

**11. REPORTING ACCOUNTANTS' REPORT**

**Deloitte.**

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5 August 2005

Dear Sirs,

**1. INTRODUCTION**

This report has been prepared by Deloitte KassimChan, an approved company auditor, for inclusion in the Prospectus of ViTrox Corporation Berhad (hereinafter referred to as "ViTrox") dated 16 August 2005 in connection with the following:

- i. public issue of 17,600,000 new ordinary shares of 10 sen each by ViTrox at an issue price of 60 sen per ordinary share;
- ii. bonus issue of 62,000,000 new ordinary shares of 10 sen each to be capitalised from the share premium account arising from the public issue, on the basis of two (2) new ordinary shares of 10 sen each for every three (3) existing ordinary shares of 10 sen each held after the public issue but prior to the listing; and
- iii. listing of and quotation for the entire enlarged issued and paid-up share capital of ViTrox comprising 155,000,000 ordinary shares of 10 sen each on the MESDAQ Market of the Bursa Malaysia Securities Berhad ("Bursa Securities").

**2. GENERAL INFORMATION**

**2.1 Background**

ViTrox was incorporated in Malaysia as a private limited company on 22 April 2004 under the Companies Act, 1965 under the name of ViTrox Corporation Sdn. Bhd.. On 24 June 2004, ViTrox was converted to a public limited company under the name of ViTrox Corporation Berhad. ViTrox is principally involved in investment holding and engaged in research and development of machine vision products and services.

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)****2.2 Restructuring Scheme**

In conjunction with, and as an integral part of the listing of and quotation for the entire enlarged issued and paid-up share capital of ViTrox on the MESDAQ Market of Bursa Securities, ViTrox's restructuring scheme which was approved by Securities Commission on 9 March 2005 involves the following inter-conditional transactions:

- i. acquisition of the entire issued and fully paid-up share capital of ViTrox Technologies Sdn. Bhd. ("VTSB") comprising 500,000 ordinary shares of RM1.00 each for a total purchase consideration of RM7,542,012 satisfied by the issuance of 75,399,800 new ordinary shares of 10 sen each at an issue price per share of approximately 10 sen ("Acquisition");

The Acquisition was accounted for using the acquisition method of consolidation. The purchase consideration for the Acquisition was determined based on VTSB's audited net tangible assets as of December 31, 2003. The said acquisition was completed on 15 June 2005;

- ii. public issue of 17,600,000 new ordinary shares of 10 sen each by ViTrox at an issue price of 60 sen each ("Public Issue").

The gross proceeds of the Public Issue will be RM10,560,000 and are expected to be utilised as follows:

	RM
Repayment of financing of the acquisition of land and the construction of three double-storey office-cum-factory buildings	6,000,000
Purchase of R&D equipment	1,170,000
Regional offices set-up	1,869,600
Working capital	220,400
Estimated listing expenses	1,300,000
	10,560,000

A total of RM1,170,000 will be set aside for the purpose of purchasing R&D equipment such as camera, frame grabber, lens, scopes, personal computers, mechanical module, light source, electronics board for I/O, laser system and reference material which are essential to the Group's R&D plans.

The estimated listing expenses of RM1,300,000 are written off against the share premium account.

- iii. bonus issue of 62,000,000 new ordinary shares of 10 sen each in ViTrox to be capitalised from the share premium account arising from the public issue, on the basis of two (2) new ordinary shares of 10 sen each for every three (3) existing ordinary shares of 10 sen each held after the public issue but prior to the listing ("Bonus Issue"); and
- iv. listing of and quotation for the entire enlarged issued and paid-up share capital of ViTrox comprising 155,000,000 ordinary shares of 10 sen each on the MESDAQ Market of the Bursa Malaysia Securities Berhad ("Bursa Securities").

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)****2.3 Share Capital**

The authorised and issued and paid-up share capital of ViTrox as of the date of this report are as follows:

	No. of shares	Par value RM	Amount RM
<b>Authorised</b>			
Ordinary shares	250,000,000	0.10	25,000,000
<b>Issued and fully paid-up</b>			
Ordinary shares	75,400,000	0.10	7,540,000

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

Date of allotment	No. of ordinary shares allotted	Par Value RM	Consideration/ Type of issue	Total issued and paid-up share capital RM
22 April 2004	2	1.00	Subscribers' shares	2
27 May 2004	18	1.00	Cash	18
	<u>20</u>			<u>20</u>
28 May 2004	200	0.10	Sub-division of par value from RM1.00 per ordinary share to RM0.10 per ordinary share	20
15 April 2005	75,399,800	0.10	Consideration for the Acquisition	7,539,980
	<u>75,400,000</u>			<u>7,540,000</u>

Upon completion of the Public Issue and Bonus Issue, the issued and paid-up share capital of ViTrox would be increased to 155,000,000 ordinary shares of 10 sen each.

