

**ACCOUNTANTS' REPORT ON PEPS-JV***(Prepared for inclusion in this Circular)*

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Our ref : A8/CKS/LKY/GCF

16 January 2003

Dear Sirs,

## **Accountants' Report PEPS-JV (M) Sdn Bhd ("PEPS-JV")**

This report has been prepared for inclusion in the Circular to Shareholders of EP Manufacturing Berhad ("EPMB") to be dated 17 January 2003 in connection with the Proposed Corporate Exercise of EPMB. The Proposed Corporate Exercise of EPMB includes, among others, the Proposed Acquisition of 79.5% equity interest in the issued and paid-up share capital of PEPS-JV and 30,000,000 redeemable convertible secured preference shares of RM1.00 each in PEPS-JV by EPMB.

### **1 GENERAL INFORMATION**

#### **1.1 Background**

PEPS-JV was incorporated as a private limited company on 15 July 1994. The Company is principally engaged in the manufacturing of car chassis parts which includes metal stamping, metal welding and assembly and black electronic deposit painting.

#### **1.2 Share Capital**

The authorised share capital of PEPS-JV at 31 March 2002 is RM25,000,000 comprising 25,000,000 ordinary shares of RM1.00 each. The issued and fully paid up share capital of PEPS-JV at 31 March 2002 is RM15,000,000 comprising 15,000,000 ordinary shares of RM1.00 each.

The movements in the Company's authorised share capital up to 31 March 2002 since the date of its incorporation, are as follows:

<i>Date</i>	<i>Type of shares</i>	<i>No. of shares created</i>	<i>par value</i>	<i>Cumulative total of authorised share capital</i>
15 July 1994	Ordinary	100,000	RM1.00	100,000
20 March 1995	Ordinary	9,900,000	RM1.00	10,000,000
26 February 2002	Ordinary	15,000,000	RM1.00	25,000,000

The changes in the Company's issued and fully paid up share capital since its incorporation are as follows:

<i>Date of allotment</i>	<i>Allotted</i>	<i>Consideration</i>	<i>Resultant issued and paid up balance RM</i>
<u>Ordinary Shares of RM1.00 each</u>			
15 July 1994	2	Cash-Subscribers' share	2
16 August 1995	2,100,000	Cash	2,100,002
22 November 1995	5,899,998	Cash	8,000,000
23 November 1995	2,000,000	Cash	10,000,000
26 February 2002	5,000,000	Cash	15,000,000

### 1.3 Subsidiaries

PEPS-JV does not have any subsidiary companies.

### 1.4 Dividends

No dividends have been declared or paid for the financial years under review.

## **2 Financial Statements and Auditors**

- 2.1** The financial year end of PEPS-JV for the years under review is 31 March. The financial statements of PEPS-JV for the years under review were audited by a firm of chartered accountants, Messrs. Tan Cheng Hooi & Co., and were reported without any qualification.
- 2.2** We have reviewed the auditors' working papers for the Company for the years under review and as such, the information provided in this report has been based on the review of the audit working papers, information provided by and representations made by the management of PEPS-JV, and extraction of relevant information from the audited financial statements for the years under review.
- 2.3** The financial year end of PEPS-JV has been changed to 31 December beginning 31 December 2002.

### 3 Summarised Income Statements

We set out below the results of PEPS-JV for the past five years ended 31 March 1998 to 2002 (based on the audited financial statements).

	<-----Year ended 31 March ----->				
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000
Revenue	13,943	14,429	43,371	65,072	90,496
Cost of sales	(16,085)	(16,811)	(35,330)	(53,242)	(72,488)
Gross (loss)/profit	(2,142)	(2,382)	8,041	11,830	18,008
Gross (loss)/profit margin	(15.4%)	(16.5%)	18.5%	18.2%	19.9%
Profit before interest and depreciation	1,145	1,093	11,516	15,009	21,632
Less:					
Depreciation	(5,380)	(5,529)	(5,545)	(6,330)	(7,045)
Interest expense	(7,067)	(7,111)	(5,318)	(4,813)	(4,513)
Add:					
Interest income	62	84	24	8	8
(Loss)/Profit before taxation	(11,240)	(11,463)	677	3,874	10,082
Taxation	-	-	-	-	(3)
(Loss)/Profit after taxation	(11,240)	(11,463)	677	3,874	10,079
Number of ordinary shares in issue during the year ('000)	10,000	10,000	10,000	10,000	15,000
(Loss)/Earnings per share (RM)*					
Gross	(1.12)	(1.15)	0.07	0.39	0.67
Net	(1.12)	(1.15)	0.07	0.39	0.67
Ordinary dividends proposed**	-	-	-	-	-

#### Notes

\* (Loss)/Earnings per share is calculated by dividing the (loss)/profit before taxation (Gross) and (loss)/profit after taxation (Net) by the weighted average number of ordinary shares in issue during the year.

\*\* No ordinary dividends were proposed or paid during the years under review.

