 August 2003 on the assumption that the Acquisition had been effected on 31 August 2003, and should be read in conjunction with the notes thereto:

	Note	Proforma Group RM'000
PROPERTY, PLANT AND EQUIPMENT	8.2	39,580
DEFERRED TAX ASSETS	8.3	5,003
NEGATIVE GOODWILL ON CONSOLIDATION		(21,848)
CURRENT ASSETS		
Inventories	8.4	35,066
Trade receivables	8.5	23,263
Other receivables, deposits and prepayment	8.6	3,874
Cash and bank balances		4,248
		<u>66,451</u>
CURRENT LIABILITIES		
Borrowing	8.7	4,873
Trade payables	8.8	3,754
Other payables	8.9	7,695
Tax payable		8
		<u>16,330</u>
NET CURRENT ASSETS		<u>50,121</u>
		<u>72,856</u>
Share capital	8.10	51,000
Share premium	8.11	21,863
Accumulated losses		(7)
		<u>72,856</u>
Net tangible assets per share (RM)		1.86

12.0 ACCOUNTANTS' REPORT (Cont'd)

**8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)****8.1 Significant Accounting Policies****(a) Basis of Accounting**

The proforma consolidated statement of assets and liabilities of the Cymao Group has been prepared under the historical cost convention and comply with the provisions of the Companies Act, 1965 and applicable Approved Accounting Standards in Malaysia.

During the 8-month period ended 31 August 2003, the Cymao Group adopted the following MASB Standards for the first time:

MASB 23	Impairment of Assets
MASB 24	Financial Instruments: Disclosure and Presentation
MASB 25	Income Taxes
MASB 27	Borrowing Costs

The effect of adopting MASB 25 is disclosed in Section 5.1, note (iii) above. The adoption of MASB 23, MASB 24 and MASB 27 has not given rise to any adjustments to the financial statements.

(b) Basis of Consolidation

The proforma consolidated statement of assets and liabilities includes the financial statements of Cymao and CPSB made up to 31 August 2003.

The subsidiary company is consolidated based on the acquisition method of accounting. The assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet. The difference between the cost of an acquisition and the fair value of the Cymao Group's share of the net assets of CPSB at the date of acquisition is included in the consolidated balance sheet as negative goodwill arising on consolidation.

Intragroup transactions and balances are eliminated on consolidation and the consolidated financial statements reflect external transactions only.

12.0 ACCOUNTANTS' REPORT (Cont'd)



8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)

8.1 Significant Accounting Policies (Contd.)

(c) Depreciation of Property, Plant and Equipment

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

Leasehold land is depreciated over the period of 67 years. Depreciation of other property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

Buildings	2%
Plant and machinery	10% - 20%
Motor vehicles	20%
Furniture, fixtures and equipment	10%

Construction-in-progress is not depreciated until it is completed and ready for use.

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

(d) Inventories

Inventories are stated at the lower of cost (determined on the weighted average basis) and net realisable value. Cost of finished goods and work-in-progress includes direct materials, direct labour, other direct costs and appropriate production overheads. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

12.0 ACCOUNTANTS' REPORT (Cont'd)

**8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)****8.1 Significant Accounting Policies (Contd.)****(e) Provisions for Liabilities**

Provisions for liabilities are recognised when the Cymao Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(f) Income Tax

Income tax on the profit 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/year and is measured using the tax rates that have been enacted at the balance sheet date.

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

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

12.0 ACCOUNTANTS' REPORT (Cont'd)



8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)

8.1 Significant Accounting Policies (Contd.)

(f) Income Tax (Contd.)

Prior to the adoption of MASB 25 Income Taxes on 1 January 2003, deferred tax was provided for using the liability method in respect of significant timing differences and deferred tax assets were not recognised unless there was reasonable expectation of their realisation. This change in accounting policy has been accounted for retrospectively and the effects of this change are disclosed in Section 5.1, note (iii) above.

(g) Revenue Recognition

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

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

(h) Foreign Currencies

Transactions in foreign currencies are initially converted into Ringgit Malaysia at rates of exchange ruling at the date of the transaction. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined.