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)****2.4 Subsidiary Company**

Details of the subsidiary company of ViTrox as of the date of this report are as follows:

Name	Date/ Country of incorporation	Issued and paid-up share capital RM	Effective equity interest %	Principal activities
ViTrox Technologies Sdn. Bhd. ("VTSB")	3 March 2000/ Malaysia	500,000	100	Development and production of automated vision inspection system

**3. AUDITORS AND AUDITED FINANCIAL STATEMENTS**

We have been appointed as the statutory auditors of ViTrox since the date of its incorporation.

The financial statements of VTSB since the date of incorporation to 31 December 2002 were audited by another firm of auditors and its financial statements for the year/ period ended 31 December 2003, 2004 and 31 May 2005 were audited by Deloitte KassimChan, all were not subject to any qualification.

The financial statements of ViTrox and its subsidiary company ("ViTrox Group") have been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards in Malaysia.

**4. DIVIDENDS**

No dividends have been paid or declared by ViTrox since the date of its incorporation.

Details of dividends declared by VTSB for the period from 3 March 2000 (date of incorporation) to 31 December 2000 and over the past four (4) years ended 31 December 2004 and 5 months period ended 31 May 2005 are as follows:

Financial Years Ended	Issued and paid-up share capital RM	Interim/ final Dividend	Gross dividend per ordinary share Tax exempt RM	Net Dividend RM	Financial years in which dividend was/ will be paid
31.12.2002	500,000	First Interim	0.036	18,000	31.12.2002
31.12.2002	500,000	Second Interim	0.032	16,000	31.12.2002
31.12.2002	500,000	Third Interim	0.222	111,000	31.12.2002
31.12.2003	500,000	Interim	0.200	100,000	31.12.2004
31.12.2004	500,000	Final	3.000	1,500,000	31.12.2005

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)****5. SUMMARISED INCOME STATEMENTS****5.1 The Proforma Group**

The summarised proforma consolidated income statement of ViTrox Group for the period from 3 March 2000 to 31 December 2000 and past four (4) years ended 31 December 2004 and 5 months period ended 31 May 2005 have been prepared for illustrative purposes only after making such adjustments on cost of investments, intercompany balances and transactions that we consider necessary and assuming that the ViTrox Group has been in existence throughout the financial period/years under review.

	10 months ended 31 December 2000 RM'000	-----Financial year----- ended 31 December				5 months ended 31 May 2005 RM'000
		2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	
Revenue	3,428	2,654	3,983	6,571	13,648	4,707
Earnings before interest, depreciation and taxation	2,554	488	1,428	3,570	5,611	1,749
Interest expense	(4)	(30)	(35)	(35)	(43)	(16)
Depreciation expense	(30)	(156)	(177)	(276)	(499)	(209)
Profit before tax ("PBT")	2,520	302	1,216	3,259	5,069	1,524
Tax expense	-	(5)	(2)	(3)	(10)	(7)
Profit after tax	2,520	297	1,214	3,256	5,059	1,517
Number of ordinary shares assumed in issue before public issue and bonus issue ('000)	75,400	75,400	75,400	75,400	75,400	75,400
Gross earnings per ordinary share (sen)	3.34	0.40	1.61	4.32	6.72	2.02
Net earnings per ordinary share (sen)	3.34	0.39	1.61	4.32	6.71	2.01

**Notes:**

- i. The proforma consolidated income statement of ViTrox Group have been prepared based on the audited financial statements of ViTrox Group and assuming that the effective shareholdings in subsidiary company held by ViTrox as mentioned under Note 2.4 has been in effect throughout the financial period/years under review.
- ii. The revenue for the 10 months ended 31 December 2000 was RM3,428,000 was mainly due to the contribution of one of its products, being the Lead Vision System. The PBT amounting to RM2,520,000 is mainly due to ViTrox being able to price its products at a higher margin as their products are highly specialised.

