The above regional companies have been selected based on their principal activities, which are relatively similar to AFSB's business i.e. factoring services, and could provide an indication on the financial performance of this sector. The performances of these selected companies are only to provide an illustration of the factoring sector at large vis-à-vis AFSB's performance. But, it is important to take into cognisant that these selected regional companies are operating at different business environment as AFSB which include, amongst others, geographical location of the business operations, size of operation, capital structure, accounting policies, taxation regime, the marketability of the shares of the selected companies, diversity of their respective businesses, profit track record, management strength, shareholders' profile, financial strength and future prospects.

In the context of the Proposed Acquisition, the Purchase Consideration represents a P/BV of 1.00 time based on AFSB's audited NTA for the FYE 31 March 2006, and a PE multiple of 8.57 times based on its audited PAT for the FYE 31 March 2006.

In comparison with the above analyses:-

(i) the Purchase Consideration with a P/BV of 1.00 time and PE multiple of 8.57 times based on AFSB's audited NTA and PAT, respectively for the FYE 31 March 2006, is within the range of the trading P/BVs (between 0.70 times and 2.62 times) and PE multiples (between 8.48 times and 49.23 times) of the financial sector;

(ii) the Purchase Consideration with a:-

- P/BV of 1.00 time (based on AFSB's audited NTA for the FYE 31 March 2006) is similar to the P/BV of the sale consideration to the acquisition of Amanah Factors by ACPB based on Amanah Factors's audited NTA for the FYE 31 December 1997 (and any subsequent adjustments); and
- PE multiple of 8.57 times (based on AFSB's audited PAT for the FYE 31 March 2006) is at a discount of 16.14% from the PE multiple of the sale consideration to the acquisition of Amanah Factors by ACPB of 10.22 times (based on Amanah Factors's audited PAT for the FYE 31 December 1997). However, based on the forecast PAT of all the financial services companies acquired by ACPB (inclusive of Amanah Factors) for the FYE 31 December 1999, the Proposed Acquisition with the PE multiple of 8.57 times represents a premium of 37.34% to the forecast PE multiple of 6.24 times;

and

(iii) the Purchase Consideration with a P/BV of 1.00 time and PE multiple of 8.57 times are within the range of the trading P/BVs (between 0.44 times and 1.14 times) and PE multiples (between 4.45 times and 18.89 times) of the selected comparable regional players in the Asia Pacific.

Hence, taking into cognisant of the above analyses, the Purchase Consideration at its NTA Warranty is fair and reasonable.

4.4 Overview and Prospects of the Malaysian Economy and the Factoring Sector

Factoring is a form of short-term commercial finance based on the selling of trade debts at a discount from one party to another. A continuous arrangement between a factoring concern and the seller of business goods or services on credit, whereby the factor purchases accounts receivable for immediate cash, and may, depending on the exact nature of the arrangement:-

- Maintain the sales ledger and perform other administrative tasks relating to accounts receivable functions;
- Collect the accounts receivable;
- Provide bad debt protection by absorbing losses, which may arise as a result of customers' inability to pay.

The basic ingredients for the factoring services are as follows:-

- With or without bad debt protection;
- With or without disclosure to customers;
- Where collection of debts is undertaken by the factor or by the client on behalf of the factor;
- Agreements, which provide for the assignment of all debts as they arise or which provide for each debt to be offered to the factor.

(Source: www.factorscan.com)

Based on AFSB's factoring business profile, the accounts receivables purchased by AFSB as at 31 March 2006, are primarily associated to these industries - manufacturing (20.38%), construction (14.45%) and ICT (6.13%) and trading (59.04%). Hence, the prospects of AFSB are very much influenced by the growth of the Malaysian economy in general, with specific influences on certain types of industries.

As such, to provide an overview and prospects of AFSB's business, the ensuing sections provide an illustration and discussion on the overview and outlook of the Malaysian economy as well as the prospects of the relevant industries, which may influence the business prospect of AFSB.

4.4.1 Overview and Outlook of the Malaysian Economy

Overview of the Malaysian Economy

Economic management in 2006 remains challenging amidst an environment of persistently high crude oil prices, rising global interest rates and increasing competition from China, India and other emerging regional economies. With pragmatic macroeconomic policies coupled with strong economic fundamentals, including robust private investment, low unemployment as well as steady consumer spending, real Gross Domestic Product ("GDP") is projected to grow at 5.8% in 2006 (2005: 5.2%).

Growth in 2006 is broad-based, led by services, manufacturing and agriculture sectors. With continuing strong domestic demand and expanding trade-related activities, the services sector is expected to expand by 5.7% (2005: 6.5%), with all sub-sectors recording positive growth. The manufacturing sector is envisaged to record a higher growth of 7.3% in 2006 (2005: 5.1%). The global uptrend in demand for electronics will impact positively on Malaysia's exports of electrical and electronic ("E&E") products, leading to a stronger growth in manufacturing output. The agriculture sector continues to benefit from the Government's efforts to modernise and transform it into a large and commercially viable sector. Value-added of the sector is expected to accelerate strongly by 5.3% (2005: 2.5%), underpinned by higher rubber output, strong growth in livestock, food crops and a turnaround in fishing sub-sector. Value-added of the mining sector is, however, expected to be higher at 2.4% (2005: 0.8%), backed mainly by higher production of crude oil. Meanwhile, the construction sector is expected to turnaround this year, recording a positive growth of 0.7% (2005: -1.6%) mainly due to several public sector works and private civil engineering activities to be implemented during the second half of the year.