#### 4 Summarised Balance Sheets

The balance sheets of PEPS-JV are summarised below. These are based on the audited financial statements of the Company for the financial years ended 31 March 1998 to 2002:

	<-----Year ended 31 March----->					
	1997	1998	1999	2000	2001	2002
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	62,292	58,921	62,106	56,976	52,744	47,647
Deferred expenditure	14	14	-	-	-	-
Current assets	1,306	5,720	7,013	13,089	24,355	39,472
Less: Current liabilities	(21,259)	(33,367)	(34,284)	(27,417)	(29,672)	(32,773)
Net current liabilities	(19,953)	(27,647)	(27,271)	(14,328)	(5,317)	6,699
	<u>42,353</u>	<u>31,288</u>	<u>34,835</u>	<u>42,648</u>	<u>47,427</u>	<u>54,346</u>
<b>Financed by:</b>						
Share capital	10,000	10,000	10,000	10,000	10,000	15,000
Accumulated losses	(4,651)	(15,891)	(27,354)	(26,677)	(22,804)	(12,725)
Shareholders' funds/(deficits)	5,349	(5,891)	(17,354)	(16,677)	(12,804)	2,275
Long term liabilities						
Hire purchase creditors	70	49	9	-	-	48
Term loans	36,934	37,130	52,180	59,325	60,231	52,023
	<u>42,353</u>	<u>31,288</u>	<u>34,835</u>	<u>42,648</u>	<u>47,427</u>	<u>54,346</u>
NTA/(NTL) per share (RM)	0.53	(0.59)	(1.74)	(1.67)	(1.28)	0.15

## 5 Statement of Assets and Liabilities

The detailed statement of assets and liabilities of the Company based on the audited financial statements as at 31 March 2002 are set out below and should be read in conjunction with the accompanying notes:-

	Note	Company RM '000
Property, plant and equipment	6.2	47,647
<b>Current assets</b>		
Inventories	6.3	2,783
Trade and other receivables	6.4	29,594
Cash and cash equivalents	6.5	7,095
		39,472
<b>Current liabilities</b>		
Trade and other payables	6.6	24,536
Borrowings	6.7	8,235
Taxation		2
		32,773
<b>Net current assets</b>		6,699
		54,346
<b>Finance by:</b>		
<b>Capital and reserve</b>		
Share capital	6.8	15,000
Accumulated loss		(12,725)
Shareholders' funds		2,275
<b>Long term liabilities</b>		
Borrowings	6.7	52,071
		54,346

## 6 Notes to the Statement of Assets and Liabilities

### 6.1 Summary of significant accounting policies

The following accounting policies are adopted by the Company and are consistent with those adopted in previous years.

#### (a) Basis of accounting

The financial statements of the Company are prepared in compliance with applicable approved accounting standards in Malaysia.

The financial statements of the Company have been prepared on the basis of accounting principles applicable to a going concern which the validity is dependent upon future profitable operations of the Company to meet its obligations as and when they fall due.

#### (b) Property, plant and equipment

Property, plant and equipment except for freehold land are stated at cost less accumulated depreciation

Property, plant and equipment retired from active use and held for disposal are stated at the lower of net book value and net realisable value.

#### (c) Depreciation

Freehold land is not amortised. The straight-line method is used to write off the cost of the other assets over the term of their estimated useful lives at the following principal annual rates:

Buildings	2%
Plant, machinery and equipment	10%
Motor vehicles	20%
Furniture and fittings	20%
Office equipments	20%
Tools and dies	20%

#### (d) Inventories

Raw materials, work-in-progress and finished goods are stated at the lower of cost and net realisable value with first in, first out being the main basis for cost. For work-in-progress and finished goods, cost consists of raw materials, direct labour and an appropriate proportion of fixed and variable production overheads.

#### (e) Trade and other receivables

Trade and other receivables are stated at cost. Bad debts are written off as soon as it is established that they are irrecoverable.

#### (f) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of the cash flow statement, cash and cash equivalents are presented net of bank overdrafts and pledged deposits.

**(g) Liabilities**

Borrowing and trade and other payables are stated at cost.

**(h) Hire purchase liabilities**

The cost of assets acquired under hire purchase agreements are capitalised. The depreciation policy on these assets is set out in Note 1(c) above. Outstanding obligations due under the hire purchase agreements after deducting finance expenses are included as liabilities in the financial statements. The finance expenses are charged to the income statement using the sum-of-digit method.

**(i) Deferred taxation**

Deferred taxation is provided on the liability method for all timing differences except where no liability is expected to arise in the foreseeable future and there are no indications the timing differences will reverse thereafter. Deferred tax benefits are only recognised where there is a reasonable expectation of realisation in the near future.

**(j) Foreign currency**

Transactions in foreign currencies are translated to Ringgit Malaysia at rates of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Ringgit Malaysia at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

1 USD            RM3.80

**(k) Revenue**

Revenue from sale of goods is measured at the fair value of the consideration receivable net of return, discounts and sales tax and is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

**(l) Expenses**

*i) Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

*ii) Financing costs*

All interest and other costs incurred in connection with borrowings are expensed as incurred. The interest component of finance lease payments is recognised on in the income statement so as to give a constant periodic rate of interest on the outstanding liability at the end of each accounting period.



## 6.2 Property, plant and equipment

Group	Freehold Land RM'000	Buildings RM'000	Motor vehicle, furniture, fittings and office equipment	Plant and machinery RM'000	Tools and dies RM'000	Total RM'000
			RM'000			
<b>Cost</b>						
At 1 April 2001	7,172	15,503	965	37,849	14,113	75,602
Additions	-	-	530	158	1,261	1,949
Disposals	-	-	(110)	-	-	(110)
At 31 March 2002	7,172	15,503	1,385	38,007	15,374	77,441
<b>Depreciation</b>						
At 1 April 2001	-	1,240	641	13,063	7,914	22,858
Charge for the year	-	310	128	3,785	2,823	7,046
Disposals	-	-	(110)	-	-	(110)
At 31 March 2002	-	1,550	659	16,848	10,737	29,794
<b>Net book value</b>						
At 31 March 2002	7,172	13,953	726	21,159	4,637	47,647

