

## 10. FINANCIAL INFORMATION

### 10.1 CONSOLIDATED INCOME STATEMENTS OF THE GROUP

The following table sets forth a summary of the consolidated income statement of the Group for the past five (5) financial years ended 30 June 2004 and the four (4) months period ended 31 October 2004. The consolidated income statement should be read in conjunction with the accompanying notes and assumptions included in the Reporting Accountants' Report set forth in section 11 of this Prospectus.

	<----- Financial years ended 30 June ----->					4 months period ended 31 October 2004
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	RM'000
Turnover	13,640	16,840	18,037	29,964	35,261	13,260
Consolidated profit before interest, depreciation, amortisation and taxation	4,802	3,240	6,037	8,542	7,926	1,760
Amortisation	(435)	(435)	(435)	(435)	(435)	(145)
Depreciation	(545)	(491)	(491)	(516)	(577)	(515)
Interest expense	(597)	(437)	(286)	(216)	(241)	(306)
Consolidated PBT after interest, depreciation and amortisation	3,225	1,877	4,825	7,375	6,673	794
Taxation	(505)	(621)	(737)	(438)	(397)	(164)
Consolidated PAT	2,720	1,256	4,088	6,937	6,276	630
Number of shares in the Company assumed in issue ('000)	3,300	3,300	3,300	3,300	3,432	3,432
Gross EPS (Sen)	97.7	56.9	146.2	223.5	194.4	69.4*
Net EPS (Sen)	82.4	38.1	123.9	210.2	182.9	55.1*

*Note:-*

\* Annualised

There were no exceptional or extraordinary items in the relevant financial periods under review. There were no items relating to the share of profits and losses of associated corporations and joint ventures and minority interest in the relevant financial periods under review. The Group's audited financial statements for the past five (5) FYE 30 June 2004 and the four (4) month period ended 31 October 2004 have not been subjected to any audit qualifications, save for FYE 30 June 2002 and 2003, where it was stated that the financial statements of C Inc. were prepared on the basis that it was a going concern was dependent on the continuing financial support of Carotech and on C Inc. attaining cash inflows to sustain its operations.

Detailed information on the consolidated income statements of the Group is set forth in sections 11 of this Prospectus.

**10. FINANCIAL INFORMATION (continued)****10.2 ANALYSIS AND COMMENTARY ON FINANCIAL INFORMATION**

The following analysis and commentary on financial information should be read in conjunction with the financial data presented in section 10.1 of this Prospectus.

**10.2.1 Segmental Data - Turnover**

	←-----Financial Years Ended 30 June----->										4 months ended 31 October 2004	
	2000		2001		2002		2003		2004		RM'000	%
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
<b>Market</b>												
Export	9,954	73.0	11,690	69.4	12,048	66.8	20,441	68.2	22,005	62.4	10,715	80.8
Local	3,686	27.0	5,150	30.6	5,989	33.2	9,523	31.8	13,256	37.6	2,545	19.2
<b>Total</b>	<b>13,640</b>	<b>100.0</b>	<b>16,840</b>	<b>100.0</b>	<b>18,037</b>	<b>100.0</b>	<b>29,964</b>	<b>100.0</b>	<b>35,261</b>	<b>100.0</b>	<b>13,260</b>	<b>100.0</b>
<b>Products</b>												
Phytonutrients	10,206	74.8	11,169	66.3	12,230	67.8	20,350	67.9	21,145	60.0	7,500	56.6
Oleochemicals	3,434	25.2	5,671	33.7	5,807	32.2	9,614	32.1	14,116	40.0	5,760	43.4
<b>Total</b>	<b>13,640</b>	<b>100.0</b>	<b>16,840</b>	<b>100.0</b>	<b>18,037</b>	<b>100.0</b>	<b>29,964</b>	<b>100.0</b>	<b>35,261</b>	<b>100.0</b>	<b>13,260</b>	<b>100.0</b>
<b>Source</b>												
Third parties	12,958	95.0	16,561	98.3	17,361	96.3	28,919	96.5	34,284	97.2	12,975	97.9
A fellow subsidiary	682	5.0	279	1.7	676	3.7	1,045	3.5	977	2.8	285	2.1
<b>Total</b>	<b>13,640</b>	<b>100.0</b>	<b>16,840</b>	<b>100.0</b>	<b>18,037</b>	<b>100.0</b>	<b>29,964</b>	<b>100.0</b>	<b>35,261</b>	<b>100.0</b>	<b>13,260</b>	<b>100.0</b>

**FYE 2001**

The increase in turnover was mainly due to the acquisition of C Inc. where C Inc. acts as the agency and marketing arm of the Group to promote its products. Furthermore, local sales continued to increase in FYE 2001. Total sales to the two major local customers in FYE 2001 amounted to RM4,300,000.

**FYE 2002**

The further improvement in turnover was mainly due to the increase in demand of the Group's products, in particular Tocomin (turnover of Tocomin for FYE 2002 was RM7.5 million while for FYE 2001, it was RM6.6 million). Sale of oleochemical products have also increased in FYE 2002 due to the increase in sales of Glycerine to overseas market. In addition, C Inc.'s trading sales of RM372,000 in FYE 2002 also contributed to the increase in turnover.

**FYE 2003**

The increase in turnover was mainly due to the increase in sale of phytonutrient products (namely Tocomin) and oleochemical products (namely Methyl Ester) coupled with increase in unit selling price for Methyl Ester. However, the increase in turnover is partially off set by a decrease in unit selling price for Tocomin. The Group managed to secure more sales from its three (3) main customers which amounted to RM14,400,000 during FYE2003.

**FYE 2004**

The increase in turnover was mainly due to the increase in quantity orders for its phytonutrient products coupled with the increase in unit selling price for Methyl Ester. However, the increase in turnover was partially off set by a decrease in order quantity for Caromin and decrease in unit selling price for Tocomin.

**Four (4) months period ended 31 October 2004**

The extrapolated result to 12 months show an increase in turnover, mainly due to the increase in prices coupled with the increase in quantity orders of Tocomin and Methyl Ester. However, the increase in turnover was partially off set by a decrease in order quantity for Caromin and Glycerine.

**10. FINANCIAL INFORMATION (continued)****10.2.2 Segmental Data -PBT**

	←-----Financial Years Ended 30 June----->										4 months ended 31 October 2004	
	2004 RM'000	%	2001 RM'000	%	2002 RM'000	%	2003 RM'000	%	2004 RM'000	%	RM'000	%
<b>Market</b>												
Export	2,353	73.0	1,303	69.4	3,223	66.8	5,031	68.2	4,164	62.4	642	80.8
Local	872	27.0	574	30.6	1,602	33.2	2,344	31.8	2,509	37.6	152	19.2
<b>Total</b>	<b>3,225</b>	<b>100.0</b>	<b>1,877</b>	<b>100.0</b>	<b>4,825</b>	<b>100.0</b>	<b>7,375</b>	<b>100.0</b>	<b>6,673</b>	<b>100.0</b>	<b>794</b>	<b>100.0</b>
<b>Products</b>												
Phytonutrients	2,413	74.8	1,245	66.3	3,272	67.8	5,009	67.9	4,002	60.0	449	56.6
Oleochemical	812	25.2	632	33.7	1,553	32.2	2,366	32.1	2,671	40.0	345	43.4
<b>Total</b>	<b>3,225</b>	<b>100.0</b>	<b>1,877</b>	<b>100.0</b>	<b>4,825</b>	<b>100.0</b>	<b>7,375</b>	<b>100.0</b>	<b>6,673</b>	<b>100.0</b>	<b>794</b>	<b>100.0</b>
<b>Source</b>												
External	3,064	95.0	1,846	98.3	4,644	96.3	7,118	96.5	6,488	97.2	777	97.9
A fellow subsidiary	161	5.0	31	1.7	181	3.7	257	3.5	185	2.8	17	2.1
<b>Total</b>	<b>3,225</b>	<b>100.0</b>	<b>1,877</b>	<b>100.0</b>	<b>4,825</b>	<b>100.0</b>	<b>7,375</b>	<b>100.0</b>	<b>6,673</b>	<b>100.0</b>	<b>794</b>	<b>100.0</b>

**FYE 2001**

The decrease in PBT was mainly due to the write down in valuation of inventory of RM1.16 million, partially offset by a write back of allowance for slow moving inventories of RM340,000. In addition, FYE 2001 was the first financial year where C Inc.'s results were included in the Carotech Group's consolidated results. The net effect of consolidation of C Inc. was a reduction in the consolidated net profit by RM930,000. The decrease in PBT was mitigated by a drop in finance cost with the continuous reduction in interest rates and bank borrowings of the Group.

**FYE 2002**

The improvement in PBT was in line with the increase in turnover. In addition, a further decrease in interest expense and staff cost also contributed to the increase in PBT. C Inc. managed to break even in FYE 2002.

**FYE 2003**

The increase in PBT was due to higher turnover achieved by the Group, despite the marginal decrease in gross profit margin due to the increase in prices of raw material purchased during FYE 2003.

**FYE 2004**

Despite the increase in turnover, the Group suffered a lower PBT due to higher cost of raw material i.e. CPO as well as production inefficiency arising from the commissioning of the new expansion plant.

**Four (4) months period ended 31 October 2004**

Despite the increase in turnover, the Group suffered a lower extrapolated PBT to 12 months due to higher cost of raw materials as well as disruptions to production arising from the commissioning and fine tuning of the production processes of the new expansion plant.

**Taxation****FYE 2000, FYE 2001, FYE 2002, FYE 2003 and FYE 2004**

Other than the under provision of taxation of RM311,000 in FYE 2001, the effective tax rates of the Group were lower than the statutory tax rate because of the tax incentives granted to Carotech. The tax losses of C Inc. were not available for set off against taxable profit of Carotech due to the non-availability of group relief.

**10. FINANCIAL INFORMATION (continued)****10.3 WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITY, MATERIAL COMMITMENT AND MATERIAL LITIGATION****10.3.1 Working capital**

The directors of the Company are of the opinion that, after taking into account the forecast consolidated cashflows, banking facilities available and the gross proceeds from the Public Issue, the Group will have adequate working capital for its foreseeable requirements for a period of 12 months after the date of issuance of this Prospectus.