Major long-term initiatives to be implemented this year comprise the Ninth Malaysian Plan ("9MP"), 2006 – 2010 and the Third Industrial Plan ("IMP3"), 2006 – 2020. While the 9MP aims to achieve a stronger and higher value-added economy, it will also give substantial policy focus to socio-economic issues towards uplifting the quality of life for all Malaysians. Additionally, the IMP3 provides the strategic direction in spearheading growth and competitiveness of the manufacturing sector and manufacturing-related services industry.

(Source: Economic Report 2006/2007)

Outlook of the Malaysian Economy

Overall, real GDP is envisaged to expand at 6% in 2007 (2006: 5.8%), consistent with the growth targets outlined in the 9MP. Growth will continue to be broad-based with positive contribution from all sectors of the economy.

All sectors are projected to record positive growth, led by the manufacturing and services sectors. The manufacturing sector is expected to expand in line with sustained global electronics demand and the continuing strong pace of domestic economic activities. The services sector is forecast to strengthen, benefiting from Visit Malaysia Year 2007 ("VMY 2007"), which will intensify tourism activities and generate higher earnings, in particular from the wholesale and retail trade, hotels and restaurants sub-sector. Capacity expansion in transport infrastructure, higher investment in communication services industry as well as robust finance and business-related activities will also continue to support the growth momentum in the services sector. Meanwhile, the expansion of the agriculture sector is projected to continue, spurred by favourable commodity prices and Government's committed and focused efforts to diversify and modernise the sector, particularly the production of food commodities to help reduce the high food import bill. Growth in the construction sector is expected to accelerate, boosted by the implementation of infrastructure projects under the 9MP.

(Source: Economic Report 2006/2007)

4.4.2 Prospects of AFSB

As stated above, based on AFSB's factoring clientele profile, the accounts receivables purchased by the company are primarily associated to construction, manufacturing, services and ICT industries.

As such, the future prospects of AFSB are dependent on the outlook of the relevant industries in which AFSB is effectively involved. The ensuing sections illustrate the outlook of the construction, manufacturing, services and ICT industries

Construction

Value-added of the construction sector contracted by 1.1% during the first six months of 2006 (January – June 2005: -2.2%), mainly due to continued slowdown in the civil engineering sub-sector. However, this sub-sector is expected to recover in the second half of the year, benefiting from the implementation of the 9MP projects scheduled in 2006. Overall, the sector is envisaged to register a positive growth of 0.7% in 2006 (2005: -1.6%). Among the 9MP projects are the new 880 construction projects, totalling RM15 billion announced by the Government in July 2006. In addition, growth in the sub-sector is expected to be also underpinned by higher private investment in oil and gas, communications and utilities.

Activities in the residential sub-sector softened during the first six months of 2006 amidst rising costs of building materials and transportation. Incoming supply, that is residential units under construction, sustained at 631,790 units during the period (end-June 2005: 632,627 units), backed by a 12% increase in housing starts of mainly condominium and terraced units. On the demand side, sales of new launches slowed, due partly to concern over further interest rate hikes. In the non-residential sub-sector, activities were generally lower compared to the same period in 2005. Construction of office spaces contracted further during the period with a 16.6% decline in the incoming supply at end-June 2006 (end-June 2005: -15.6%). Buoyed by growing business and services activities as well as limited new supply, overall occupancy rate of office space remained high at 84.2% at end-June 2006.

Retail spaces on the other hand, recorded higher activity with a 1.4% pick-up in the incoming supply at end-June 2006 (end-June 2005: -10.3%), bolstered by a strong increase in starts in Kuala Lumpur. Overall occupancy rate of retail space sustained at 80.1% boosted by steady consumer spending and business activities.

In the hospitality segment, a total of five new hotels with 713 rooms were completed during the first six months of 2006 (January – June 2005: 2 hotels; 155 rooms). Despite the presence of new hotels and higher room rates since January 2005, average occupancy rate for 3-5 star hotels sustained at 58.4% during the period, spurred by higher tourist arrivals, more international meetings, conferences and exhibitions as well as various domestic festivities.

The construction sector is anticipated to grow at a higher rate of 3.7% in 2007 (2006: 0.7%), spurred by the acceleration of civil engineering activities, following the implementation of new infrastructure projects under the 9MP.

(Source: Economic Report 2006/2007)

Manufacturing

Value-added growth in the manufacturing sector is expected to expand further, increasing by 7.3% in 2006 (2005: 5.1%), with production in the export-oriented industries contributing 63.6% to total output. The strong growth during the period was due primarily to the double-digit growth registered by the export-oriented industries of E&E, petroleum products and textiles.