## 6.3 Inventories

	2002 RM'000
At cost	
Raw materials	1,645
Finished goods	926
Work in progress	212
	<u>2,783</u>

## 6.4 Trade and other receivables

	2002 RM'000
Trade receivables	20,927
Other receivables and deposits	8,667
	<u>29,594</u>

**6.5 Cash and cash equivalents**

	<b>2002</b>
	<b>RM'000</b>
Cash in hand	15
Cast at bank	6,859
Deposits with licensed banks	221
	<u>7,095</u>

**6.6 Trade and other payables**

	<b>2002</b>
	<b>RM'000</b>
Trade payables	14,091
Other payables and accruals	9,695
Amount owing to a Director	750
	<u>24,536</u>

Included in other payables and accruals is an amount of RM1,133,000 due to companies in which certain Directors of the Company have interest.

The amount owing to a Director is unsecured, interest free and have no fixed term of repayment.

**6.7 Borrowings**

	<b>2002</b>
	<b>RM'000</b>
Current	
Term loans - secured	8,203
Hire purchase liabilities	32
	<u>8,235</u>
Non - current	
Term loans - secured	52,023
Hire purchase liabilities	48
	<u>52,071</u>

The above bank credit facilities are secured by the followings :-

- a. First legal charge over the Company's freehold lands.
- b. First open debenture incorporating a first fixed charge over the Company's fixed assets and a first floating charge over the Company's assets including the uncalled capital, goodwill, book debts and stock.
- c. Corporate guarantee by Mutual Concept Sdn. Bhd.
- d. Personal guarantee by one of the directors of the Company.

## 6.8 Share Capital

	<b>2002 RM'000</b>
Authorised:	
Ordinary shares of RM1 each	
At beginning of the year	10,000
Increase during the year	15,000
At the end of the year	<u>25,000</u>
Issued and fully paid:	
Ordinary shares of RM1 each	
At beginning of the year	10,000
Increase during the year	5,000
At the end of the year	<u>15,000</u>

The Company increased its authorised share capital from RM10,000,000 to RM25,000,000 by the creation of 15,000,000 ordinary shares of RM1 each.

During the year, the issued and paid up share capital of the Company was increased from RM10,000,000 to RM15,000,000 by an issue of 5,000,000 ordinary shares of RM1 each at par for working capital purposes.

## 6.9 Net Tangible Assets Per Ordinary Share

Based on the proforma statement of assets and liabilities of PEPS-JV at 31 March 2002, the net tangible assets per share is calculated as follows :-

	<b>2002 RM'000</b>
Net tangible assets as at 31 March 2002	<u>2,275</u>
Number of ordinary shares of RM1.00 each in issue ('000)	<u>15,000</u>
Net tangible assets per ordinary share (sen)	<u>0.15</u>



## 7 AUDITED FINANCIAL STATEMENTS

No audited financial statements have been made up in respect of any period subsequent to 31 March 2002 for the Company.

Yours faithfully

A handwritten signature in black ink, appearing to read 'K. Amel'.

KPMG  
Firm Number : AF 0758  
Chartered Accountants

**PROFIT ESTIMATE OF PEPS-JV FOR THE NINE (9)-MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2002 AND PROFIT FORECAST OF PEPS-JV FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2003 TOGETHER WITH THE UNDERLYING ASSUMPTIONS AND THE REPORTING ACCOUNTANTS' LETTER THEREON**

*(Prepared for inclusion in this Circular)*



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The Board of Directors  
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Selangor Darul Ehsan

Our Ref: A8/CKS/LKY/GCF

16 January 2003

Dear Sirs

**REPORTING ACCOUNTANTS' LETTER ON THE PROFIT ESTIMATE FOR THE NINE MONTH PERIOD ENDED 31 DECEMBER 2002 AND FORECAST FOR THE YEAR ENDING 31 DECEMBER 2003**

We have reviewed the accounting policies and calculations for the profit estimate and forecast of PEPS-JV (M) Sdn Bhd ("PEPS-JV") for the nine month period ended 31 December 2002 and year ending 31 December 2003 respectively, for which the Directors of PEPS-JV are solely responsible, as set out in the attachments, prepared for the purpose of inclusion in the Circular to Shareholders of EP Manufacturing Berhad ("EPMB") to be dated 17 January 2003 in connection with the proposed acquisition of 79.5% equity interest in the issued and paid-up share capital and 30,000,000 Redeemable Convertible Secured Preference Shares of RM1.00 each in PEPS-JV by EPMB ("Proposed Acquisition").

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the estimate and forecast. Further, in our opinion, the profit estimate and forecast, so far as the accounting policies and calculations are concerned, have been properly compiled on the basis of the assumptions made by the Directors as set out in the attachments.