**10.3.2 Borrowings**

As of 28 February 2005, being the last practicable date prior to the printing of this Prospectus, the Group does not have any outstanding borrowing, any other loan capital outstanding, loan capital created but unissued, or mortgage or charge outstanding, save for the following:-

Type of Borrowing	Amount Outstanding RM
<i>Short Term-interest bearing</i>	
Bankers' Acceptances	9,629,000
Overdraft	2,418,371
Hire-Purchase Facilities	2,097,210
Term Loan Facility	908,932
<i>Sub-Total</i>	<u>15,053,513</u>
<i>Add: Long Term- interest bearing</i>	
Hire-Purchase Facilities	8,289,286
Term Loan Facility	3,683,823
<i>Sub-Total</i>	<u>11,973,109</u>
<i>Total Borrowings</i>	<u>27,026,622</u>

In so far as the directors of the Company are aware, there has not been any default on payments of interest and/or principal sums in respect of any borrowings throughout the past one (1) financial year and the subsequent financial period thereof, immediately preceding the date of the prospectus. There are no foreign borrowings as at 28 February 2005.

**10.3.3 Contingent liability**

As of 28 February 2005, being the last practicable date prior to the printing of this Prospectus, the directors of the Company are not aware of any contingent liability incurred by the Company and/or its subsidiary which, upon becoming enforceable, may have a material impact on the financial position of the Group.

**10.3.4 Material commitment**

Save as disclosed below, as at 28 February 2005, being the last practicable date prior to the printing of this Prospectus, the directors of the Company are not aware of any material capital commitment contracted or known to be contracted by the Company and/or its subsidiary which, upon becoming enforceable, may have a material impact on the financial position of the Group:-

	RM'000
<b>Approved and contracted</b>	
Capital expenditure in respect of purchases of plant and machinery	1,384

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**10. FINANCIAL INFORMATION (continued)**

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**10.3.5 Material litigation**

As of 28 February 2005, being the last practicable date prior to the printing of this Prospectus, neither the Company nor its subsidiary is engaged in any litigation and/or arbitration, either as plaintiff or claimant, or defendant or respondent, which has a material effect on the financial position of the Company or its subsidiary, and the directors of the Company are not aware of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of the Company and/or its subsidiary.

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**10. FINANCIAL INFORMATION (continued)****10.4 CONSOLIDATED PROFIT FORECAST****(prepared for inclusion in this Prospectus)****CAROTECH BERHAD****CONSOLIDATED PROFIT FORECAST  
FOR THE FINANCIAL YEAR ENDING 30 JUNE 2005**

The Directors of Carotech Berhad ("Carotech" or "the Company") forecast that the consolidated profit after taxation of Carotech and its subsidiary ("the Group") after the Public Issue for the financial year ending 30 June 2005 to be as follows:

	<b>2005 RM'000</b>
Turnover	<u>50,802</u>
Consolidated profit before taxation	7,653
Taxation	<u>(451)</u>
Consolidated profit after taxation	<u>7,202</u>
Weighted average number of ordinary shares of RM0.10 each in issue ('000)	227,571
Basic earnings per RM0.10 share (sen)	3.16
Price - earnings multiple based on the issue price of RM0.40 per share	<u>12.66</u>

The consolidated profit forecast of Carotech for the financial year ending 30 June 2005 has been prepared based on the Directors' assessment of the present economic and operating conditions, and a number of best estimate assumptions regarding future events and actions which, at the date the forecast was approved, the Directors expect to take place. These future events may or may not take place.

A forecast, by its very nature, is subject to uncertainties and unexpected events, many of which may be outside the control of Carotech and its Directors. Also, events and circumstances often do not occur as anticipated, and therefore actual results are likely to differ from the forecast, and the differences may be material. Accordingly, the Directors cannot and do not guarantee the achievement of the consolidated profit forecast.

The consolidated profit forecast has been prepared based on accounting policies and bases consistent with those adopted by the Group.

The principal bases and assumptions upon which the consolidated profit forecast has been made are as follows:

- (1) There will be no significant changes to the prevailing economic and political conditions in Malaysia and elsewhere that will have direct or indirect adverse effects on the Group.

**10. FINANCIAL INFORMATION (continued)****CAROTECH BERHAD****CONSOLIDATED PROFIT FORECAST  
FOR THE FINANCIAL YEAR ENDING 30 JUNE 2005 (CONTINUED)**

- (2) The gross proceeds of RM30.676 million from the Public Issue are expected to be utilised by the Group as follows:

	<b>RM'000</b>
Repayment of bank borrowings	12,000
Working capital	17,176
Payment of estimated listing expenses	1,500
	<u>30,676</u>

Bank borrowings are expected to be repaid within 6 months from the receipt of Public Issue proceeds. The Public Issue proceeds earmarked for working capital will be utilised within 18 months from the receipt of funds.

- (3) The listing expenses estimated at RM1.5 million will be written off against the share premium account.
- (4) There will be no major breakdown or disruption in the trading and manufacturing facilities, industrial disputes, disruption from supplies of materials or any abnormal factors both domestic and overseas, which will adversely affect the operations of the Group or the markets in which it operates. The Group will continue to maintain its purchasing arrangements made with its existing suppliers.
- (5) The prices of raw materials in particular, crude palm oil and methanol, will not change materially from their prevailing levels and there will be no adverse time lag in supply scheduling.
- (6) There will be no material changes in the group structure and principal activities of the Group. The Group will be able to maintain its current customer base, secure additional new customers and achieve the market share anticipated. There will be minimal threat from new entrants into the market in which the Group operates. There will be no major sales returns or significant erosion in the selling prices and the sales forecasted will be achieved.
- (7) The value of contracts awarded to and fulfilled by the Group will be in line with the forecast level.
- (8) Production capacity and quantity produced will be sufficient to cover the sales quantities forecasted.
- (9) There will be no material changes in the accounting policies, key management and operating policies adopted by the Group.
- (10) There will be no major shortage in labour supply which would adversely affect the operations of the Group.

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**10. FINANCIAL INFORMATION (continued)**

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**CAROTECH BERHAD**

**CONSOLIDATED PROFIT FORECAST  
FOR THE FINANCIAL YEAR ENDING 30 JUNE 2005 (CONTINUED)**

- (11) There will be no significant changes in the prevailing inflation and exchange rates of foreign currencies. The exchange rate of US Dollar to Ringgit Malaysia will remain pegged at the prevailing level of USD1: RM3.80.
- (12) There will be no material changes to present legislation or Government regulations, rates and bases of duties, levies and taxes affecting the Group's activities.

The Company has been granted Incentive for High Technology Companies under the Promotion of Investments Act, 1986 for a period of 5 years from 1 December 2003 to 30 November 2008 for the development, testing and production of palm mixed carotenoids, palm tocotrienols, palm fatty acid methyl esters, crude glycerine and palm phyto sterols. Statutory income is fully exempted from income tax under this incentive.

- (13) Existing financing facilities will remain available to the Group at prevailing interest rates.
- (14) Other than inflationary increases, there will be no significant changes in administrative and overhead expenses, labour and other materials used in the operations and businesses of the Group.
- (15) The intellectual property rights of the Group are registered in certain jurisdictions. There will be no exploitation by third parties on these intellectual property rights in those jurisdictions in which they have not been registered or otherwise protected.
- (16) The tocotrienols industry is at its infancy stage. There will be no adverse event and development in this industry nor any negative publicity on palm oil products.
- (17) There will be no development of new applications, nor change in the collaboration arrangements with the research institutes for the continuous development of potential/new applications.
- (18) There will be no material acquisition or disposal of property, plant and equipment other than as planned in the consolidated profit forecast.



**10. FINANCIAL INFORMATION (continued)**

**10.5 REPORTING ACCOUNTANTS' LETTER ON THE CONSOLIDATED PROFIT FORECAST**

(Prepared for the inclusion in this Prospectus)



The Board of Directors  
Carotech Berhad  
121 Jalan Tunku Abdul Rahman  
(formerly known as Jalan Kuala Kangsar)  
30010 Ipoh  
Perak Darul Ridzuan

PricewaterhouseCoopers  
(AF 1146)  
Chartered Accountants  
1st Floor  
Standard Chartered Bank Chambers  
21-27 Jalan Dato' Maharaja Lela  
P O Box 136  
30170 Ipoh, Perak, Malaysia  
Telephone +60 5 254 9427/254 9545  
Facsimile +60 5 253 2366  
[www.pwc.com/my](http://www.pwc.com/my)

22 March 2005

Dear Sirs

**CAROTECH BERHAD  
CONSOLIDATED PROFIT FORECAST  
FOR THE FINANCIAL YEAR ENDING 30 JUNE 2005**

We have reviewed the accounting policies and the calculations for the consolidated profit forecast of Carotech Berhad ("Carotech") and its subsidiary (collectively known as "the Group"), for which the Directors are solely responsible, for the financial year ending 30 June 2005 as set out in section 10.4 of the Prospectus. The consolidated profit forecast is prepared in connection with the listing and quotation of the entire issued and fully paid share capital of 285,090,000 ordinary shares of RM0.10 each in Carotech on the MESDAQ Market of Bursa Malaysia Securities Berhad.

In our opinion, the consolidated profit forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the Directors as set out in the principal bases and assumptions of the consolidated profit forecast, and is presented on a basis consistent with the accounting policies normally adopted by the Group.

Yours faithfully

PRICEWATERHOUSECOOPERS  
[No. AF-1146]  
Chartered Accountants

LIM TEONG KEAN  
[No. 2499/12/05 (J)]  
Partner of the firm

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**10. FINANCIAL INFORMATION (continued)**

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**10.6 DIRECTORS' ANALYSIS OF THE CONSOLIDATED PROFIT FORECAST FOR THE FINANCIAL YEAR ENDING 30 JUNE 2005**

The Board of the Company has reviewed and analysed the bases and assumptions used in arriving at the consolidated profit forecast of the Group for the FYE 30 June 2005 and are of the opinion that the consolidated profit forecast is fair and reasonable in light of the prospects of the industry in which it operates and the future plans, strategies and prospects of the Group and after taking into consideration the forecast level of gearing, liquidity and working capital requirements of the Group.

The Group forecasts to achieve an aggregate turnover of approximately RM50.8 million (net of inter-company sales). This represents an improvement of 43.9% over the consolidated turnover for the FYE 2004 of RM35.3 million. The main reason for the increase in the turnover is due to increased demand for its product, based on the backlog of orders experienced. As a result of the increase in turnover, the consolidated PAT is forecasted to increase by 14.8% to approximately RM7.2 million for the FYE 30 June 2005, compared to FYE 30 June 2004.

**10.7 DIVIDEND ESTIMATE AND FORECAST**

It is the policy of the directors of the Company to recommend dividends to allow shareholders to participate in the profits of the Company as well as leaving adequate reserves for the future growth of the Group.

For the financial year end 30 June 2005, the directors of the Company do not intend to declare any dividend. Nevertheless, the directors will endeavour to declare dividends in the future.

Future dividends may be waived if:-

- (a) the Group is in a loss position for the relevant financial year; or
- (b) the Group has insufficient cash flows to meet any dividend payments.