Export-oriented industries registered a significant growth during the first half of 2006 following the upturn in global demand for E&E products, particularly for semiconductors and other electrical products. Growth in global demand for semiconductors, which rebounded since the second half of 2005, expanded by 8.3% in the first half of 2006.

Output of petroleum products increased by 12.1% in the first half of 2006 (January – June 2005: 10.4%), boosted by higher consumption, following robust domestic economic activities. Manufacture of textiles, apparels and footwear, which turned around to record a double-digit growth of 12.3% in the first six months of 2006 (January – June 2005: -4.4%), is expected to further accelerate in the second half.

Output of medical, optical and scientific instruments posted strong recovery growth with 8% growth in the first six months of the year (January – June 2005: -2.8%), due to strong demand from private hospitals and clinics as well as rising external demand from the ASEAN region. Meanwhile, output of rubber products registered slower growth during the period largely on account of contraction of 1.6% in the output of rubber gloves and 21.9% in latex-based catheters. The plastic products industry registered a remarkable growth in output at 21.3%, spurred by strong demand in E&E and to a lesser extent, transport equipment industries. Output of chemical and chemical products posted lower growth of 2.1% (January – June 2005: 2.6%). Output of construction-related industries increased during the period primarily due to a recovery in the fabricated metal products industry.

In consonance with growing intra-regional trade and strong domestic economic activities, growth of the manufacturing sector is envisaged to expand by 6.8% (2006: 7.3%).

(Source: Economic Report 2006/2007)

ICT

In the E&E sector, the latest assessment is that the recovery in the global semiconductor industry that began since mid-2005 will continue to gain strength into 2006. The view of an up-cycle in the industry is supported by forward-looking indicators such as the improvement in the book-to-bill ratio of semiconductor equipment since March 2005, and the sustained growth in the United States new orders and unfilled orders for electronics. Industry experts also share the view that the semiconductor sales projected to expand by 7.9% - 9% in 2006 and 7% - 10.6% in 2007 (2005: 6.8% - 7%). The current cycle would be supported by accelerating demand from the Asia-Pacific region, particularly for consumer electronic gadgets and the stronger ICT-related investment in the industrial countries.

The up-cycle in the global semiconductor sector in 2006 is expected to be broad-based, supported by expansion in all product segments, including computers, consumer electronics, communication and automotive segments. The wider application of chips, particularly in the automotive segment, as well as the higher chip content in electronic devices will further support the global demand in the computer and semiconductor. Given Malaysian's competitive strength in the computer and semiconductor segments, Malaysia is poised to benefit from this board-based growth in 2006.

(Source: Bank Negara Malaysia Annual Report 2005)

At the industry level, output of semiconductors, which has the highest weightage in the Industrial Production Index ("IPI"), recorded a remarkable growth of 14.3% (January – June 2005: -0.5%). The industry operated at 93% capacity, well above the average capacity utilisation rate of the manufacturing sector. This trend is expected to continue as manufacturers capitalise on anticipated strong demand for telecommunication devices and consumer products, such as third generation ("3G") cellular phones, MP3 devices, digital cameras, as well as liquid crystal display and plasma televisions.

Concerted efforts are also underway to further enhance Malaysia's competitiveness in the electronics industry, facilitating the shift of E&E product, processes and production up the value chain. These efforts include, among others, developing Malaysia as a centre of excellence for semiconductors in the areas of design and development, upgrading capabilities in wafer fabrication, packaging and testing as well as increasing competencies of workforce through capacity building.

(Source: Economic Report 2006/2007)

Services

Growth of the services sector in 2006 is expected to increase by 5.7% (2005: 6.5%), in tandem with the expansion of other major sectors of the economy.

Growth of the wholesale and retail trade, hotels and restaurants sub-sector is estimated at 6.5% (2005: 8%), supported by favourable consumer sentiment and strong business confidence as well as healthy labour market conditions. Fuelled by the strong expansion in manufacturing activity and significant growth in the telecommunication services industry, value added of the transport, storage and communication sub-sector expanded further in the first six months of the year and is anticipated to register a growth of 5.9% in 2006.

Boosted by strong international and trade-related activities, capacity expansion in port facilities and equipment as well as improvements in productivity, container traffic at seven major ports rose to 6.3 million twenty-foot equivalent units ("TEU"), an increase of 9.5% over the corresponding period last year. Growth in land transportation continued at steady pace, led by improvements in land and rail infrastructure as well as increased connectivity to other modes of transport and supported by sustained growth in economic activities. Growth prospects in the air transport segment remain favourable in 2006.