Yours faithfully

KPMG  
Chartered Accountants



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**PEPS-JV (M) SDN BHD**  
**PROFIT ESTIMATE FOR THE NINE MONTH PERIOD ENDED**  
**31 DECEMBER 2002 AND FORECAST FOR THE YEAR ENDING**  
**31 DECEMBER 2003 TOGETHER WITH THE ASSUMPTIONS THEREON**

The Directors of PEPS-JV estimate and forecast that barring unforeseen circumstances the profit after taxation before and after the Proposed Acquisition, for the nine month period ended 31 December 2002 and for the year ending 31 December 2003 of PEPS-JV are as follows:-

	<----- <i>Estimate</i> ----->			<----- <i>Forecast</i> ----->		
	“Before”	“After” Option 1	“After” Option 2	“Before”	“After” Option 1	“After” Option 2
	2002	2002	2002	2003	2003	2003
	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000
Profit after taxation	10,955	10,991	10,991	20,565	21,692	21,692

*Bases and assumptions applicable to both “Before” and “After” Proposed Acquisition for both Option 1 (Preference shares converted) and Option 2 (Preference shares not converted).*

1. There will be no material changes in the structure and principal activity of the Company except for the proposed acquisition by EP Manufacturing Berhad (“EPMB”), which is subject to the relevant approvals, including Securities Commission, Kuala Lumpur Stock Exchange, Foreign Investment Committee and/or Ministry of International Trade and Industry (“MITI”), the shareholders of EPMB and Danaharta Urus Sdn Bhd and/or Securita ABS One Berhad (“Securita”).
2. There will be no significant changes in the current market conditions and the prevailing economic and political climate in Malaysia and elsewhere which will directly or indirectly affect the activities or performance of the Company.
3. There will be no significant changes in the present legislation or government regulations, rates and duties, levies and taxes which will adversely affect the operations of the Company or the markets in which it operates.
4. There will be no major legal proceedings against the Company, which will adversely affect the activities or performance of the Company or give rise to any liabilities, which will materially affect the position or business of the Company.
5. There will be no major breakdowns or disruptions to the manufacturing facilities arising from machine failure, industrial disputes, labour shortage, climate conditions, economic, political and technology changes and any abnormal circumstances which will adversely affect the operations of the Company or the markets in which it operates.
6. There will be no unforeseen changes involving existing team of Directors, key personnel, key customers and suppliers that may adversely affect the operations of the Company.
7. There will be no significant changes in management and existing key personnel, operating and accounting policies from those presently adopted by the Company.

8. There will be no major technology changes that will adversely affect the operations of the Company. The Company will be able to obtain alternative technical support should the current technical support not be available.
9. The demand and the selling prices of the products manufactured and marketed by the Company in the estimate and forecast will not be affected to a material extent by changes in market conditions.
10. The timing and mix for sales will be achieved as planned and there will be no unusual quality issue resulting in rejects of goods returned by customers.
11. There will be no new controls or legislation imposed by the government which will cause major disruptions to the supply of raw materials. The cost of direct material in the estimate and forecast will not be affected to a material extent by changes in market conditions.
12. The rate of inflation will not vary significantly from current level which is assumed to have been built into assumptions for the respective variables for the Company.
13. Existing financing activities will remain available to the Company. New financing facilities will be available when required and at interest rates which will not vary significantly from their prevailing rates.
14. Taxation rate used will be 28% on profit before taxation or chargeable income for the estimate and forecast period.
15. Capital expenditure programmes will take place as planned for the Company. No material disposal or write off of property, plant and equipment is expected throughout the estimate and forecast period.
16. Production capacities of the Company will be achieved as planned.
17. There will be no major disruption to the supply of labour to the Company.
18. The production capacity and volume together with the cost of production will not be adversely affected to a material extent by unfavourable operational conditions.
19. The sales volume and selling price for the existing products and new products will be achieved as estimated and forecasted. The new products will commence production as planned.
20. Beginning 1 January 2003, it is assumed that there will be a reduction of 3% in the selling price for all existing products. The growth in turnover is assumed to be from the sale of new products.
21. The raw material cost and all other direct manufacturing costs for the existing and new products are assumed to remain constant throughout the estimate and forecast period.
22. The purchase price of metal coil will not be affected by the increase in 50% import duty as announced by the MITI on 26 March 2002. It is assumed that the supplier will obtain the duty exemption granted to automotive and component manufacturers.

23. The Company will achieve and maintain the “Tier 1” vendor status from Perusahaan Otomobil Nasional Berhad (PROTON).
24. Gross profit margin for the Company is assumed to be as follows:

	<b>Estimate 2002 RM'000</b>	<b>Forecast 2003 RM'000</b>
Gross profit margin	21.9%	14.9%

25. Administrative expenses and other operating income will be achieved as estimated and forecasted.
26. Term loans interest rate will remain at 7.0% to 8.5% per annum throughout the estimate and forecast period.
27. The purchase of capital equipment and machinery of RM15,820,000 from Hajatimur Sdn Bhd (“Hajatimur”) will be settled by the capitalization of RM5,000,000 due to Hajatimur as ordinary shares of RM1 each on 28 February 2003 and the remaining balance will be settled by cash payment.
28. The implementation of Asian Free Trade Area (“AFTA”) in 2005 will not significantly impact the Malaysian automotive industry.

*Bases and assumptions applicable to only “After” the Proposed Acquisition for Option 1 (Preference shares converted) and Option 2 (Preference shares not converted).*

1. PEPS-JV will issue up to RM40,000,000 nominal value bonds on 28 February 2003 at terms and conditions as assumed and the proceeds raised will be used to partly finance the repayment of debts due to Securita and Bumiputra-Commerce Bank. The intended bond may take the form of Islamic Private Debt Securities.
2. PEPS-JV will capitalise RM30 million term loan due to Securita into 30 million PEP-JV Redeemable Convertible Secured Preference Shares (“PEPS-JV RCSPS”) of RM1.00 each. The PEPS-JV RCSPS will be acquired by EPMB from Securita on 28 February 2003.

*Base and assumption applicable to only “After” the Proposed Acquisition for Option 1 (Preference shares converted)*

1. The PEPS-JV RCSPS acquired by EPMB will be converted into ordinary share capital immediately after the Proposed Acquisition.