Notwithstanding the above, the directors of the Company have full discretion not to propose any future dividend payment as and when deemed necessary, if it is in the best interest of the Company.

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**10. FINANCIAL INFORMATION (continued)****10.8 PROFORMA CONSOLIDATED BALANCE SHEET**

(prepared for inclusion in this Prospectus)

**CAROTECH BERHAD****PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 OCTOBER 2004**

The proforma consolidated balance sheets of Carotech Berhad ("Carotech" or "the Company") and its subsidiary ("the Group") as set out below are provided solely for illustrative purposes only to show the effects of the completed transactions and Public Issue of Carotech on the assumption that these transactions were completed on 31 October 2004.

	<b>Audited consolidated balance sheet of the Group as at 31 October 2004 RM'000</b>	<b>Proforma I Completed transactions RM'000</b>	<b>Proforma II After Proforma I and Public Issue RM'000</b>
<b>Non current assets</b>			
Property, plant and equipment	31,391	31,391	31,391
Product development expenditure	290	290	290
	<u>31,681</u>	<u>31,681</u>	<u>31,681</u>
<b>Current assets</b>			
Inventories	13,612	13,612	13,612
Trade and other debtors	9,221	9,221	9,221
Amount owing by Hovid	3,888	3,888	3,888
Tax recoverable	1,050	1,050	1,050
Cash and bank balances	1,073	1,073	18,249
	<u>28,844</u>	<u>28,844</u>	<u>46,020</u>
<b>Current liabilities</b>			
Trade and other creditors	4,684	4,684	4,684
Amount owing to Hovid	235	235	235
Bank overdrafts	4,448	4,448	4,448
Other bank borrowings	10,716	10,716	10,481
	<u>20,083</u>	<u>20,083</u>	<u>19,848</u>
<b>Net current assets</b>	<u>8,761</u>	<u>8,761</u>	<u>26,172</u>
<b>Non current liabilities</b>			
Other bank borrowings	11,765	11,765	0
Deferred taxation	930	930	930
	<u>12,695</u>	<u>12,695</u>	<u>930</u>
	<u>27,747</u>	<u>27,747</u>	<u>56,923</u>
<b>Capital and reserves</b>			
Share capital	3,432	20,840	28,509
Share premium	3,667	0	21,507
Retained earnings	20,648	6,907	6,907
	<u>27,747</u>	<u>27,747</u>	<u>56,923</u>
NTA per RM1.00 share (RM)	8.00	N/A	N/A
NTA per RM0.10 share (RM)	N/A	0.13	0.20

**10. FINANCIAL INFORMATION (continued)****CAROTECH BERHAD****PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 OCTOBER 2004****NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS**

## 1 Audited consolidated balance sheet of the Group

The consolidated balance sheet of the Group as at 31 October 2004 is extracted from the audited financial statements of the Group for the four months ended 31 October 2004.

## 2 Proforma Consolidated Balance Sheets

## 2.1 Basis of preparation

The proforma consolidated balance sheets have been prepared and presented based on accounting policies and bases consistent with those adopted by the Group in the preparation of the audited financial statements.

## 2.2 The proforma consolidated balance sheets have been prepared for illustrative purposes only to show the effects on the consolidated balance sheet of the Group as at 31 October 2004 had the following transactions been effected:

## (a) Proforma I

Proforma I incorporates the following completed transactions:

- Bonus issue of 17,408,100 new ordinary shares of RM1.00 each in Carotech on the basis of 5.0724 (rounded to 4 decimal places) new ordinary shares for every one existing ordinary share of RM1.00 each held in Carotech, capitalised from the share premium and retained earnings of Carotech.
- Sub-division of every ordinary share of RM1.00 each into 10 ordinary shares of RM0.10 each.

## (b) Proforma II

Proforma II incorporates Proforma I and the following adjustments:

Public Issue of 76,690,000 new ordinary shares of RM0.10 each at an issue price of RM0.40 per share.

For the purpose of the preparation of the Proforma II, the gross proceeds of RM30.676 million from the Public Issue will be utilised as follows:

	<b>RM'000</b>
Repayment of bank borrowings	12,000
Working capital	17,176
Payment of estimated listing expenses	1,500
	<u>30,676</u>

**10. FINANCIAL INFORMATION (continued)****CAROTECH BERHAD****PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 OCTOBER 2004****NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS (continued)**

## 3 Capital and reserves

	Share capital RM'000	Share premium RM'000	Retained earnings RM'000
As as 31 October 2004	3,432	3,667	20,648
Bonus issue of 17,408,100 new ordinary shares of RM1.00 each at par	17,408	(3,667)	(13,741)
As shown in Proforma I	<u>20,840</u>	<u>0</u>	<u>6,907</u>
Public Issue of 76,690,000 new ordinary shares of RM0.10 each at an issue price of RM0.40 per share	7,669	23,007	0
Estimated listing expenses	0	(1,500)	0
As shown in Proforma II	<u><u>28,509</u></u>	<u><u>21,507</u></u>	<u><u>6,907</u></u>

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**10. FINANCIAL INFORMATION (continued)**

**10.9 REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED BALANCE SHEET**

(Prepared for inclusion in this Prospectus)



The Board of Directors  
Carotech Berhad  
121 Jalan Tunku Abdul Rahman  
(formerly known as Jalan Kuala Kangsar)  
30010 Ipoh  
Perak Darul Ridzuan

22 March 2005

PricewaterhouseCoopers  
(AF 1146)  
Chartered Accountants  
1st Floor  
Standard Chartered Bank Chambers  
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P O Box 136  
30170 Ipoh, Perak, Malaysia  
Telephone +60 5 254 9427/254 9545  
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[www.pwc.com/my](http://www.pwc.com/my)

Dear Sirs

**CAROTECH BERHAD  
PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 OCTOBER 2004**

We have reviewed the proforma consolidated balance sheets of Carotech Berhad ("Carotech") and its subsidiary (collectively known as "the Group") as at 31 October 2004, together with the notes thereon for which the Directors are solely responsible, as set out in section 10.8 of the Prospectus. The proforma consolidated balance sheets are prepared in connection with the listing and quotation of the entire issued and fully paid share capital of 285,090,000 ordinary shares of RM0.10 each in Carotech on the MESDAQ Market of Bursa Malaysia Securities Berhad.

Based on the results of our review, we are of the opinion that:

- (a) the proforma consolidated balance sheets of the Group as at 31 October 2004 have been properly compiled on the bases set out in the notes to the proforma consolidated balance sheets;
- (b) such bases are consistent with the accounting policies adopted by the Group in the preparation of its audited consolidated financial statements for the four months ended 31 October 2004; and
- (c) the adjustments as set out in the notes to the proforma consolidated balance sheets are appropriate for the purpose of the preparation of the proforma consolidated balance sheets.

Yours faithfully

PRICEWATERHOUSECOOPERS  
[No. AF-1146]  
Chartered Accountants

LIM TEONG KEAN  
[No. 2499/12/05 (J)]  
Partner of the firm

**11. REPORTING ACCOUNTANTS' REPORT**

(Prepared for inclusion in this Prospectus)



The Board of Directors  
 Carotech Berhad  
 121 Jalan Tunku Abdul Rahman  
 (formerly known as Jalan Kuala Kangsar)  
 30010 Ipoh  
 Perak Darul Ridzuan

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22 March 2005

Dear Sirs

**1. Introduction**

The following Report has been prepared by PricewaterhouseCoopers, an approved company auditor for inclusion in the Prospectus of Carotech Berhad (hereafter referred to as "Carotech" or "the Company"), in connection with the Public Issue of 76,690,000 new ordinary shares of RM0.10 each at an issue price of RM0.40 per share and the listing and quotation of its entire enlarged issued and fully paid share capital of 285,090,000 ordinary shares of RM0.10 each on the MESDAQ Market of Bursa Malaysia Securities Berhad.

**2. General Information**

Carotech (formerly known as Carotech Sdn. Bhd.) was incorporated in Malaysia on 16 July 1990. On 5 December 2003, the Company converted into a public limited company and assumed its present name. The principal activity of Carotech is the extraction and processing of nutrients from palm oil for the purpose of manufacturing and producing pharmaceutical, phytonutrient and oleochemical products.

Carotech acquired the entire shareholdings of Carotech, Inc. ("C Inc") during the financial year ended 30 June 2001 with a cost of investment of RM370,500. Carotech and its subsidiary, C Inc are hereafter referred to as Carotech Group.

Details of this wholly owned subsidiary, which was incorporated in the United States of America ("USA") are as follows:

Name of company	Date of incorporation	Effective interest %	Principal activity
Carotech, Inc.	8 Oct 1999	100	Sales agency and marketing of pharmaceutical, phytonutrient and oleochemical products

**11. REPORTING ACCOUNTANTS' REPORT (continued)**
**Carotech Berhad  
Accountants' Report**
**2. General Information (continued)**

The address of the registered office and principal place of business of Carotech are as follows:

<u>Registered office</u>	<u>Principal place of business</u>
121 Jalan Tunku Abdul Rahman (formerly known as Jalan Kuala Kangsar) 30010 Ipoh Perak Darul Ridzuan	Lot 56442 7 ½ Mile Jalan Ipoh/Chemor 31200 Chemor Perak Darul Ridzuan

The principal place of business of C Inc is as follows:

21 Balmoral Court, Talmadge Village  
Edison, New Jersey  
08817 U.S.A.

The number of employees in the Group as at each financial year/period end is:

	<u>As at 30 June</u>					<u>As at 31 October</u>
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>
Number of employees	<u>50</u>	<u>66</u>	<u>80</u>	<u>72</u>	<u>118</u>	<u>130</u>

**3. Listing Exercise**

In conjunction with, and as an integral part of the listing of Carotech on the MESDAQ Market of the Bursa Malaysia Securities Berhad, the Company undertook the following listing scheme which was approved by the relevant authorities:

- (a) Carotech entered into a Conditional Sale and Purchase Agreement with Hovid Berhad ("Hovid") (formerly known as Hovid Sdn. Bhd.) on 22 December 2003 to acquire a piece of freehold land together with the erected buildings from Hovid valued at RM5,710,000 by an independent registered valuer for a cash consideration of RM5,710,000.

**11. REPORTING ACCOUNTANTS' REPORT (continued)**
**Carotech Berhad  
Accountants' Report**
**3. Listing Exercise (continued)**

- (b) disposal of shares by Ho Yan Hor Holdings Sdn. Bhd. ("HYH") and other shareholders of Carotech a total of their 69.9% shareholdings in Carotech, comprising 2,397,183 ordinary shares of RM1.00 each to Hovid.