The finance, insurance, real estate and business services sub-sector is expected to register a strong growth at 6% in 2006 (2005: 5.7%) in consonance with the overall economic expansion. Other services sub-sector is expected to increase by 4.4% (2005: 4.9%) supported by the expansion in private services such as education and healthcare. Efforts to promote Malaysia as a centre of educational excellence in the region has resulted in a 27.8% increase in foreign students in private learning institutions to 44,709 as at end-2005. Meanwhile the number of foreign patients treated in private hospitals under the health tourism programme is envisaged to record a healthy growth of 35.3% in 2006.

In tandem with favourable developments in the economy, the services sector is poised to register a higher growth of 6% in 2007 (2006: 5.7%). Growth will be broad-based, propelled by demand for retail and hospitality services, telecommunications, transport as well as business and financial services. Growth in the tourism is expected to emanate from higher tourist arrivals, special promotional activities and programmes in conjunction with VMY 2007. A total of 20.1 million tourist arrivals are expected in 2007. Meanwhile, increased bank lending and other financial activities will boost growth of the finance, insurance, real estate and business services sub-sector. The transport, storage and communication sub-sector is forecast to record strong growth from capacity expansion in the transport infrastructure, investment by telecommunication companies as well as higher business and trade-related activities.

(Source: Economic Report 2006/2007)

Summary

It is noted that AFSB's prospects are dependent on the outlook of a myriad of industries, namely construction, manufacturing, ICT and services industries. In summary, the prospects of AFSB would thus be correlated to the general outlook of the Malaysian economy. As such, the prospects of AFSB are expected to be **positive**, premised on:-

- all sectors are expected to record positive growth, led by the manufacturing and services industries;
- the Malaysian economy is expected to strengthen in 2007 with overall real GDP envisaged to expand at 6% in 2007 (2006: 5.8%), consistent with the growth targets outlined in the 9MP; and
- the initiatives and impetus by the government to stimulate the economy with the introduction of the 9MP coupled with the 2006 Budget, which focuses on, *inter-alia*, accelerating the development of small and medium sized enterprises ("SME") by strengthening the support infrastructure, building capacity and enhance access to financing; modernising agriculture sector; and enhancing the services sector with special emphasis on high value-added activities in ICT, tourism and transport sub-sectors.

As such, with the economy to remain steady in the remaining of the year and expected to strengthen in 2007, AFSB is expected to benefit from the healthy growth of the economy.

Notwithstanding the above, it is pertinent to note that the prospects of AFSB are also dependent on the quality of the receivables purchased in the future, amongst others.

4.5 Risks associated with the Proposed Acquisition

In addition to the risks highlighted in Part A, Section 6 of the Circular, we opine that there are other risks associated with the Proposed Acquisition, as illustrated below and which may not be exhaustive.

4.5.1 Level of borrowings

It is noted that the total Purchase Consideration will be financed by internally generated funds and/or bank borrowings. In the ensuing Section 4.6.2 herein, it is assumed that 90% of the Purchase Consideration shall be funded by bank borrowings, which the RCE Group's borrowings are expected to increase from RM289.3 million after the Private Placement to RM303.371 million, representing an increase in gearing ratio from 2.94 times to 3.09 times.

However, despite the increase in gearing, the Board of RCE believes that the gearing ratio is within the manageable level and would not have an adverse financial impact on the Group.

4.5.2 Cyclical fluctuation of the manufacturing, ICT and construction industries

Being susceptible to the performances of the manufacturing, construction and ICT industries, the Group's operations are subject to the cyclical fluctuations of the respective industries' life cycle.

To mitigate such risk, RCE intends to instil measures to reduce AFSB's vulnerability to the fluctuations to the ever-changing economic and political conditions of the country as well as the life cycle of these industries by further enhancing the Group's technological infrastructure and human capital resources to improve its productivity and efficiency, and strengthen its credit risk management practices. The Group will continue to review its development strategies in response to the ever-changing economic conditions and market demands.

4.6 Financial effects of the Proposed Acquisition

We have also considered the effects of the Proposed Acquisitions on the issued and paid-up share capital, shareholdings of major shareholders, net assets ("NA") and earnings of the RCE Group:-

4.6.1 Share Capital and Shareholding Structure of the Major Shareholders

The Proposed Acquisition will not have any effect on the issued and paid-up share capital and shareholding structure of the major shareholders of RCE as the Purchase Consideration shall be wholly satisfied in cash.

4.6.2 NA and Gearing

The proforma effects of the Proposed Acquisition on the consolidated NA and gearing of the RCE Group based on the audited financial statements of RCE Group for the FYE 31 March 2006 are as follows:

	(I) Audited as at 31 March 2006 RM'000	(II) After (I) and Bonus Issue RM'000	(III) After (II) and Private Placement RM'000	(IV) After (III) and Proposed Acquisition RM'000
Share capital	46,893	62,524	64,634	64,634
Reserves	10,197	2,405	#5,763	^5,563
Retained Profits	35,852	28,013	28,013	28,013
Shareholders' funds / NA	92,942	92,942	98,410	98,210
No. of ordinary shares ('000)	468,928	625,238	646,338	646,338
NA per share (RM)	0.20	0.15	0.15	0.15
Bank borrowings (RM'000)	289,300	289,300	289,300	*303,371
Gearing ratio (times)	3.11	3.11	2.94	3.09