*Base and assumption applicable to only “After” the Proposed Acquisition for Option 2 (Preference shares not converted)*

1. The PEPS-JV RCSPS acquired by EPMB will not be converted to ordinary share capital after the Proposed Acquisition.
2. 7% cumulative preference dividend will be paid annually.



**ADDITIONAL INFORMATION****1. RESPONSIBILITY STATEMENT**

This Circular has been seen and approved by the Board who, collectively and individually, accepts full responsibility for the accuracy of the information given and confirm that, after making all reasonable enquiries and to the best of their knowledge and belief, there are no material facts the omission of which would make any information herein misleading.

**2. CONSENT**

CIMB, Messrs. Tan Cheng Hooi & Co., Messrs. KPMG and SIBB have given and have not subsequently withdrawn their written consent to the inclusion in this Circular of their names and/or reports, letters and all references thereon in the form and context in which they appear.

**3. MATERIAL CONTRACTS****EPMB Group**

Save as disclosed below, the EPMB Group has not entered into any material contracts (not being contracts entered into in the ordinary course of business) during the two (2) years preceding the date of this Circular.

Pursuant to a conditional sale and purchase agreement dated 26 February 2002 and as amended by a supplemental agreement dated 2 August 2002, entered into between EPMB and Mutual Concept, EPMB has agreed to purchase from Mutual Concept 79.5% equity interest in PEPS-JV comprising 15,900,000 PEPS-JV Shares for a total purchase consideration of up to RM105,000,000 to be satisfied partly by cash payment of RM10,500,000 and the remaining through the issuance of up to 189,000,000 EPMB ICUPS at an issue price of RM0.50 per EPMB ICUPS upon the terms and conditions therein contained.

**PEPS-JV**

Save as disclosed below, PEPS-JV has not entered into any material contracts (not being contracts entered into in the ordinary course of business) during the two (2) years preceding the date of this Circular.

- (i) On 26 March 2002, PEPS-JV had entered into a sale and purchase agreement with Hajatimur ("Vendor") whereby PEPS-JV purchased from the Vendor equipment and machinery for a total purchase consideration of RM15,820,000 to be satisfied through the capitalisation of RM5,000,000 due to Hajatimur and the remaining through cash consideration. The installation and commissioning of the equipment and machinery will be carried out by International Equipment, a company incorporated in Canada.
- (ii) On 21 June 2002, PEPS-JV had entered into a contract with Bennova Mechanical Engineering Sdn Bhd for the construction of factory extension at its existing factory for approximately RM3,650,000 to be satisfied in cash.

**4. MATERIAL LITIGATION****EPMB Group**

The EPMB Group is not engaged in any material litigation, claim or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of the EPMB Group and the Directors of EPMB are not aware of any proceedings, pending or threatened, against the Group or of any fact likely to give rise to any proceedings which might materially and adversely affect the position or business of the EPMB Group.

## **PEPS-JV**

Save as disclosed below, PEPS-JV is not engaged in any material litigation, claim or arbitration, either as plaintiff or defendant, which has a material effect on the financial position of PEPS-JV and the Directors of PEPS-JV are not aware of any proceedings, pending or threatened, against PEPS-JV or of any fact likely to give rise to any proceedings which might materially and adversely affect the position or business of PEPS-JV.

PEPS-JV received a letter of demand dated 18 March 2002 from the solicitors of Jehantech Sdn Bhd ("Jehantech") on an amount of RM1.2 million. Jehantech was the main contractor for the construction of the main factory for PEPS-JV that was completed on 15 March 1997. The amount of RM1.2 million billed by Jehantech was in respect of variation work incurred by Jehantech that PEPS-JV had not agreed. PEPS-JV has through a letter dated 27 March 2002 by PEPS-JV's solicitors, categorically denied Jehantech's claim and reserved PEPS-JV rights to institute claim/counterclaim against Jehantech upon finalising the actual losses incurred as a result of the approximate one-year delay by Jehantech in the completion of the construction works. There has been no further correspondence from Jehantech or its solicitors since the said letter of 27 March 2002. The Directors of PEPS-JV are of the opinion that, after taking into consideration the above, there are unlikely any proceedings to arise from this letter of demand.

## **5. DOCUMENTS AVAILABLE FOR INSPECTION**

The following documents or copies thereof are available for inspection during normal business hours at the registered office of the Company at No.8 & 10, Jalan Jurutera U1/23, Seksyen U1, Kawasan Perindustrian Hicom Glenmarie, 40150 Shah Alam, Selangor Darul Ehsan on Mondays to Fridays (except public holidays) from the date of this Circular up to and including the date of the EGM:

- (i) Memorandum and Articles of Association of EPMB;
- (ii) Memorandum and Articles of Association of PEPS-JV;
- (iii) The audited financial statements of the EPMB Group for the three (3) financial years ended 31 December 2001 and the unaudited results for the nine (9)-month period ended 30 September 2002;
- (iv) The audited financial statements of PEPS-JV for the three (3) financial years ended 31 March 2002 and the unaudited results for the seven (7)-month financial period ended 31 October 2002;
- (v) The Directors' Report on PEPS-JV as set out in Appendix IV of this Circular;
- (vi) The proforma consolidated balance sheets of the EPMB Group as at 31 December 2001 together with the notes and the Reporting Accountants' letter thereon as set out in Appendix V of this Circular;
- (vii) The Accountants' Report on PEPS-JV as set out in Appendix VI of this Circular;
- (viii) Profit estimate of PEPS-JV for the nine (9)-month financial period ended 31 December 2002 and profit forecast of PEPS-JV for the financial year ending 31 December 2003 together with the underlying assumptions and the reporting accountants' letter thereon as set out in Appendix VII of this Circular;
- (ix) The letters of consent referred to in Section 2 of this Appendix;
- (x) The material contracts referred to in Section 3 of this Appendix;
- (xi) The letter of demand referred to in Section 4 of this Appendix; and
- (xii) The draft deed poll to be executed by the Company for the EPMB Warrants.