Shareholders	Disposal of number of ordinary shares to Hovid
HYH	1,872,871
David Ho Sue San	80,001
Leong Weng Hoong	82,497
Commerce Asset Ventures Sdn Bhd	361,814
	<u>2,397,183</u>

- (c) bonus issue of 17,408,100 new ordinary shares of RM1.00 each in Carotech on the basis of 5.0724 (rounded to 4 decimal places) new ordinary shares for every one existing ordinary share of RM1.00 each held in Carotech.
- (d) sub-division of every ordinary share of RM1.00 each into 10 ordinary shares of RM0.10 each.
- (e) Public Issue of 76,690,000 new ordinary shares of RM0.10 each at an issue price of RM0.40 per share.

**4. Share Capital**

The authorised share capital of the Company at the date of incorporation was RM25,000 and was subsequently increased to RM5 million on 7 March 1997 and RM50 million on 17 November 2004.

**11. REPORTING ACCOUNTANTS' REPORT (continued)**

## Carotech Berhad Accountants' Report

### 4. Share Capital (continued)

The movements in the issued and fully paid share capital of the Company since its incorporation up to the date of this Report are as follows:

Date of allotment	No of shares allotted	Par value	Consideration	Total issued and fully paid share capital RM
16.7.1990	2	RM1	Subscriber shares for cash	2
28.9.1993	444,788	RM1	Cash	444,790
28.9.1993	400,000	RM1	Assignment of patent rights from Carotech Associates to Carotech	844,790
22.10.1993	155,210	RM1	Cash	1,000,000
7.3.1997	1,000,000	RM1	Allotment other than cash	2,000,000
12.2.1998	1,000,000	RM1	Allotment other than cash	3,000,000
25.8.1998	299,900	RM1	Cash	3,299,900
20.11.2003	132,000	RM1	Renounceable right issue on the basis of approximately one (1) new ordinary share for approximately twenty five (25) existing shares held	3,431,900
17.11.2004	17,408,100	RM1	Bonus issue on the basis of approximately 5.0724 new shares for every one existing shares held	20,840,000
17.11.2004	-	RM0.10	Share split	20,840,000

The new ordinary shares rank *pari passu* in all respects with the existing ordinary shares of the Company.

### 5. Financial Statements and Auditors

The financial statements included in this Report have been prepared under the historical cost convention except as disclosed in the summary of significant accounting policies. The financial statements comply with the applicable approved accounting standards in Malaysia ("MASB Standards"). The MASB Standards require the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the revenues and expenses during the reported financial year/period. Actual results could differ from those estimates.

The financial statements are the responsibility of the Company's directors. We are the auditors of Carotech for all the financial years/period relevant to this Report. The audited financial statements of Carotech for all the financial years/period under review were audited and reported on by us without any modification except for the financial years ended 30 June 2002 and 30 June 2003 whereat we drew attention to our audit reports of C Inc that the financial statements of C Inc are prepared on the basis that its going concern is dependent on the continuing financial support of the Company and on C Inc attaining cash inflows to sustain its operations.





## Carotech Berhad Accountants' Report

### 6. Basis of Presentation of Historical Financial Information

- (a) The financial statements included in this Report are based on the audited financial statements of Carotech Group. The comparative figures comprising the financial years ended 30 June 2000 to 30 June 2004 have been extended and incorporate additional disclosures in accordance with the requirements of the MASB Standards that are applicable up to the four months ended 31 October 2004.
- (b) The results and balances of its only subsidiary, C Inc for the four financial years ended 30 June 2004 and for the four months ended 31 October 2004 since its acquisition are insignificant to those of the Group as such there is no separate presentation of the financial statements of the Company for all the financial years/period under review.
- (c) The directors of Carotech are of the opinion that the financial statements are not significantly affected by transactions and balances between the companies to which they relate, except to the extent stated in the notes to their respective financial statements.

### 7. Summary of Significant Accounting Policies

The following accounting policies have been used consistently for the five financial years ended 30 June 2004 and for the four months ended 31 October 2004 in dealing with items which are considered to be material in relation to the financial statements.

#### (a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary made up to the end of the financial year/period. Subsidiary is a company in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from its activities.

Subsidiary is consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of the subsidiary acquired or disposed of are included in the consolidated income statement from the date of acquisition or up to the date of disposal. The difference between the acquisition cost and fair value of the net assets of the subsidiary at the date of acquisition is reflected as goodwill or reserve on consolidation.

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

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets as at date of disposal.



## Carotech Berhad Accountants' Report

### 7. Summary of Significant Accounting Policies (continued)

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

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

Freehold land and capital work in progress are not depreciated. Depreciation on assets under construction commences when the assets are ready for their intended use. All other property, plant and equipment are depreciated on a reducing balance basis to write off the cost of the assets to their residual values over their estimated useful lives at the following annual rates:

	%
Buildings	2
Plant and machinery	10
Office and laboratory equipment	10
Furniture, fittings and electrical installation	10 - 20
Motor vehicles	20

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds with their carrying amount and are included in profit from operations.

At each balance sheet date, the Company assesses whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

#### (c) Investment

Investment in a subsidiary is stated at cost. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

On disposal of an investment, the difference between the net disposal proceeds and its carrying amount is charged or credited to the income statement.

#### (d) Product development expenditure

Product development expenditure comprises expenses relating to the development projects of extraction and production of pharmaceutical products. These expenditure include labour, materials and services consumed and an allocation of overheads relating to development of such pharmaceutical products. The expenditure is amortised over the estimated economic lives of the products (not exceeding a period of 10 years) from the date production commences.

Where an indication of impairment exists, the carrying amount of the product development expenditure is assessed and written down to its recoverable amount.



## Carotech Berhad Accountants' Report

### 7. Summary of Significant Accounting Policies (continued)

#### (e) Impairment of assets

Property, plant and equipment and other non current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows.

The impairment loss is charged to the income statement and any subsequent increase in recoverable amount is also recognised in the income statement.

#### (f) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost of raw materials is determined on a weighted average basis. The cost of work in progress and finished goods is determined on the weighted average cost basis and includes cost of raw materials, direct labour and related production overheads.

Net realisable value is the estimate of the selling price in the ordinary course of business less costs of completion and selling expenses.

#### (g) Trade debtors and other debtors

Trade debtors and other debtors are carried at anticipated realisable value. Bad debts are written off in the financial year in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the end of the financial year/period.

#### (h) Hire-purchase creditors

Assets acquired under hire-purchase are included in property, plant and equipment and the capital elements of the hire-purchase instalments are shown as hire-purchase creditors. Each hire-purchase instalment is allocated between the liability and finance charges so as to achieve a periodic constant rate of interest on the balance outstanding. The corresponding instalment obligations, net of finance charges, are included in borrowings. The interest element of the finance charge is charged to the income statement over the hire-purchase period. Property, plant and equipment held under hire-purchase are depreciated over the useful lives of equivalent owned assets.



## Carotech Berhad Accountants' Report

### 7. Summary of Significant Accounting Policies (continued)

#### (i) Employee benefits

##### (i) Short term employee benefits

Wages, salaries, paid annual leave and bonuses are accrued in the financial year/period in which the associated services are rendered by employees of the Group.

##### (ii) Post-employment benefits

The Company contributes to the Employees Provident Fund (EPF), the national defined contribution plan. The contributions are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

#### (j) Income taxes

Current tax expense is determined according to the tax laws where the Group operates and includes all taxes based upon the taxable profits.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised.

Tax rate enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

#### (k) Borrowing costs

Borrowing costs incurred to finance the construction of property, plant and equipment are capitalised as part of the cost of the asset during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed to the income statements.

**11. REPORTING ACCOUNTANTS' REPORT (continued)**
**Carotech Berhad  
Accountants' Report**
**7. Summary of Significant Accounting Policies (continued)**
**(l) Foreign currencies**

Transactions in foreign currencies are converted into Ringgit Malaysia at the rates of exchange approximating those ruling at the transaction dates. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Ringgit Malaysia at the approximate rates ruling at that date.

Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

The foreign subsidiary's operations are not an integral part of the operations of the Company. Income statement of the foreign subsidiary is translated at average exchange rates for the financial year/period and the balance sheet is translated at exchange rates ruling at the balance sheet date. All resulting translation differences are taken to the exchange fluctuation reserve.

The principal closing rates used in translation of foreign currency amounts are as follows:

Foreign currency	As at 30 June					As at
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM	31 October 2004 RM
1 US Dollar ("USD")	3.80	3.80	3.80	3.80	3.80	3.80
1 Singapore Dollar ("SGD")	N/A	2.06	2.10	N/A	N/A	2.16
1 Euro	N/A	N/A	N/A	N/A	4.66	N/A
1 Sterling Pound ("GBP")	N/A	N/A	N/A	N/A	7.00	N/A

**(m) Revenue recognition**

Sales are recognised upon delivery of goods and customer acceptance, if any, net of returns and discounts allowed.

**(n) Cash and cash equivalents**

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





**Carotech Berhad  
Accountants' Report**

**7. Summary of Significant Accounting Policies (continued)**

**(o) Financial instruments**

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

**(i) Financial instruments recognised on the balance sheet**

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual policy statements associated with each item.

**(ii) Fair value estimation for disclosure purposes**

The fair values of financial liabilities with fixed interest rates are estimated by discounting the future contractual cash flows at the current market interest rates available to the Group for similar financial instruments. The carrying amounts of financial liabilities with floating interest rates are assumed to approximate their fair values.

The face values of financial assets (less any estimated credit adjustments) and financial liabilities with a maturity period of less than one year are assumed to approximate their fair values.

**(iii) Comparatives**

As permitted by MASB Standard 24 "Financial Instruments: Disclosure and Presentation", there are no disclosures of comparative figures required under this Standard prior to its adoption by the Group in the financial year ended 30 June 2003.