Notes: -

\# *After deducting an estimated expenses relating to the Private Placement of RM250,000*

^ *After deducting an estimated expenses relating to the Proposed Acquisition of RM200,000.*

* *Assuming that the balance 90% of the Purchase Consideration shall be made via bank borrowings and taking into consideration the bank borrowings of AFSB as at 31 March 2006.*

It is noted that the Proposed Acquisition has no effect on the NA and NA per share of RCE. Assuming that 90% of the Purchase Consideration shall be funded by bank borrowings, RCE Group's borrowings are expected to increase from RM289.3 million after the Private Placement to RM303.371 million, representing an increase in gearing ratio from 2.94 times to 3.09 times.

4.6.3 Earnings

The Proposed Acquisition is not expected to have any material effects on the earnings of the Group for the financial year ending 31 March 2007 as the Proposed Acquisition is expected to be completed by the last quarter of the calendar year 2006.

Nevertheless, the Proposed Acquisition is expected to contribute positively to the earnings of RCE Group in the longer term.

5. CONCLUSIONS AND RECOMMENDATIONS

We have assessed and evaluated the Proposed Acquisition taking into consideration the various factors discussed in Section 4 of this letter.

(i) Rationale for the Proposed Acquisition

It is an ongoing effort of RCE to explore viable business opportunities. The Proposed Acquisition represents a diversification to the Group's loans financing business. The Proposed Acquisition would expand the Group's clientele base to include corporate clientele.

The RCE Group has already in place the infrastructure and personnel, and an experienced credit risk management, which provide the support to the Group's loan financing

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business and keeping its NPLs at a low and manageable level. Thus, coupled with the experience of AFSB's personnel in the industry, the Proposed Acquisition is expected to diversify the Group's business, which is expected to allow RCE Group to capture a new profit generating business segment to complement its existing core business.

(ii) Salient terms of the Proposed Acquisition

The Proposed Acquisition involves the acquisition of only the factoring business of AFSB. The non-factoring businesses, i.e. AFSB's entire equity interests in ACSSB and ATB, would be disposed to the vendor.

The vendor warranted that the AFSB's NTA shall not be affected so long it is remained at RM10,000,000 only as at the Unconditional Date and will continue to be so up to and including completion, and essentially the current and ongoing operations and business of AFSB are not impaired.

Premised on the above, the salient terms and conditions of the SSA in relation to the Proposed Acquisition are deemed fair and reasonable.

(iii) Reasonableness of the Purchase Consideration

Our evaluation on the fairness and reasonableness of the Purchase Consideration took into cognisance of the following comparative analyses:-

- the trading P/BVs and PE multiples of the Malaysian financial sector;
- the transacted P/BVs and PE multiple for the acquisition by ACPB of the entire equity interest in Amanah Factors; and
- the trading P/BVs and PE multiples of the selected comparable public companies involved in similar business as AFSB and are listed on their respective bourses in Asia Pacific.

Based on the analyses, it is opined that Purchase Consideration is fair and reasonable.

(iv) Prospects

The prospects of AFSB would thus be correlated to the general outlook of the Malaysian economy. As such, the prospects of AFSB are expected to be positive, premised on:-

- all sectors are expected to record positive growth, led by the manufacturing and services industries;
- the Malaysian economy is expected to strengthen in 2007 with overall real GDP envisaged to expand at 6% in 2007; and
- initiatives and impetus by the government to stimulate the economy with the introduction of the 9MP coupled with the 2006 Budget.

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(v) Financial effects

It is concluded that the Proposed Acquisition has no effect on the share capital and shareholding structure of RCE nor has any effect on the NA of RCE Group.

But if the Proposed Acquisition is to be 90% funded by bank borrowings whilst the remaining from internal cashflow of RCE, RCE Group's gearing level is expected to increase from 2.94 times to 3.09 times.

However, the Proposed Acquisition is expected to contribute to the earnings of RCE Group in the future.

Based on the evaluation, we are of the opinion that the Proposed Acquisition is fair and reasonable and will not be detrimental to the minority shareholders of RCE and is in the long-term interest of RCE.

ACCORDINGLY, WE RECOMMEND THAT THE MINORITY SHAREHOLDERS OF RCE VOTE IN FAVOUR OF THE RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION TO BE TABLED IN THE FORTHCOMING EGM OF RCE.

Yours faithfully
HWANG-DBS SECURITIES BERHAD

KEONG SI HARK
Executive Director Operations

SOON DEE HWEE
Director / Head of Corporate Finance

INFORMATION ON AFSB

1. HISTORY AND BUSINESS

AFSB is a wholly-owned subsidiary of AMDB. AFSB was incorporated in Malaysia on 14 September 1984 under the name of Arab-Malaysian Confirming House Sdn. Bhd. The company changed its name to Arab-Malaysian Enterprises Sdn Bhd on 22 April 1985 and assumed its present name, AMDB Factoring Sdn Bhd on 17 December 1994. It has an authorised share capital of RM10,000,000 divided into 10,000,000 ordinary shares of RM1.00 each, all of which have been issued and fully paid-up as at 19 September 2006.