All exchange rate 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
United States Dollar	3.80

12.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)**8.1 Significant Accounting Policies (Contd.)****(i) Impairment of Assets**

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

An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

(j) Financial Instruments

Financial instruments are recognised in the balance sheet when the Cymao Group 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. 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. Financial instruments are offset when the 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.

(i) Receivables

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

(ii) 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.

12.0 ACCOUNTANTS' REPORT (Cont'd)



AF: 0039

8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)

8.1 Significant Accounting Policies (Contd.)

(j) *Financial Instruments (Contd.)*(iii) **Interest-Bearing Borrowings**

Interest-bearing bank loans and overdrafts are recorded at the amount of proceeds received, net of transaction costs.

Borrowing costs are recognised in the income statements as an expense in the period in which they are incurred.

(iv) **Equity Instruments**

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

8.2 **Property, Plant and Equipment**

	At Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
Leasehold land and buildings	12,410	4,697	7,713
Plant and machinery	66,915	36,399	30,516
Motor vehicles	3,473	2,828	645
Furniture, fittings and equipment	675	435	240
Construction-in-progress	466	-	466
	83,939	44,359	39,580

All the property, plant and equipment of the Cymao Group have been pledged as security for banking facility as disclosed in note 8.7 below.

12.0 ACCOUNTANTS' REPORT (Cont'd)



8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)

8.3 Deferred Tax Assets

	RM'000
As at 31 August 2003	<u>5,003</u>
This is in respect of the following timing differences:	
Unutilised tax losses and unabsorbed capital allowances	<u>5,003</u>

8.4 Inventories

	RM'000
At cost:	
Logs	8,522
Veneer	9,257
Plywood	5,261
Decorative plywood	8,664
Engineering wood flooring	1,161
Lay-on	482
Materials and supplies	<u>1,719</u>
	<u>35,066</u>

The cost of inventories recognised as an expense during the financial period in the Cymao Group amounted to RM86.421 million.

There were no inventories stated at net realisable value as at 31 August 2003.

8.5 Trade Receivables

Cymao Group's normal trade credit term ranges from 45 to 60 days. Other credit terms are assessed and approved on a case-by case basis.

12.0 ACCOUNTANTS' REPORT (Cont'd)



8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)

8.6 Other Receivables

	RM'000
Advances	106
Deposit for supplies	1,286
Other deposit	705
Prepayment	807
Sundry receivables	970
	<u>3,874</u>

Deposits for supplies represent advances paid to log suppliers for logs to be purchased.

8.7 Borrowing

Short Term Borrowing	RM'000
Secured:	
Export credit refinancing	<u>4,873</u>

The average effective interest rate at the balance sheet date for borrowings was as follows:

	31.08.2003
Export credit refinancing	<u>3.5%</u>

The above banking facility of the Cymao Group is secured by the following:

- legal charges over the landed properties of CPSB;
- a debenture creating fixed and floating charges over all the assets of CPSB, both present and future; and
- a joint and several guarantee by certain directors of CPSB.

8.8 Trade Payables

The normal trade credit term granted to Cymao Group ranges from 30 to 60 days.

12.0 ACCOUNTANTS' REPORT (Cont'd)



8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)

8.9 Other Payables

	RM'000
Accruals	4,524
Deposit received	668
Due to directors	1,364
Sundry payables	1,139
	<u>7,695</u>

8.10 Share Capital

	RM'000
Ordinary shares of RM1 each:	
Authorised:	<u>100,000</u>
Issued and fully paid:	
As at 31 August 2003	*
Issued pursuant to the Acquisition	<u>51,000</u>
	<u>51,000</u>

* Denotes 2 ordinary shares of RM1.00 each.

8.11 Share Premium

	RM'000
Arising from the Acquisition	<u>21,863</u>

12.0 ACCOUNTANTS' REPORT (Cont'd)



8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)

8.12 Changes in Accounting Policies and Prior Year Adjustment

(a) Changes in Accounting Policies

During the 8-month period ended 31 August 2003, the Cymao Group applied four new MASB Standards, which became effective from 1 January 2003, and accordingly modified certain accounting policies. The change in accounting policy which resulted in prior year adjustment is discussed below:

MASB 25 : Income Taxes

Under MASB 25, deferred tax liabilities are recognised for all taxable temporary differences. Previously, deferred tax liabilities were provided for on account of timing differences only to the extent that a tax liability was expected to materialise in the foreseeable future. In addition, the Cymao Group has commenced recognition of deferred tax assets for all deductible temporary differences, when it is probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilised. Previously, deferred tax assets were not recognised unless there was reasonable expectation of their realisation.