## EP MANUFACTURING BHD

(Incorporated in Malaysia under the Companies Act, 1965)  
(Company No.: 390116-T)

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an Extraordinary General Meeting of EP Manufacturing Bhd (“EPMB” or the “Company”) will be held at Grand Blue Wave Hotel Shah Alam, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Saturday, 8 February 2003 at 10.00 a.m. for the purpose of considering and, if thought fit, passing the following Resolutions, with or without any modifications:

#### ORDINARY RESOLUTION 1 – PROPOSED ACQUISITION OF PEPS-JV

“**THAT**, subject to the approvals being obtained from the relevant authorities including the approval of the Kuala Lumpur Stock Exchange (“KLSE”) for the admission to the Official List of the KLSE, the listing of and quotation for the EPMB ICUPS (as defined below) and EPMB RCSPS (as defined below) and the listing of and quotation for the new ordinary shares of RM1.00 each in EPMB (“EPMB Shares”) to be issued pursuant to the conversion of the EPMB ICUPS and EPMB RCSPS, approval be and is hereby given to the Company to:

- (i) acquire 79.5% equity interest in PEPS-JV (M) Sdn. Bhd. (“PEPS-JV”) which shall comprise of 15,900,000 PEPS-JV Shares for a total purchase consideration of up to RM105,000,000 to be satisfied partly by cash payment of RM10,500,000 and the remaining through the issuance of up to 189,000,000 Irredeemable Convertible Unsecured Preference Shares of RM0.10 each in EPMB (“EPMB ICUPS”) at an issue price of RM0.50 per EPMB ICUPS upon the terms and conditions as set out in the conditional share sale agreement dated 26 February 2002 and 2 August 2002 entered into between EPMB and Mutual Concept Sdn Bhd (“Mutual Concept”) in relation to the proposed acquisition of the 15,900,000 PEPS-JV shares
- (ii) acquire 30,000,000 Redeemable Convertible Secured Preference Shares of RM1.00 each in PEPS-JV (“PEPS-JV RCSPS”) from Securita ABS One Berhad (“Securita”), a special purpose vehicle of Pengurusan Danaharta Nasional Berhad for a consideration of RM30,000,000 to be satisfied through the issuance of 60,000,000 Redeemable Convertible Secured Preference Shares of RM0.10 each in EPMB (“EPMB RCSPS”) at an issue price of RM0.50 per EPMB RCSPS upon the terms and conditions as set out in an agreement to be entered into between EPMB and Securita in relation to the proposed acquisition of the PEPS-JV RCSPS
- (iii) constitute and issue up to 189,000,000 EPMB ICUPS of which principal terms are set out in Section 3.1 of the Circular to the shareholders of EPMB dated 17 January 2003 and to allot and issue such new EPMB Shares to holders of the EPMB ICUPS who may have exercised their rights to convert EPMB ICUPS for the new EPMB Shares **AND THAT** the new EPMB Shares shall upon allotment and issue, rank pari passu in all respects with the existing EPMB Shares save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions, unless the allotment and issue of the new EPMB Shares were made on or prior to the entitlement date (i.e. the date as at the close of business in which the name of the shareholders must be entered in the Record of Depositors in order to be entitled to any dividends, rights, allotments and/or other distributions) and/or to adjust, from time to time, the conversion price and conversion rights as a consequence of the adjustments under the provisions of the Memorandum and Articles of the Company (“M&A”) and/or as may be required by the relevant authorities **AND THAT** in the event that the total number of holders of the EPMB ICUPS holding at least 1,000 EPMB ICUPS is less than one hundred (100), the Directors of the Company be and are hereby authorised to issue up to an additional 100,000 EPMB ICUPS to the primary subscriber(s) (to be identified) for the purpose of creating the public spread requirement imposed by the KLSE of not less than one hundred (100) holders holding at least 1,000 EPMB ICUPS

- (iv) constitute and issue up to 60,000,000 EPMB RCSPS of which principal terms are set out in Section 3.2 of the Circular to the shareholders of EPMB dated 17 January 2003 and to allot and issue such new EPMB Shares to holders of the EPMB RCSPS who may have exercised their rights to convert EPMB RCSPS for the new EPMB Shares **AND THAT** the new EPMB Shares shall upon allotment and issue, rank *pari passu* in all respects with the existing EPMB Shares save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions, unless the allotment and issue of the new EPMB Shares were made on or prior to the entitlement date (i.e. the date as at the close of business in which the name of the shareholders must be entered in the Record of Depositors in order to be entitled to any dividends, rights, allotments and/or other distributions) and/or to adjust, from time to time, the conversion price and conversion rights as a consequence of the adjustments under the provisions of the M&A and/or as may be required by the relevant authorities **AND THAT** in the event that the total number of holders of the EPMB RCSPS holding at least 1,000 EPMB RCSPS is less than one hundred (100), the Directors of the Company be and are hereby authorised to issue up to an additional 100,000 EPMB RCSPS to the primary subscriber(s) (to be identified) for the purpose of creating the public spread requirement imposed by the KLSE of not less than one hundred (100) holders holding at least 1,000 EPMB RCSPS

**AND FURTHER THAT** the Directors of the Company be and are hereby authorised to do all such acts and things as they may consider necessary or expedient to give effect to the Proposed Acquisition of PEPS-JV, including but not limited to the issuance of the EPMB ICUPS and EPMB RCSPS, in the interest of the Company with full power to assent to any conditions, modifications, variations and/or amendments as may be required by the relevant authorities, to execute all necessary agreements, deed and all relevant documents and to do and carry all such acts and things as they may consider necessary or expedient in the best interest of the Company.”