Currently, the Company's principal activities are that of factoring and confirming services, specialising in trade related activities and general trading. Its principal place of business is located at 12th Floor, Bangunan AmAssurance, No. 1, Jalan Lumut, 50400 Kuala Lumpur. AFSB does not have any other branches.

The Company commenced operations in April 1985 as a confirming house arranging and facilitating import financing for traders and manufacturing concerns. Confirming is a flexible credit term tailored according to the trade of the customers, whereby AFSB will arrange to confirm an order for goods placed by its customer and undertakes in writing to the seller assuming the responsibility to pay upon receipt of goods by its customer. A financing charge plus service fee are based on the duration of the credit term.

In 1989 the Company expanded its business into providing factoring services which involved factoring account receivables for small and medium sized manufacturers and traders. AFSB also provides factoring arrangement such as accounting and sales ledger services, credit control services and collection services for its customers.

2. SHARE CAPITAL

(a) Share capital as at 19 September 2006 is as follow:-

	Number of Ordinary Shares	Par Value RM	Total RM
Authorised	10,000,000	1.00	10,000,000
Issued and fully paid-up	10,000,000	1.00	10,000,000

(b) Changes in issued and paid-up share capital

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

Date of Allotment	No. of Ordinary Shares	Par Value RM	Cumulative Issued And Paid-Up Share Capital RM
14/9/1984	2	1.00	2.00
3/5/1985	999,998	1.00	1,000,000
2/4/1986	1,000,000	1.00	2,000,000
1/11/1993	3,000,000	1.00	5,000,000
19/12/1994	5,000,000	1.00	10,000,000

3. SUBSTANTIAL SHAREHOLDERS

The substantial shareholder of AFSB as at 19 September 2006 is as follows:-

Major Shareholders	Nationality/ Country of Incorporation	No. Of Ordinary Shares Held			
		Direct	%	Indirect	%
AMDB	Malaysia	10,000,000	100	-	-

4. DIRECTORS AND THEIR SHAREHOLDINGS

The particulars of the Directors of AFSB and their respective shareholdings as at 19 September 2006 are as follows:-

Name of Directors	Direct		Indirect	
	No. of shares	%	No. of shares	%
Chew Siew Yeng	-	-	-	-
Mohammed Shahreza Bin Abdul Majid	-	-	-	-
Remesh Kumar a/l Kollara Natesan	-	-	-	-

5. SUBSIDIARIES AND ASSOCIATED COMPANIES

As at 19 September 2006, the subsidiary and associated companies of AFSB are as follows:-

Name	Date and Place Of Incorporation	Issued and Paid-Up Capital (RM)	Effective Equity Interest %	Principal Activities
Subsidiary company - ACSSB	19/11/1975 Malaysia	RM500,000	100	Licenced money lender
Associated company - ATB	28/7/1987 Malaysia	RM500,000	20	Trustee services

Note: - *AFSB will dispose of all its interest in ACSSB and ATB prior to the completion of the Proposed Acquisition*

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6. FINANCIAL INFORMATION OF AFSB

Details of the audited financial information of AFSB (company level) for the past five (5) financial years ended 31 March 2002 to 31 March 2006 are as follows:

FYE 31 March	**2002 RM'000**	**2003 RM'000**	**2004 RM'000**	**2005 RM'000**	**2006 RM'000**
Revenue	3,834	4,544	4,373	3,924	3,353
Profit/(loss) before tax	2,277	2,332	2,620	2,556	1,589
Taxation	(140)	(744)	(771)	(708)	(422)
Profit after tax	2,137	1,588	1,849	1,848	1,167
Earnings/(loss) per share (RM)	0.21	0.16	0.18	0.18	0.12
Dividend rate (%)	-	10	5	-	20

Note: - There are no extraordinary items or exceptional items during the financial years under review.

Commentary:

For the FYE 31 March 2002, the AFSB posted revenue of RM3.834 million and a PAT of RM2.137 million due to realisation of suspension income, which had resulted from the positive performance of the lending industry affecting the overall results of the AFSB's business operations.

However, for the FYE March 2003, a lower PAT of RM1.588 was achieved mainly because of the higher administration and other operating expenses and higher taxation as compared with FYE 31 March 2002.

For the FYE 31 March 2004, the AFSB recorded lower revenue of RM4.373 million against a revenue of RM4.544 from the previous year mainly due to the decline in volume of confirming business transacted for confirming services. AFSB also increased its PAT of RM1.849 million in year 2004 as a result of its lower allowance for doubtful debts.

For the FYE 31 March 2005, the total revenue of AFSB declined to RM3.924 million, a decrease of 10.27% from RM4.373 million recorded for the previous financial year. This is mainly due to lower volume of business transacted. The PAT has remained relatively constant despite the decline in revenue due to the write back of doubtful debts amounting to RM1.086 million.