## 11. REPORTING ACCOUNTANTS' REPORT (continued)



## Carotech Berhad Accountants' Report

## 8. Carotech Group

## 8.1 Consolidated income statements

The consolidated income statements of Carotech Group for the five financial years ended 30 June 2004 and the four months ended 31 October 2004, which are based on the audited financial statements of the Group are as follows:

	Note	Financial year ended 30 June					4 months ended
		2000	2001	2002	2003	2004	31 October
	8.5	RM'000	RM'000	RM'000	RM'000	RM'000	2004
							RM'000
Revenue	1	13,640	16,840	18,037	29,964	35,261	13,260
Other operating income		277	209	50	70	172	44
Changes in inventories of work in progress and finished goods		2,869	(1,468)	3,719	(306)	(669)	4,894
Raw materials and consumables used		(7,829)	(6,677)	(9,597)	(12,780)	(19,285)	(11,625)
Cost of trading goods sold		0	0	(285)	(602)	(544)	(1,107)
Staff costs		(733)	(1,543)	(1,757)	(1,914)	(2,394)	(1,214)
Depreciation of property, plant and equipment		(545)	(491)	(491)	(516)	(577)	(515)
Amortisation of product development expenditure		(435)	(435)	(435)	(435)	(435)	(145)
Utilities and fuel		(905)	(961)	(1,059)	(1,330)	(1,493)	(1,008)
Research expenditure		(680)	(141)	(419)	(550)	(382)	(87)
Advertisement and promotions		(37)	(123)	(429)	(384)	(308)	(123)
Transportation and freight charges		(502)	(736)	(585)	(699)	(714)	(536)
Pre-operating expenses written off		0	(391)	0	0	0	0
Other operating expenses		(1,298)	(1,769)	(1,638)	(2,927)	(1,718)	(738)
<b>Profit from operations</b>	2	<b>3,822</b>	<b>2,314</b>	<b>5,111</b>	<b>7,591</b>	<b>6,914</b>	<b>1,100</b>
Finance cost	3	(597)	(437)	(286)	(216)	(241)	(306)
<b>Profit from ordinary activities before taxation</b>		<b>3,225</b>	<b>1,877</b>	<b>4,825</b>	<b>7,375</b>	<b>6,673</b>	<b>794</b>
Taxation	4	(505)	(621)	(737)	(438)	(397)	(164)
<b>Net profit for the financial year/period</b>		<b>2,720</b>	<b>1,256</b>	<b>4,088</b>	<b>6,937</b>	<b>6,276</b>	<b>630</b>
Basic earnings per RM1 share (RM)	5	0.82	0.38	1.24	2.10	1.86	0.18

## 11. REPORTING ACCOUNTANTS' REPORT (continued)



## Carotech Berhad Accountants' Report

### 8.2 Consolidated balance sheets

The consolidated balance sheets of Carotech Group as at 30 June 2000 to 30 June 2004 and as at 31 October 2004, which are based on the audited financial statements of the Group are as follows:

Note	As at 30 June					As at	
	2000	2001	2002	2003	2004	31 October	
8.5	RM'000	RM'000	RM'000	RM'000	RM'000	2004	
						RM'000	
<b>Non current assets</b>							
Property, plant and equipment	6	4,429	4,335	5,279	5,517	22,415	31,391
Product development expenditure	7	2,175	1,740	1,305	870	435	290
		6,604	6,075	6,584	6,387	22,850	31,681
<b>Current assets</b>							
Inventories	8	6,671	5,098	8,841	8,985	8,195	13,612
Trade and other debtors	9	2,740	4,613	3,981	3,543	8,920	8,193
Amount owing by HYH	10	0	0	0	0	1,018	1,028
Amount owing by a fellow subsidiary	11	1,359	1,772	2,403	6,387	7,525	3,888
Income tax recoverable		0	0	0	0	626	1,050
Cash and bank balances	12	1	1,152	1,323	2,691	1,026	1,073
		10,771	12,635	16,548	21,606	27,310	28,844
<b>Current liabilities</b>							
Trade and other creditors	13	884	1,301	1,933	3,033	4,665	4,683
Amounts owing to fellow subsidiaries	11	1,362	1,806	1,726	0	160	235
Hire-purchase creditors	14	591	500	520	172	1,690	1,809
Term loans	15	187	0	0	0	633	891
Bankers' acceptances	16	3,880	3,172	3,243	2,264	5,292	8,016
Bank overdrafts	17	547	640	635	749	986	4,448
Taxation		0	589	209	90	0	1
		7,451	8,008	8,266	6,308	13,426	20,083
<b>Net current assets</b>		3,320	4,627	8,282	15,298	13,884	8,761
<b>Non current liabilities</b>							
Hire-purchase creditors	14	991	508	229	314	6,394	7,771
Term loans	15	0	0	0	0	2,446	3,994
Deferred tax liabilities	18	505	510	865	662	777	930
		1,496	1,018	1,094	976	9,617	12,695
		8,428	9,684	13,772	20,709	27,117	27,747
<b>Capital and reserves</b>							
Share capital	19	3,300	3,300	3,300	3,300	3,432	3,432
Share premium		3,667	3,667	3,667	3,667	3,667	3,667
Retained earnings	20	1,461	2,717	6,805	13,742	20,018	20,648
		8,428	9,684	13,772	20,709	27,117	27,747
<b>Number of ordinary shares in issue as at 30 June/ 31 October ('000)</b>							
		3,300	3,300	3,300	3,300	3,432	3,432
<b>NTA per RM1 share (RM)</b>							
		1.89	2.41	3.78	6.01	7.77	8.00

## 11. REPORTING ACCOUNTANTS' REPORT (continued)



## Carotech Berhad Accountants' Report

### 8.3 Statements of changes in equity

The statements of changes in equity of Carotech Group for the five financial years ended 30 June 2004 and the four months ended 31 October 2004, which are based on the audited financial statements of the Group are as follows:

	Issued and fully paid ordinary shares of RM1 each		Share premium RM'000	Retained earnings RM'000	Total RM'000
	Number of shares '000	Share capital RM'000			
At 1 July 1999	3,300	3,300	3,667	(1,259)	5,708
Net profit for the financial year	0	0	0	2,720	2,720
At 30 June 2000	3,300	3,300	3,667	1,461	8,428
At 1 July 2000	3,300	3,300	3,667	1,461	8,428
Net profit for the financial year	0	0	0	1,256	1,256
At 30 June 2001	3,300	3,300	3,667	2,717	9,684
At 1 July 2001	3,300	3,300	3,667	2,717	9,684
Net profit for the financial year	0	0	0	4,088	4,088
At 30 June 2002	3,300	3,300	3,667	6,805	13,772
At 1 July 2002	3,300	3,300	3,667	6,805	13,772
Net profit for the financial year	0	0	0	6,937	6,937
At 30 June 2003	3,300	3,300	3,667	13,742	20,709
At 1 July 2003	3,300	3,300	3,667	13,742	20,709
Rights issue					
- issue of 132,000 ordinary shares of RM1 each at par	132	132	0	0	132
Net profit for the financial year	0	0	0	6,276	6,276
At 30 June 2004	3,432	3,432	3,667	20,018	27,117
At 1 July 2004	3,432	3,432	3,667	20,018	27,117
Net profit for the financial period	0	0	0	630	630
At 31 October 2004	3,432	3,432	3,667	20,648	27,747

## 11. REPORTING ACCOUNTANTS' REPORT (continued)


**Carotech Berhad  
Accountants' Report**
**8.4 Consolidated cash flow statement**

The consolidated cash flow statement of the Carotech Group for the four months ended 31 October 2004 which is based on the audited financial statements is as follows:

	4 months ended 31 October 2004 RM'000
<b>Operating activities</b>	
Net profit for the financial period	630
Adjustments for:	
Depreciation of property, plant and equipment	515
Interest expense	306
Interest income	(41)
Amortisation of product development expenditure	145
Taxation	164
	<u>1,719</u>
Net movements in working capital:	
Inventories	(5,417)
Trade and other debtors	728
Trade and other creditors	38
Intercompany balances	(283)
Cash generated used in operations	<u>(3,215)</u>
Interest paid	(429)
Interest received	1
Tax paid	(434)
Net cash flow used in operating activities	<u>(4,077)</u>
<b>Investing activities</b>	
Purchase of property, plant and equipment	(3,301)
Net cash flow used in investing activities	<u>(3,301)</u>
<b>Financing activities</b>	
Proceeds of bankers' acceptances	7,317
Repayments of bankers' acceptances	(4,593)
Repayments of term loans	(115)
Repayments of hire-purchase creditors	(500)
Repayment from a fellow subsidiary	1,854
Net cash flow from financing activities	<u>3,963</u>
<b>Net changes in cash and cash equivalents during the financial period</b>	<b>(3,415)</b>
Cash and cash equivalents at beginning of the financial period	40
Cash and cash equivalents at end of the financial period (Note 8.5.12)	<u>(3,375)</u>



## 11. REPORTING ACCOUNTANTS' REPORT (continued)



## Carotech Berhad Accountants' Report

### 8.5 Notes to the financial statements

#### 8.5.1 Revenue

Revenue represents sales of goods at invoiced value less rebates, returns and discounts allowed, after eliminating sales within the Group.

#### 8.5.2 Profit from operations

	Financial year ended 30 June					4 months ended 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
<b>Profit from operations is stated after charging:</b>						
Auditors' remuneration						
- current financial year/period	8	15	20	20	22	18
- under provision in prior financial year	3	0	0	0	0	0
Depreciation of property, plant and equipment	545	491	491	516	577	515
Rental of premises	180	255	245	329	329	66
Amortisation of product development expenditure	435	435	435	435	435	145
Inventories written off	0	0	0	283	0	0
Loss on foreign exchange - realised	*	0	6	9	1	0
<b>and crediting:</b>						
Interest income	0	0	4	61	128	41
Gain on foreign exchange - realised	0	31	0	0	0	4
Gain on disposal of property, plant and equipment	207	0	0	0	0	0
Included in the staff costs are:						
- director's remuneration	0	0	0	0	218	121
- defined contribution plan expenses ("DCP")	63	78	92	100	153	95
Included in the DCP are:						
- contributions in respect of a director	0	0	0	0	26	17
Cost of inventories of the Group recognised as an expense	8,818	12,064	10,433	17,898	24,629	10,666

\* Amount is less than RM500

## 11. REPORTING ACCOUNTANTS' REPORT (continued)



## Carotech Berhad Accountants' Report

## 8.5 Notes to the financial statements (continued)

## 8.5.3 Finance cost

	Financial year ended 30 June					4 months ended 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Total interest expense	597	437	286	216	346	410
Less: Interest expense capitalised into property plant and equipment (Note 8.5.6)	0	0	0	0	(105)	(104)
	<u>597</u>	<u>437</u>	<u>286</u>	<u>216</u>	<u>241</u>	<u>306</u>
This comprises interest expense on:						
- term loans	38	5	0	0	0	44
- bank overdrafts	127	67	63	19	43	25
- other borrowings	432	365	223	197	198	237
	<u>597</u>	<u>437</u>	<u>286</u>	<u>216</u>	<u>241</u>	<u>306</u>

## 8.5.4 Taxation

	Financial year ended 30 June					4 months ended 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Current financial year/period:						
- Malaysian income tax charge	0	305	412	643	298	11
- Foreign income tax charge	0	0	0	0	4	0
- Deferred tax charge/(credit) (Note 8.5.18)	505	5	355	(203)	115	153
	<u>505</u>	<u>310</u>	<u>767</u>	<u>440</u>	<u>417</u>	<u>164</u>
Under/(over) provision in respect of previous financial year						
	0	311	(30)	(2)	(20)	0
	<u>505</u>	<u>621</u>	<u>737</u>	<u>438</u>	<u>397</u>	<u>164</u>

## 11. REPORTING ACCOUNTANTS' REPORT (continued)


**Carotech Berhad**  
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## 8.5 Notes to the financial statements (continued)

## 8.5.4 Taxation (continued)

Numerical reconciliations between the average effective tax rate and the statutory tax rate of the Company are as shown below:

	Financial year ended 30 June					4 months ended
	2000	2001	2002	2003	2004	31 October
	%	%	%	%	%	2004
Statutory income tax rate of Malaysia	28	28	28	28	28	28
Tax effects of:						
- expenses not deductible for tax purposes	4	12	8	2	3	0
- tax incentives exemption	0	(24)	(20)	(24)	(25)	(28)
- interest income assessed separately	0	0	0	0	0	1
- utilisation of previously unrecognised tax losses	(16)	0	0	0	0	0
- deferred taxation	0	0	0	0	0	19
- under/(over) accrual in previous financial year	0	17	(1)	*	*	0
Average effective tax rate	16	33	15	6	6	20

\* Less than 1%

Subject to the agreement by the Department of the Treasury Internal Revenue Service, United States of America ("U.S.A."), the subsidiary of the Group has unutilised tax losses as at 31 October 2004 for which no deferred tax asset is recognised in the financial statements amounting to approximately RM600,000 (30 June 2004: RM600,000, 30 June 2003: RM662,000, 30 June 2002: RM662,000).