#### **ORDINARY RESOLUTION 2 – PROPOSED EPMB ICUPS OFFER FOR SALE**

“**THAT** subject to the passing of Ordinary Resolution 1 and subject to the approval of the relevant authorities, the Directors of the Company be and are hereby authorised to facilitate the proposed renounceable offer for sale of up to 94,500,000 EPMB ICUPS to the shareholders of EPMB, excluding Mutual Concept and its shareholders, at a maximum offer price of RM0.50 per EPMB ICUPS payable in full upon acceptance, on a date to be determined and announced later

**AND FURTHER THAT** the Directors of the Company be and are hereby authorised to do all such acts and things as they may consider necessary or expedient to give effect to the Proposed EPMB ICUPS Offer for Sale with full power to assent to any conditions, modifications, variations and/or amendments as may be required by the relevant authorities, to execute all necessary agreements, deed and all relevant documents and to do and carry all such acts and things as they may consider necessary or expedient in the best interest of the Company.”

#### **ORDINARY RESOLUTION 3 – PROPOSED EPMB RCSPS OFFER FOR SALE**

“**THAT** subject to the passing of Ordinary Resolution 1 and subject to the approval of the relevant authorities, the Directors of the Company be and are hereby authorised to facilitate the proposed renounceable offer for sale of up to 60,000,000 EPMB RCSPS to the shareholders of EPMB at an offer price of RM0.50 per EPMB RCSPS payable in full upon acceptance, on a date to be determined and announced later

**AND FURTHER THAT** the Directors of the Company be and are hereby authorised to do all such acts and things as they may consider necessary or expedient to give effect to the Proposed EPMB RCSPS Offer for Sale with full power to assent to any conditions, modifications, variations and/or amendments as may be required by the relevant authorities, to execute all necessary agreements, deed and all relevant documents and to do and carry all such acts and things as they may consider necessary or expedient in the best interest of the Company.”

#### **ORDINARY RESOLUTION 4 – PROPOSED RIGHTS ISSUE OF EPMB WARRANTS**

“**THAT**, subject to the approvals of the relevant authorities including the approval-in-principle of the KLSE for the admission of the new warrants of the Company to be issued hereunder (“EPMB Warrants”) to the Official List and the listing of and quotation for the EPMB Warrants and the new EPMB Shares to be issued pursuant to any exercise of the EPMB Warrants, approval be and is hereby given for the Company to:

- (i) constitute and issue the EPMB Warrants entitling the holder thereof at any time during the period of up to five (5) years following the date of allotment of the EPMB Warrants to subscribe for one (1) new EPMB Share at an issue price to be determined at a later date subject to any adjustments under the provisions of the deed poll constituting the EPMB Warrants;
- (ii) constitute and issue such additional EPMB Warrants as may be required to be issued pursuant to any adjustments under the provisions of the deed poll constituting the EPMB Warrants ("Further EPMB Warrants");
- (iii) implement a renounceable rights issue of up to 21,945,000 EPMB Warrants on the basis of one (1) EPMB Warrant for every two (2) EPMB Shares held at an issue price to be determined at a later date; and
- (iv) allot and issue up to 21,945,000 new EPMB Shares to holders of the EPMB Warrants who may have exercised their rights to subscribe for the new EPMB Shares in accordance with (i) above and such appropriate number of new EPMB Shares arising from the exercise of subscription rights represented by such Further EPMB Warrants as may be required to be issued pursuant to any adjustment under the terms of the deed poll constituting the EPMB Warrants **AND THAT** the new EPMB Shares and such further new EPMB Shares to be issued upon the exercise of any Further EPMB Warrants will upon allotment and issue, rank pari passu in all respects with the existing EPMB Shares save and except that they shall not be entitled to any dividends, rights, allotments and other distributions, the entitlement date of which precedes the date of allotment of the new EPMB Shares as the case may be;

**AND THAT** the EPMB Warrants shall be issued in registered form and constituted by a deed poll ("Deed Poll"), where each EPMB Warrant shall entitle its holder at any time during the period of five (5) years commencing from the date of issue of the EPMB Warrants to subscribe for one (1) new EPMB Share at an exercise price to be determined at a later date or such other exercise price as may be determined by the Board of Directors in accordance with the requirements of the Securities Commission, subject to any adjustments in accordance with the provisions of the Deed Poll

**AND THAT** in the event that the total number of holders of the EPMB Warrants holding at least 1,000 EPMB Warrants is less than one hundred (100), the Directors of the Company be and are hereby authorised to issue up to an additional 100,000 EPMB Warrants to the primary subscriber(s) (to be identified) at an issue price to be determined at a later date using the applicable valuation methodology for the purpose of creating the public spread requirement imposed by the KLSE of not less than one hundred (100) holders of EPMB Warrants holding at least 1,000 EPMB Warrants.