For the FYE 31 March 2006, the AFSB recorded a lower PAT of RM1.167 million, compared to a PAT of RM1.848 million reported in the previous financial year due partly to lower volume of business transactions and also lower allowance for doubtful debts written back.

7. AUDITED ACCOUNTS OF AFSB FOR THE FYE 31 MARCH 2006

Please refer to Appendix II attached.

**AUDITED ACCOUNTS OF AFSB
FOR THE FYE 31 MARCH 2006**

TEMPATAN NO. 126887-A

AMDB FACTORING SDN BHD
(126887-A)
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006

FOLKS DFK & CO.

Chartered Accountants

TEMPATAN NO. 126887-A

AMDB FACTORING SDN BHD
(126887-A)
(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Company are that of a confirming and factoring house, specialising in trade related activities and general trading. The principal activity of the subsidiary company is disclosed in Note 8 to the financial statements.

There have been no significant changes in the nature of these principal activities during the financial year.

RESULTS

	RM
Profit before taxation	1,588,862
Taxation	(421,810)
Net profit for the year	1,167,052

RESERVES AND PROVISIONS

There were no material transfers made to or from reserves or provision accounts during the financial year other than those disclosed in the financial statements.

DIVIDEND

An interim dividend of 20% less tax at 28% amounting to RM1,440,000 in respect of the financial year ended 31 March 2006 has been declared and paid on 28 February 2006 pursuant to a Directors' Resolution dated 15 February 2006.

No final dividend has been proposed for the year ended 31 March 2006.

DIRECTORS

The names of the directors in office since the date of the last directors' report on 31 May 2005 are as follows:-

Chew Siew Yeng	
Mohammed Shahreza Bin Abdul Majid	(Appointed on 28 February 2006)
Remesh Kumar A/L Kollara Natesan	(Appointed on 1 March 2006)
Foong Wing Ling	(Resigned on 28 February 2006)
Azian Hashim	(Resigned on 1 March 2006)

DIRECTORS (CONT'D)

In accordance with Article 87 of the Company's Articles of Association, Remesh Kumar A/L Kollara Natesan and Mohammed Shahreza Bin Abdul Majid retire at the forthcoming Annual General Meeting and being eligible offer themselves for re-election.

The remaining director is not required to retire in accordance with Article 81 of the Company's Articles of Association at the forthcoming Annual General Meeting.

None of the directors had any direct interest in the shares of the Company.

The following represents the interests of directors in office at the end of the financial year in ordinary shares and option to subscribe for ordinary shares of the holding company at an option price of RM0.50 each, pursuant to AMDB Berhad's Employees' Share Option Scheme 2 (AMDB ESOS 2) in the holding company, namely AMDB Berhad :-

	Number of ordinary shares of RM0.50 each			
	As at 1.4.2005	**During the year Acquired**	**Disposed**	**As at 31.3.2006**
Chew Siew Yeng	17,000	-	-	17,000

	Option over number of ordinary shares of RM0.50 each			
	As at 1.4.2005	**During the year Granted/ Exercised**	**Expired**	**As at 31.3.2006**
Remesh Kumar A/L Kollara Natesan	270,000	-	(270,000)	-
Mohammed Shahreza Bin Abdul Majid	315,000	-	(315,000)	-
Chew Siew Yeng	350,000	-	(350,000)	-

The details of the option are contained in the Bye-Laws of AMDB ESOS 2 and all unexercised options had expired on 29 January 2006.

Except as disclosed above, the directors in office at the end of the financial year did not hold any interests, direct or indirect, in shares and option over shares pursuant to AMDB ESOS 2 and loan stocks of the holding company nor any interests in shares, or debentures in its related corporations.

As at the end of the financial year and during the year, there did not subsist any arrangement to which the Company was a party, whereby the directors or their nominees might acquire benefits by means of the acquisition of shares in, or debentures of, the company or any other body corporate other than any benefits that may accrue to eligible directors under the AMDB ESOS 2.

DIRECTORS (CONT'D)

Since the end of the previous financial year, no director has received or become entitled to receive any benefits by reason of a contract made by the Company or a related corporation with the director or his nominees or with a firm of which he is a member or with a company in which he has a substantial financial interest other than any remuneration payable to the directors by virtue of their being employees or directors of certain related corporations.

OTHER STATUTORY INFORMATION

(a) Before the financial statements of the Company were made out, the directors took reasonable steps :-

   (i) to satisfy themselves that all known bad debts had been written off and adequate provision had been made for doubtful debts; and

   (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business have been written down to an amount which they might be expected so to realise.

(b) As at the date of this report, the directors are not aware of any circumstances :-

   (i) which would render the amount written off for bad debts and provision made for doubtful debts inadequate to any substantial extent;

   (ii) which would render the values of current assets in the financial statements misleading;

   (iii) which have arisen which render adherence to the existing method of valuation of assets and liabilities of the Company misleading or inappropriate; and

   (iv) not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

(c) As at the date of this report, there does not exist :-

   (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; and

   (ii) any contingent liability which has arisen since the end of the financial year.