(b) Prior Year Adjustment

The change in accounting policy has been applied retrospectively. The effect of change in accounting policy is disclosed in section 5.1, note (iii) above.

8.13 Commitments

	RM'000
Capital expenditure approved and contracted for:	
Property, plant and equipment	<u>2,280</u>

8.14 Financial Instruments

(a) Financial Risk Management Objectives and Policies

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

12.0 ACCOUNTANTS' REPORT (Cont'd)



8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)

8.14 Financial Instruments (Contd.)

(b) Commodity Price Risk

The Cymao Group's earnings are affected by changes in the prices of its raw materials and its manufactured products.

(c) Interest Rate Risk

The Cymao Group's primary interest rate risk relates to interest-bearing debt; the Group has no substantial long term interest-bearing assets as at 31 August 2003. The investments in financial assets are mainly short term in nature and they are not held for speculative purposes.

The Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Group actively reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

The information on maturity days and effective interest rates of financial assets and liabilities are disclosed in their respective notes.

(d) Foreign Exchange Risk

The Cymao Group operates internationally and is exposed to United States Dollar. Foreign currency denominated assets and liabilities together with expected cash flows from highly probable purchases and sales give rise to foreign exchange exposures.

Material foreign exchange transaction exposures are not hedged currently due to the Malaysian Ringgit being pegged to the United States Dollar.

12.0 ACCOUNTANTS' REPORT (Cont'd)



8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)

8.14 Financial Instruments (Contd.)

(e) *Liquidity Risk*

The Cymao Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debt position.

As at 31 August 2003, the Group had at its disposal cash amounting to RM3,487,811.

(f) *Credit Risk*

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

The Group 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 instruments.

12.0 ACCOUNTANTS' REPORT (Cont'd)



8. PROFORMA STATEMENT OF ASSETS AND LIABILITIES (Contd.)

8.14 Financial Instruments (Contd.)

(g) Fair Value

The carrying amounts of the Cymao Group's financial instruments, including financial assets and liabilities approximate their fair values due to their short term maturities.

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

(i) Cash and Cash Equivalents, Trade and Other Receivables/Payables

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

(ii) Interest-Bearing Borrowings

The carrying values are deemed to equal to fair values, which the Group estimated based on incremental rates of comparable borrowing arrangements.

12.0 ACCOUNTANTS' REPORT (Cont'd)



9. PROFORMA NET TANGIBLE ASSETS COVER

Based on the proforma statement of assets and liabilities of the Cymao Group as at 31 August 2003 set out in Section 8, the proforma net tangible assets and the enlarged issued and paid-up share capital are derived as follows:

	RM'000
<i>i) Proforma net tangible assets</i>	
Proforma net tangible assets after the Acquisition	94,704
Add: Public Issue	22,500
Less: Estimated listing expenses	<u>(2,000)</u>
Proforma net tangible assets after Public Issue	<u>115,204</u>
 <i>ii) Enlarged issued and fully paid-up share capital</i>	 No. of ordinary shares of RM1.00 each '000
As at 31 August 2003	*
Issued pursuant to the Acquisition	<u>51,000</u>
	51,000
To be issued pursuant to the Public Issue	<u>9,000</u>
	<u>60,000</u>
 * Denotes 2 ordinary shares of RM1.00 each.	
 <i>ii) Proforma net tangible assets per share (RM)</i>	 <u>1.92</u>

10. SUBSEQUENT EVENTS

Save as disclosed in Section 2.2, there were no subsequent events between 31 August 2003 and the date of this report.

12.0 ACCOUNTANTS' REPORT (*Cont'd*)



11. AUDITED FINANCIAL STATEMENTS

No audited financial statements of Cymao and CPSB have been prepared in respect of any period subsequent to 31 August 2003.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Ernst & Young'.

ERNST & YOUNG
AF: 0039
Chartered Accountants
Tawau, Malaysia

A handwritten signature in black ink, appearing to read 'Pang Pak Lok'.

PANG PAK LOK
1228/03/05 (J)
Partner