## 8.5.5 Basic earnings per RM1 share

Basic earnings per share of the Group is calculated by dividing the net profit for the financial year/period by the weighted average number of ordinary shares in issue during the financial year/period.

	Financial year ended 30 June					4 months ended
	2000	2001	2002	2003	2004	31 October
						2004
Net profit for the financial year/period (RM'000)	2,720	1,256	4,088	6,937	6,276	630
Weighted average number of ordinary shares in issue ('000)	3,300	3,300	3,300	3,300	3,377	3,432
Basic earnings per RM1 share (RM)	0.82	0.38	1.24	2.10	1.86	0.18

The Group has no potential dilutive ordinary shares as at 31 October 2004.

## 11. REPORTING ACCOUNTANTS' REPORT (continued)


**Carotech Berhad**  
**Accountants' Report**

## 8.5 Notes to the financial statements (continued)

## 8.5.6 Property, plant and equipment

	Freehold land RM'000	Buildings RM'000	Plant and equipment RM'000	Office and laboratory equipment RM'000	Furniture, fittings and electrical installation RM'000	Motor vehicles RM'000	Capital work in progress RM'000	Total RM'000
<u>2000</u>								
Cost								
At 1 July 1999	0	0	6,754	405	37	117	0	7,313
Additions	0	0	69	29	0	0	0	98
Disposals	0	0	(591)	0	0	0	0	(591)
At 30 June 2000	0	0	6,232	434	37	117	0	6,820
Less:								
Accumulated depreciation								
At 1 July 1999	0	0	1,804	130	19	25	0	1,978
Charge for the financial year	0	0	493	31	3	18	0	545
Disposals	0	0	(132)	0	0	0	0	(132)
At 30 June 2000	0	0	2,165	161	22	43	0	2,391
Net book value								
At 30 June 2000	0	0	4,067	273	15	74	0	4,429
<u>2001</u>								
Cost								
At 1 July 2000	0	0	6,232	434	37	117	0	6,820
Additions	0	0	171	223	3	0	0	397
At 30 June 2001	0	0	6,403	657	40	117	0	7,217
Less:								
Accumulated depreciation								
At 1 July 2000	0	0	2,165	161	22	43	0	2,391
Charge for the financial year	0	0	424	50	3	14	0	491
At 30 June 2001	0	0	2,589	211	25	57	0	2,882
Net book value								
At 30 June 2001	0	0	3,814	446	15	60	0	4,335

## 11. REPORTING ACCOUNTANTS' REPORT (continued)


**Carotech Berhad**  
**Accountants' Report**

## 8.5 Notes to the financial statements (continued)

## 8.5.6 Property, plant and equipment (continued)

	Freehold land RM'000	Buildings RM'000	Plant and equipment RM'000	Office and laboratory equipment RM'000	Furniture, fittings and electrical installation RM'000	Motor vehicles RM'000	Capital work in progress RM'000	Total RM'000
<u>2002</u>								
Cost								
At 1 July 2001	0	0	6,403	657	40	117	0	7,217
Additions	0	0	432	31	162	126	684	1,435
At 30 June 2002	0	0	6,835	688	202	243	684	8,652
Less:								
Accumulated depreciation								
At 1 July 2001	0	0	2,589	211	25	57	0	2,882
Charge for the financial year	0	0	411	47	9	24	0	491
At 30 June 2002	0	0	3,000	258	34	81	0	3,373
Net book value								
At 30 June 2002	0	0	3,835	430	168	162	684	5,279
<u>2003</u>								
Cost								
At 1 July 2002	0	0	6,835	688	202	243	684	8,652
Additions	0	0	265	47	50	294	98	754
At 30 June 2003	0	0	7,100	735	252	537	782	9,406
Less:								
Accumulated depreciation								
At 1 July 2002	0	0	3,000	258	34	81	0	3,373
Charge for the financial year	0	0	392	47	30	47	0	516
At 30 June 2003	0	0	3,392	305	64	128	0	3,889
Net book value								
At 30 June 2003	0	0	3,708	430	188	409	782	5,517



## 11. REPORTING ACCOUNTANTS' REPORT (continued)


**Carotech Berhad**  
**Accountants' Report**

## 8.5 Notes to the financial statements (continued)

## 8.5.6 Property, plant and equipment (continued)

	Freehold land RM'000	Buildings RM'000	Plant and equipment RM'000	Office and laboratory equipment RM'000	Furniture, fittings and electrical installation RM'000	Motor vehicles RM'000	Capital work in progress RM'000	Total RM'000
<u>2004</u>								
Cost								
At 1 July 2003	0	0	7,100	735	252	537	782	9,406
Additions	0	0	577	125	107	0	16,666	17,475
At 30 June 2004	0	0	7,677	860	359	537	17,448	26,881
Less:								
Accumulated depreciation								
At 1 July 2003	0	0	3,392	305	64	128	0	3,889
Charge for the financial year	0	0	413	48	34	82	0	577
At 30 June 2004	0	0	3,805	353	98	210	0	4,466
Net book value								
At 30 June 2004	0	0	3,872	507	261	327	17,448	22,415
<u>4 months ended 31 October 2004</u>								
Cost								
At 1 July 2004	0	0	7,677	860	359	537	17,448	26,881
Additions	4,740	970	60	121	53	0	3,547	9,491
Transfers	0	4,811	16,184	0	0	0	(20,995)	0
At 31 October 2004	4,740	5,781	23,921	981	412	537	0	36,372
Less:								
Accumulated depreciation								
At 1 July 2004	0	0	3,805	353	98	210	0	4,466
Charge for the financial period	0	19	442	19	13	22	0	515
At 31 October 2004	0	19	4,247	372	111	232	0	4,981
Net book value								
At 31 October 2004	4,740	5,762	19,674	609	301	305	0	31,391

## 11. REPORTING ACCOUNTANTS' REPORT (continued)


**Carotech Berhad**  
**Accountants' Report**

## 8.5 Notes to the financial statements (continued)

## 8.5.6 Property, plant and equipment (continued)

	Financial year ended 30 June					4 months ended 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Assets under hire-purchase						
Plant and equipment						
- additions during the financial year/period	0	0	206	0	0	2,221
- net book value as at 30 June/31 October	2,117	1,834	1,771	1,500	149	11,089
Motor vehicles						
- additions during the financial year/period	0	0	126	295	0	0
- net book value as at 30 June/31 October	74	59	113	371	296	277
Capital work in progress						
- additions during the financial year/period	0	0	0	0	7,920	0
- net book value as at 30 June/31 October	0	0	0	0	7,920	0

Interest expense on borrowings and director's remuneration directly related to factory buildings, plant and machinery under construction that have been capitalised within additions of the Group during the four months ended 31 October 2004 amounted to RM104,000 (30 June 2004: RM105,000) (Note 8.5.3) and RM62,000 (30 June 2004: RM210,000) respectively.

Net book value of property, plant and equipment pledged as securities for the credit facilities granted to the Company as disclosed in Notes 8.5.15 to 8.5.17 to the financial statements is as follows:

	As at 30 June					As at 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Net book value of property, plant and equipment of the Company pledged	4,430	4,326	5,267	5,503	22,401	31,375

The land title of the freehold land acquired during the four months ended 31 October 2004 has not been transferred and registered in the name of the Company as at 31 October 2004 as it is still awaiting approval from the relevant authorities.

## 11. REPORTING ACCOUNTANTS' REPORT (continued)



## Carotech Berhad Accountants' Report

## 8.5 Notes to the financial statements (continued)

## 8.5.7 Product development expenditure

	As at 30 June					As at 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
At cost	4,351	4,351	4,351	4,351	4,351	4,351
Less: Accumulated amortisation						
At 1 July	1,741	2,176	2,611	3,046	3,481	3,916
Amortisation during the financial year/period	435	435	435	435	435	145
At 30 June	2,176	2,611	3,046	3,481	3,916	4,061
Net book value	2,175	1,740	1,305	870	435	290

## 8.5.8 Inventories

	As at 30 June					As at 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
At cost,						
Raw materials	172	67	51	540	419	44
Work in progress	4,429	4,367	5,588	4,842	6,798	8,706
Finished goods	2,070	372	2,638	3,603	978	4,862
	6,671	4,806	8,277	8,985	8,195	13,612
At net realisable value,						
Work in progress	0	292	564	0	0	0
	6,671	5,098	8,841	8,985	8,195	13,612

## 8.5.9 Trade and other debtors

	As at 30 June					As at 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Trade debtors	2,249	4,302	3,826	3,062	8,142	7,107
Other debtors	441	168	101	77	337	73
Deposits	8	106	18	322	19	19
Prepayments	42	37	36	82	422	994
	2,740	4,613	3,981	3,543	8,920	8,193

Currency exposure profile of trade and other debtors:

RM		351	3,083	1,542
USD		2,788	5,396	5,638
		3,139	8,479	7,180

Credit terms for trade debtors (days)

	30-90	30-90	30-90
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## 11. REPORTING ACCOUNTANTS' REPORT (continued)



## Carotech Berhad Accountants' Report

## 8.5 Notes to the financial statements (continued)

## 8.5.9 Trade and other debtors (continued)

Concentration of credit risk with respect to trade debtors is limited due to the Group's broad customer base. The base is internationally dispersed, covers a wide spectrum of manufacturing and distribution sectors and has a variety of end markets. The Group's historical experience in collection shows full recovery with no major default. Due to this factor, management believes that there will not be any foreseeable collection losses inherent in the Group's trade debtors.