(d) In the opinion of the directors :-

   (i) no contingent or other liability has become enforceable or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations when they fall due;

OTHER STATUTORY INFORMATION (CONT'D)

(ii) the results of the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

(iii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of operations of the Company for the financial year in which this report is made.

AUDITORS

The auditors, Messrs. Folks DFK & Co., have expressed their willingness to continue in office.

Signed in accordance with a resolution of the directors,

CHEW SIEW YENG
Director

REMESH KUMAR A/L KOLLARA
NATESAN
Director

Kuala Lumpur

Date : 22 JUN 2006

AMDB FACTORING SDN BHD
(126887-A)
(Incorporated in Malaysia)

BALANCE SHEET AS AT 31 MARCH 2006

	Note	2006 RM	2005 RM
Share capital	5	10,000,000	10,000,000
Retained profit	6	13,773,898	14,046,846
		23,773,898	24,046,846
Represented by :-			
Property, plant and equipment	7	269,649	132,933
Subsidiary company	8	501,708	501,708
Associated company	9	100,000	100,000
Deferred tax assets	10	215,911	201,595
Current assets			
Receivables	11	20,077,717	18,643,304
Amount owing by holding company	14	-	27,936
Tax recoverable		288,540	61,347
Short term deposits with a licensed bank	12	6,852,973	7,051,669
Cash and bank balances		1,071,930	1,125,461
		28,291,160	26,909,717
Current liabilities			
Payables	13	533,762	527,655
Amount owing to holding company	14	257	-
Bank borrowings	15	5,070,511	3,271,452
		5,604,530	3,799,107
Net current assets		22,686,630	23,110,610
		23,773,898	24,046,846

The notes on pages 10 to 25 form an integral part of these financial statements.

AMDB FACTORING SDN BHD
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INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2006

	Note	2006 RM	2005 RM
Revenue		3,353,254	3,923,761
Cost of sales		(336,068)	(417,085)
Gross profit		3,017,186	3,506,676
Other operating income		599,751	1,423,459
Distribution expenses		(85,257)	(94,746)
Administration expenses		(1,921,463)	(2,072,953)
Other operating expenses		(21,355)	(205,955)
Profit before taxation	16	1,588,862	2,556,481
Taxation	17	(421,810)	(708,667)
Net profit for the year		1,167,052	1,847,814

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AMDB FACTORING SDN BHD
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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2006

	Note	Share capital RM	Retained profit RM	Total RM
Balance as at 31 March 2004		10,000,000	12,199,032	22,199,032
Net profit for the year		-	1,847,814	1,847,814
Balance as at 31 March 2005		10,000,000	14,046,846	24,046,846
Net profit for the year		-	1,167,052	1,167,052
Dividend paid	18	-	(1,440,000)	(1,440,000)
Balance as at 31 March 2006		10,000,000	13,773,898	23,773,898

The notes on pages 10 to 25 form an integral part of these financial statements.

AMDB FACTORING SDN BHD
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CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2006

	2006 RM	2005 RM
Cash flows from operating activities		
Profit before taxation	1,588,862	2,556,481
Adjustments for :-		
Write back of allowance for doubtful debts - net	(142,300)	(880,192)
Interest income	(2,977,134)	(3,356,645)
Interest expenses	270,245	350,255
Depreciation	94,273	97,941
Gain on disposal of property, plant and equipment	(75,498)	-
Operating loss before working capital changes	(1,241,552)	(1,232,160)
(Increase)/Decrease in trade and other receivables	(1,292,113)	6,489,871
Increase/(Decrease) in trade and other payables including bankers' acceptance trust receipts, revolving credit and bills payable	1,792,006	(2,412,178)
Cash (used in)/generated from operations	(741,659)	2,845,533
Interest received	2,977,134	3,356,645
Interest paid	(270,245)	(350,255)
Tax paid	(663,319)	(668,873)
Net cash generated from operations	1,301,911	5,183,050
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	75,500	-
Purchase of property, plant and equipment	(230,991)	(5,950)
Net cash used in investing activities	(155,491)	(5,950)

AMDB FACTORING SDN BHD
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CASH FLOW STATEMENT (CONT'D)
FOR THE YEAR ENDED 31 MARCH 2006

	2006 RM	2005 RM
Cash flows from financing activities		
Dividend paid	(1,440,000)	-
Advance from/(Repayment to) holding company	28,193	(390,664)
Advance from/(Repayment to) subsidiary company	5,465	(3,729)
Advances from related companies	7,858	10,029
Net cash used in financing activities	(1,398,484)	(384,364)
Net (Decrease)/Increase in cash and cash equivalents	(252,064)	4,792,736
Cash and cash equivalents at beginning of year	8,176,967	3,384,231
Cash and cash equivalents at end of year (Note 19)	7,924,903	8,176,967

The notes on pages 10 to 25 form an integral part of these financial statements.