**AND THAT** the Directors be and are hereby authorised to provisionally allot the EPMB Warrants to the registered shareholders of the Company whose names appear in the Record of Depositors at the close of business on a date to be determined by the Directors as they may in their discretion deem fit and expedient in the interest of the Company **AND THAT** any fractional EPMB Warrants shall be disregarded and the aggregate of such fractions are to be dealt with on such terms and at such time as the Directors deem fit for the benefit of the Company **AND THAT** the Proposed Rights Issue of EPMB Warrants is subject to such exclusions or arrangements as the Directors may deem necessary or expedient to deal with any legal or practical problems under the laws of any overseas territory or the requirements of any stock exchange **AND FURTHER THAT** the Directors be and are hereby authorised to do all such acts and things as they may consider necessary or expedient to give effect to the Proposed Rights Issue of EPMB Warrants in the interest of the Company with full power to assent to any conditions, modifications, variations and/or amendments as may be required by the relevant authorities."

**SPECIAL RESOLUTION 1 - PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL  
("PROPOSED CAPITAL INCREASE")**

**"THAT** the authorised share capital of the Company be and is hereby increased from RM95,000,000 divided into 95,000,000 EPMB Shares to RM500,000,000 comprising 470,000,000 EPMB Shares, 200,000,000 EPMB ICUPS and 100,000,000 EPMB RCSPS by the creation of additional 375,000,000 new EPMB Shares, 200,000,000 new EPMB ICUPS and 100,000,000 new EPMB RCSPS **AND THAT** the Company's Memorandum and Articles of Association be amended accordingly."

**SPECIAL RESOLUTION 2 - PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION (“PROPOSED M&A AMENDMENTS”)**

“**THAT**, subject to the approval by the KLSE and pursuant to Article 187 of the Company’s Articles of Association, the Memorandum and Articles of Association be and are hereby amended, the details of which are set out in Appendix III of the Circular to Shareholders dated 17 January 2003.

By Order of the Board

\_\_\_\_\_  
Kew Foong Tho (LS005759)  
Company Secretary

Shah Alam  
17 January 2003

*Notes:*

1. *A member entitled to attend and vote at the meeting is entitled to appoint any person or persons to be his proxy or proxies to attend and vote on his behalf, and where there are two (2) or more proxies, the number of shares to be represented by each proxy must be stated. The limitation on appointment of proxy under Section 149(1)(b) of the Companies Act 1965 shall apply to the Company.*
2. *Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the company standing to the credit of the said securities account.*
3. *The instrument appointing a proxy, in the case of an individual, shall be signed by the appointer or by his attorney duly authorised in writing, and in the case of a corporation, shall be either given under its common seal or under the hand of an officer or attorney of the corporation duly authorised.*
4. *The instrument appointing the proxy, with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of such power of attorney, must be deposited at the Registered Office of the Company at No. 8 & 10, Jalan Jurutera U1/23, Section U1, Kawasan Perindustrian Hicom Glenmarie, 40150 Shah Alam, Selangor Darul Ehsan not less than forty-eight (48) hours before the time set for holding the meeting or any adjournment thereof.*



# EP MANUFACTURING BHD

(Incorporated in Malaysia under the Companies Act, 1965)  
(Company No.: 390116-T)

## FORM OF PROXY

I/We, .....

of .....

being a member / members of the abovenamed company, hereby appoint .....

.....

of .....

or failing him/her, the Chairman of the meeting as my/our proxy to vote for me/us and on my/our behalf at the extraordinary general meeting of the Company to be held at Grand Blue Wave Hotel Shah Alam, Persiaran Perbandaran, Seksyen 14, 40000 Shah Alam, Selangor Darul Ehsan on Saturday, 8 February 2003 at 10.00 a.m. or at any adjournment thereof in respect of my/our holdings of shares in the manner indicated below:

NO.	ORDINARY RESOLUTIONS	FOR	AGAINST
1.	Proposed Acquisition of PEPS-JV		
2.	Proposed EPMB ICUPS Offer for Sale		
3.	Proposed EPMB RCSPS Offer for Sale		
4.	Proposed Rights Issue of EPMB Warrants		

NO.	SPECIAL RESOLUTIONS	FOR	AGAINST
1.	Proposed Capital Increase		
2.	Proposed M&A Amendments		

(Please indicate with an "X" in the spaces provided how you wish your proxy/proxies to vote. If you do not do so, this form will be taken to authorise the proxy/proxies to vote or abstain from voting as he/she thinks fit).

NUMBER OF SHARES HELD	
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.....  
Signature/Common seal of Shareholder

Dated this.....day of.....2003

### Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint any person or persons to be his proxy or proxies to attend and vote on his behalf, and where there are two (2) or more proxies, the number of shares to be represented by each proxy must be stated. The limitation on appointment of proxy under Section 149(1)(b) of the Companies Act 1965 shall apply to the Company.
2. Where a member is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, it may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the company standing to the credit of the said securities account.
3. The instrument appointing a proxy, in the case of an individual, shall be signed by the appointer or by his attorney duly authorised in writing, and in the case of a corporation, shall be either given under its common seal or under the hand of an officer or attorney of the corporation duly authorised.
4. The instrument appointing the proxy, with the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of such power of attorney, must be deposited at the Registered Office of the Company at No. 8 & 10, Jalan Jurutera U1/23, Section U1, Kawasan Perindustrian Hicom Glenmarie, 40150 Shah Alam, Selangor Darul Ehsan not less than forty-eight (48) hours before the time set for holding the meeting or any adjournment thereof.