Included in deposits as at 30 June 2003 were deposits of RM304,000 paid for the purchase of property, plant and equipment with the remaining contracted sum included in capital commitments disclosed in Note 8.5.23.

## 8.5.10 Amount owing by HYH

The amount owing by HYH is in respect of non trade advances granted to HYH denominated in Ringgit Malaysia. It is unsecured with no fixed terms of repayment and carries an interest rate of 3.00% (30 June 2004: 3%) per annum.

## 8.5.11 Amounts owing by/(to) fellow subsidiaries

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Amount owing by:						
Trade account	1,359	1,772	2,403	3,089	3,603	3,888
Non trade account	0	0	0	3,298	3,922	0
	<u>1,359</u>	<u>1,772</u>	<u>2,403</u>	<u>6,387</u>	<u>7,525</u>	<u>3,888</u>
Amount owing to:						
Trade account	0	0	0	0	(160)	(162)
Non trade account	(1,362)	(1,806)	(1,726)	0	0	(73)
	<u>(1,362)</u>	<u>(1,806)</u>	<u>(1,726)</u>	<u>0</u>	<u>(160)</u>	<u>(235)</u>
Credit terms of trade accounts (days)				60-90	60-90	60-90

All the balances are denominated in Ringgit Malaysia.

The non trade amounts owing by and to are unsecured with no fixed terms of repayment and carry the following interest rates:

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	%	%	%	%	%	2004
						%
Interest rate per annum:						
Non trade amount owing by	N/A	N/A	N/A	3.00	3.00	3.00
Non trade amount owing to	8.80	8.80	0	N/A	N/A	N/A

## 11. REPORTING ACCOUNTANTS' REPORT (continued)


**Carotech Berhad**  
**Accountants' Report**

## 8.5 Notes to the financial statements (continued)

## 8.5.12 Cash and cash equivalents

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Cash and bank balances	1	1,152	1,323	2,691	1,026	1,073
Bank overdrafts (Note 8.5.17)	(547)	(640)	(635)	(749)	(986)	(4,448)
	<u>(546)</u>	<u>512</u>	<u>688</u>	<u>1,942</u>	<u>40</u>	<u>(3,375)</u>

Currency exposure profile of cash and bank balances:

RM				2,063	36	2
USD				628	990	1,071
				<u>2,691</u>	<u>1,026</u>	<u>1,073</u>

Included in the bank balances as at 30 June 2003, 30 June 2004 and 31 October 2004 are deposits of RM628,000, RM990,000 and RM1,071,000 respectively, placed with licensed banks which earn an average effective interest rate of 1.00% per annum.

## 8.5.13 Trade and other creditors

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Trade creditors	302	664	950	2,268	2,459	3,473
Other creditors and accruals	582	637	983	765	2,206	1,210
	<u>884</u>	<u>1,301</u>	<u>1,933</u>	<u>3,033</u>	<u>4,665</u>	<u>4,683</u>

Currency exposure profile:

RM				2,440	4,457	4,226
USD				593	149	454
Euro				0	40	0
GBP				0	19	0
SGD				0	0	3
				<u>3,033</u>	<u>4,665</u>	<u>4,683</u>

Credit terms of trade creditors (days)				<u>7-90</u>	<u>7-90</u>	<u>7-90</u>
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## 11. REPORTING ACCOUNTANTS' REPORT (continued)


**Carotech Berhad**  
**Accountants' Report**

## 8.5 Notes to the financial statements (continued)

## 8.5.14 Hire-purchase creditors

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Payable not later than one year	626	502	545	202	2,375	2,483
Payable later than one year and not later than five years	1,018	516	257	295	7,458	8,838
Payable later than five years	0	0	0	88	87	24
	1,644	1,018	802	585	9,920	11,345
Less: Finance charges	(62)	(10)	(53)	(99)	(1,836)	(1,765)
	1,582	1,008	749	486	8,084	9,580
Present value of hire-purchase creditors:						
Payable not later than one year	591	500	520	172	1,690	1,809
Payable later than one year and not later than five years	991	508	229	233	6,308	7,747
Payable later than five years	0	0	0	81	86	24
	991	508	229	314	6,394	7,771
	1,582	1,008	749	486	8,084	9,580
Fair value				427	8,202	9,298
Interest rates per annum (%)	8.30- 16.25	8.90- 17.22	8.90- 17.22	6.44- 11.08	6.44- 11.08	6.44- 11.08

All hire-purchase creditors are denominated in Ringgit Malaysia.

Hire-purchase creditors are effectively secured as the rights to the leased assets revert to the lessors in the event of default.



## 11. REPORTING ACCOUNTANTS' REPORT (continued)


**Carotech Berhad**  
**Accountants' Report**

## 8.5 Notes to the financial statements (continued)

## 8.5.15 Term loans

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Term loan 1	187	0	0	0	0	0
Term loan 2	0	0	0	0	3,079	3,885
Term loan 3	0	0	0	0	0	1,000
	<u>187</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,079</u>	<u>4,885</u>
Current liabilities						
Payable not later than one year	187	0	0	0	633	891
Non current liabilities						
Payable later than one year and not later than five years	0	0	0	0	2,446	3,994
	<u>187</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,079</u>	<u>4,885</u>
Fair value				0	3,079	4,770
Interest rates per annum (%)	<u>9.30-9.75</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>6.00</u>	<u>6.00</u>

Term loan 1 was secured by fixed and floating charges over all the assets of Carotech. It was repayable by 60 monthly instalments commencing October 1995 and was fully settled in the financial year ended 30 June 2001.

Term loans 2 and 3 are repayable over 60 monthly instalments commencing 1 September 2004 and 1 November 2004 respectively. They carry a fixed interest rate of 6.00% per annum, subject to the bank's right to vary the rate from time to time.

Term loans 2 and 3 are secured by fixed charge to be created over a piece of freehold industrial land with the buildings erected thereon ("Said Property") of the Company. Although the Company has fully settled the purchase consideration for the Said Property, the subdivision and transfer of the individual title is still awaiting approval from the relevant authorities. A deed of assignment on the Said Property in favour of the bank was entered into on 28 April 2004 as security for the term loans.

All balances are denominated in Ringgit Malaysia.

## 11. REPORTING ACCOUNTANTS' REPORT (continued)


**Carotech Berhad**  
**Accountants' Report**

## 8.5 Notes to the financial statements (continued)

## 8.5.16 Bankers' acceptances

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Secured	3,880	2,516	2,319	1,451	4,717	6,831
Unsecured	0	656	924	813	575	1,185
	<u>3,880</u>	<u>3,172</u>	<u>3,243</u>	<u>2,264</u>	<u>5,292</u>	<u>8,016</u>
Interest rates per annum (%)	<u>3.50-6.20</u>	<u>3.60-6.40</u>	<u>2.95-5.75</u>	<u>4.40-5.55</u>	<u>3.10-5.05</u>	<u>4.00-4.90</u>
Credit periods (days)				<u>88-119</u>	<u>58-141</u>	<u>88-147</u>

All balances are denominated in Ringgit Malaysia.

The secured bankers' acceptances of the Group are secured by debentures incorporating fixed and floating charges over all the assets of the Company.

## 8.5.17 Bank overdrafts

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Secured	547	200	464	400	896	3,468
Unsecured	0	440	171	349	90	980
	<u>547</u>	<u>640</u>	<u>635</u>	<u>749</u>	<u>986</u>	<u>4,448</u>
Interest rates per annum (%)	<u>8.80-9.25</u>	<u>8.80-9.30</u>	<u>8.40-9.05</u>	<u>8.00-8.25</u>	<u>7.25-8.50</u>	<u>7.25-8.50</u>

All balances are denominated in Ringgit Malaysia.

The secured bank overdrafts of the Group are secured by debentures incorporating fixed and floating charges over all the assets of the Company.

## 11. REPORTING ACCOUNTANTS' REPORT (continued)



## Carotech Berhad Accountants' Report

## 8.5 Notes to the financial statements (continued)

## 8.5.18 Deferred tax liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax relates to the same tax authority. The following amounts, after appropriate offsetting are shown in the balance sheets:

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Deferred tax liabilities						
- subject to income tax	505	510	865	662	777	930
At 1 July	0	505	510	865	662	777
Charged/(credited) to income statements:						
- property, plant and equipment	262	156	121	123	115	153
- intangible asset	543	(126)	(91)	(326)	0	0
- general provisions on slowing moving inventories	(96)	(229)	325	0	0	0
- unabsorbed tax losses	(204)	204	0	0	0	0
At 30 June/31 October	505	510	865	662	777	930
Subject to income tax:						
Deferred tax liabilities						
- property, plant and equipment	262	418	539	662	777	930
- intangible asset	543	417	326	0	0	0
Deferred tax liabilities (before offsetting)	805	835	865	662	777	930
Offsetting	(300)	(325)	0	0	0	0
Deferred tax liabilities (after offsetting)	505	510	865	662	777	930
Subject to income tax:						
Deferred tax assets						
- general provisions	(96)	(325)	0	0	0	0
- unabsorbed tax losses	(204)	0	0	0	0	0
Deferred tax assets (before offsetting)	(300)	(325)	0	0	0	0
Offsetting	300	325	0	0	0	0
Deferred tax assets (after offsetting)	0	0	0	0	0	0

## 11. REPORTING ACCOUNTANTS' REPORT (continued)



## Carotech Berhad Accountants' Report

### 8.5 Notes to the financial statements (continued)

#### 8.5.19 Share capital

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
Ordinary shares of RM1 each						
Authorised	5,000	5,000	5,000	5,000	5,000	5,000
Issued and fully paid						
At 1 July	3,300	3,300	3,300	3,300	3,300	3,432
Rights issue	0	0	0	0	132	0
At 30 June/31 October	3,300	3,300	3,300	3,300	3,432	3,432

During the financial year ended 30 June 2004, Carotech increased its issued and fully paid share capital by way of a renounceable rights issue of 132,000 new ordinary shares of RM1 each at par in connection with the listing exercise of the Company.

The newly issued shares rank pari passu in all respects with the existing issued ordinary shares of the Company.

#### 8.5.20 Retained earnings

Subject to the agreement by the Inland Revenue Board, the Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and exempt income account to frank dividends out of all its retained earnings as at 31 October 2004.

#### 8.5.21 Significant related party disclosures

The significant related parties and their relationship with the Company during the financial years/period under review are as follows:

<u>Related party</u>	<u>Relationship</u>
HYH	Immediate and ultimate holding company
Hovid	Fellow subsidiary
Hovid Pharmacy Sdn. Bhd.	Fellow subsidiary
Hovid Inc.	Fellow subsidiary
Hovid Teoranta	Fellow subsidiary
Carotech, Inc.	Subsidiary
Javid Sdn. Bhd.	A company in which a director has financial interest
Hovid Marketing Sdn. Bhd.	A company in which a director has financial interest
Ho Yan Hor (S) Pte. Ltd.	A company in which a director has financial interest
Fernwood Valley Sdn. Bhd.	A company in which a director has financial interest
Gao Shen Sdn. Bhd.	A company in which a director has financial interest
Falcon Plastic Sdn. Bhd.	A company in which a person connected with a director has financial interest
Chengdu Gao Shen Natural Products Co. Ltd. ("CGS")	A company in which a director has financial interest

## 11. REPORTING ACCOUNTANTS' REPORT (continued)


**Carotech Berhad  
Accountants' Report**
**8.5 Notes to the financial statements (continued)**
**8.5.21 Significant related party disclosures (continued)**

On 17 November 2004, Hovid became the holding company of the Company pursuant to disposal of shares by HYH and other shareholders of the Company to Hovid.

In addition to the related party disclosures mentioned elsewhere in the financial statements, the Group has the following significant transactions with related parties based on terms agreed between the parties:

	Financial year ended 30 June					4 months ended
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	31 October 2004 RM'000
<u>Hovid</u>						
Sales of goods	682	279	676	1,045	977	285
Rental expenses	180	180	180	264	264	44
Reallocation of common cost	0	0	42	1,035	389	115
Interest expenses	89	101	0	0	0	0
Interest income	0	0	0	58	109	29
Steam service income	0	0	0	0	570	120
Advances granted to Hovid	0	0	0	5,750	2,400	0
Purchase of freehold land and buildings	0	0	0	0	0	5,710
<u>CGS</u>						
Purchases of goods	0	0	69	830	1,182	1,771

The balances outstanding for the Group in connection with the transactions stated above are disclosed in Note 8.5.11.

**8.5.22 Tax incentives**

The Company has been granted pioneer status under the Promotion of Investments Act, 1986 for a period of 5 years from 1 December 1998 to 30 November 2003 for the production of carotenoids, Vitamin E (tocotrienols), crude glycerine and methyl esters. This incentive allowed the Company to enjoy an exemption of 70% of its statutory income from income tax during the said pioneer period.

Subsequently, the Company has been granted the Incentive for High Technology Companies under the Promotion of Investments Act, 1986 for a period of 5 years from 1 December 2003 to 30 November 2008 for the development, testing and production of palm mixed carotenoids, palm tocotrienols, palm fatty acid methyl esters, crude glycerine and palm phyto sterols. Statutory income is fully exempted from income tax under this incentive.



## 11. REPORTING ACCOUNTANTS' REPORT (continued)



## Carotech Berhad Accountants' Report

## 8.5 Notes to the financial statements (continued)

## 8.5.23 Capital commitments

Capital expenditure not provided for in the financial statements is as follows:

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Authorised and contracted:						
- freehold land and buildings	0	0	0	0	5,710	0
- buildings	0	0	0	0	1,128	0
- plant and equipment	0	185	52	865	530	384
	<u>0</u>	<u>185</u>	<u>52</u>	<u>865</u>	<u>7,368</u>	<u>384</u>
Authorised but not contracted:						
- building	0	0	0	350	0	0
- plant and equipment	0	0	0	3,658	0	0
- office and laboratory equipment	0	0	0	829	0	0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,837</u>	<u>0</u>	<u>0</u>

## 8.5.24 Contingent liability

The following disclosure was made in the statutory financial statements for the financial years ended 30 June 2001 and 2002:

On 11 April 2001, Inland Revenue Board ("IRB") assessed the Company for income tax amounting to approximately RM1,037,000 in respect of the financial year ended 30 June 2000 pending the approval of its application for pioneer status. An appeal was lodged against this assessment. The directors were of the opinion that the assessment was excessive and had consequently provided for income tax amounting to approximately RM311,000 in the financial statements. In the event that the Company's appeal was unsuccessful, the Company would have a liability for the remaining balance not provided for amounting to approximately RM726,000.

The IRB agreed to the assessment of RM311,000 in December 2002.

## 8.5.25 Non cash transactions

The principal non cash transactions of the Group during the financial year/period are the purchases of property, plant and equipment by means of the following:

	Financial year ended 30 June					4 months
	2000	2001	2002	2003	2004	ended
	RM'000	RM'000	RM'000	RM'000	RM'000	31 October
						2004
						RM'000
Hire-purchase	0	0	275	270	7,920	1,996
Term loan	0	0	0	0	3,079	1,921
	<u>0</u>	<u>0</u>	<u>275</u>	<u>270</u>	<u>11,019</u>	<u>3,917</u>

## 11. REPORTING ACCOUNTANTS' REPORT (continued)


**Carotech Berhad**  
**Accountants' Report**

## 8.5 Notes to the financial statements (continued)

## 8.5.26 Non cancellable operating lease commitments

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Not later than one year	0	0	0	44	44	22

The non cancellable operating lease commitments are in respect of a tenancy agreement committed by the subsidiary.

## 8.5.27 Financial instruments

## (i) Financial risk management objectives and policies

The Group's activities in the normal course of business expose it to a variety of financial risks, including foreign currency exchange risk, interest rate risk, credit risk, liquidity and cash flow risks. The Group's overall financial risk management objective is to minimise potential adverse effects of these risks on the financial performance of the Group. Financial risk management is carried out through risk reviews, internal control systems and adherence to prudent risk management policies. The Group does not trade in financial instruments. The nature of these risks and the Group's approaches in managing these risks are listed below:

## (a) Foreign currency exchange risk

The Group's exposure to foreign currency exchange risk arises from export of finished goods that are generally denominated in USD which is presently pegged at RM3.80 per 1USD.

## (b) Interest rate risk

The Group closely monitors the interest rates trends and decisions in respect of fixed or floating rate debt structure, and tenor of borrowings are made based on the expected interest rates trends and after consultations with the bankers.

## (c) Credit risk

Credit risk arises when sales are made on deferred credit terms. The Group seeks to control credit risk by setting counter-party limits and ensuring sales of products are made to customers with an appropriate credit history. The Group considers the risk of material loss in the event of non performance by a counter-party to be unlikely.



## Carotech Berhad Accountants' Report

### 8.5 Notes to the financial statements (continued)

#### 8.5.27 Financial instruments (continued)

(i) Financial risk management objectives and policies (continued)

(d) Market risk

The Group does not expect significant risk from changes in debt and equity prices.

(e) Liquidity and cash flow risk

Liquidity and cash flow risk is managed by maintaining an adequate level of cash reserves and committed credit facilities and close monitoring of working capital requirements. The Group seeks to maintain flexibility in funding by keeping committed credit lines available.

(ii) Fair values

The carrying amounts of financial assets and liabilities of the Group as at 30 June 2003, 30 June 2004 and 31 October 2004 approximated their fair values.

#### 8.5.28 Segment reporting

(a) Primary reporting format - business

The Group has only one business segment as it operates only in the phytonutrients industry. Disclosures required under the primary reporting format are presented in the income statements, balance sheets and notes to the financial statements respectively.

(b) Secondary reporting format - geographical segments

Although the Group's products are sold on a worldwide basis, the Group operates in three main geographical areas:

- (i) Asia & Asia Pacific region \*
- (ii) North and South America
- (iii) Europe

\* Company's home region

## 11. REPORTING ACCOUNTANTS' REPORT (continued)


**Carotech Berhad**  
**Accountants' Report**

## 8.5 Notes to the financial statements (continued)

## 8.5.28 Segment reporting (continued)

	Financial year ended 30 June					4 months ended
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
<b>Revenue</b>						RM'000
Asia and Asia Pacific region	5,156	7,595	7,238	11,746	15,507	3,261
North and South America	4,229	5,162	6,553	11,455	10,356	3,394
Europe	4,255	4,083	4,246	6,763	9,398	6,605
	<u>13,640</u>	<u>16,840</u>	<u>18,037</u>	<u>29,964</u>	<u>35,261</u>	<u>13,260</u>

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
<b>Total assets</b>						RM'000
Asia and Asia Pacific region	17,375	18,575	22,958	27,665	50,039	60,186
North and South America	0	135	174	328	121	339
Europe	0	0	0	0	0	0
	<u>17,375</u>	<u>18,710</u>	<u>23,132</u>	<u>27,993</u>	<u>50,160</u>	<u>60,525</u>

	Financial year ended 30 June					4 months ended
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
<b>Capital expenditure</b>						RM'000
Asia and Asia Pacific region	98	387	1,430	749	17,475	9,488
North and South America	0	10	5	5	0	3
Europe	0	0	0	0	0	0
	<u>98</u>	<u>397</u>	<u>1,435</u>	<u>754</u>	<u>17,475</u>	<u>9,491</u>

In determining the geographical segments of the Group, revenue is based on the country in which the customer is located. Total assets and capital expenditure are determined based on where the assets are located.

## 9. Dividend

The Company and its subsidiary have not paid or declared any dividend during the five financial years ended 30 June 2004 and the four months ended 31 October 2004 under review.

11. REPORTING ACCOUNTANTS' REPORT (continued)



**Carotech Berhad  
Accountants' Report**

10. **Statement of Assets and Liabilities**

The Statement of Assets and Liabilities based on the audited financial statements of the Group as at 31 October 2004 have been included in the consolidated balance sheets as stated in Note 8.2 above.

11. **Financial Statements**

No audited financial statements of Carotech and C Inc have been prepared in respect of any period subsequent to 31 October 2004.

12. **Significant Events Subsequent To Balance Sheet Date 31 October 2004**

- (a) On 17 November 2004, Hovid became the holding company of Carotech pursuant to the disposal of Carotech shares by HYH and other shareholders of Carotech as stated in Note 3(b) above.
- (b) On 17 November 2004, Carotech increased its authorised share capital from RM5 million to RM50 million, carried out a bonus issue of 17,408,100 new ordinary shares of RM1.00 each in Carotech on the basis of 5.0724 (rounded to 4 decimal places) new ordinary shares for every one existing ordinary share of RM1.00 each held in Carotech, and sub-divided its ordinary shares of RM1.00 each into 10 ordinary shares of RM0.10 each.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'PricewaterhouseCoopers' or similar, written in a cursive style.

PRICEWATERHOUSECOOPERS  
[No. AF-1146]  
Chartered Accountants

A handwritten signature in black ink, appearing to be 'LIM TEONG KEAN', written in a cursive style.

LIM TEONG KEAN  
[No. 2499/12/05 (J)]  
Partner of the firm