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)**

- iii. The revenue declined by 23% for the year ended ("FYE") 2001 as a result of decrease in demand of its products due to economic turmoils which affected across semiconductor and electronics sectors. The PBT declined by more than 50% to RM302,000 due to the following:
  - (a) increment in manufacturing cost as the Group incurred engineering and fabrication charges for certain existing and new products and increase in research and development expenses; and
  - (b) full year administration expenses such as depreciation of property, plant and equipment in relation to the establishment of its R&D and production facilities, which was completed at the end of 2000.
- iv. The revenue increased by about RM1,329,000 or 50% for FYE 2002 due to the increase in demand of certain product lines in line with the demand for small integrated circuits which is on the increasing trend. In addition, the revenue increase was further enhanced by the launch of a new product namely Pad Vision System and establishment of demand on Package Vision System which was launched in FYE2001. The PBT increased by RM914,000 or more than 100% due to the economy of scale as a result of the increase in sales volume in line with the fixed cost nature of the direct labour and manufacturing overheads.
- v. For FYE 2003, the revenue increased by about RM2,588,000 or 65% due to increase in repeat orders from its existing customers, primarily on the Lead Vision System and Mark Vision System. In addition, the Group started to venture actively into the overseas market such as Taiwan and China, and launched several new products. The PBT increased by RM2,043,000 or more than 100% due to the economy of scale as a result of the increase in revenue volume.
- vi. For FYE 2004, the increase in revenue by RM7,077,000 or more than 100% was mainly due to favourable economic conditions in the semiconductor industry and increase in orders by both its existing local and overseas customers during the year. The Group enjoyed fruition of its proactive venture into the overseas market whereby its export portion of the revenue increased by more than 600% from the previous year. The PBT increased by RM1,810,000 or 56% due to the increase in revenue which is offset against the increase in staff cost such as salaries and bonus.
- vii. For 5 months period ended 31 May 2005, the revenue was RM4,707,000 which was mainly due to the contribution of two of its existing major products, being Lead Vision System and Mark Vision System. The lower revenue and PBT was mainly due to the decrease in overseas sales. The PBT amounting to RM1,524,000 which is slightly lower than the corresponding previous period was mainly due to increase in purchase price for certain components of its products.
- viii. There were no exceptional and extraordinary items during the financial period/years under review.
- ix. The effective tax rates of ViTrox Group for the past five financial years ended 31 December 2004 and 5 months period ended 31 May 2005 were lower than the statutory income tax rate mainly due to the pioneer status granted by the Ministry of International Trade and Industry to VTSB for the development and production of automated vision inspection system. Under this incentive, 100% of VTSB's statutory income derived from the development and production of automated vision inspection system are exempted from income tax for a period of five years from 1 September 2000 to 31 August 2005.

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)**

- x. The gross earnings per ordinary share have been calculated based on the proforma consolidated profit before tax divided by the enlarged issued and paid-up share capital of ViTrox of 155,000,000 ordinary shares of 10 sen each following the restructuring scheme mentioned under Note 2.2.
- xi. The net earnings per ordinary share have been calculated based on the proforma consolidated profit after tax divided by the enlarged issued and paid-up share capital of ViTrox of 155,000,000 ordinary shares of 10 sen each following the restructuring scheme mentioned under Note 2.2.

**5.2 ViTrox and its subsidiary company**

The summarised income statements of each company within the ViTrox Group for the relevant financial years/ periods are as follows:

**5.2.1 ViTrox**

	<b>9 months ended 31 December 2004 RM'000</b>	<b>5 months ended 31 May 2005 RM'000</b>
Revenue	-	297
(Loss)/ profit before interest, depreciation and amortisation	(4)	135
Interest expense	-	-
Depreciation expense	-	-
(Loss)/ profit before tax	(4)	135
Tax expense	-	-
(Loss)/ profit after tax	(4)	135
Weighted average number of ordinary shares in issue ('000)	0.2	0.2
Gross (loss)/ earnings per ordinary share (RM)	(20)	675
Net (loss)/ earnings per ordinary share (RM)	(20)	675

**Notes:**

- i. There are no extraordinary/ exceptional items during the financial period under review.
- ii. No provision for income tax was made for the 9 months ended 31 December 2004 as ViTrox has not commenced operations and incurred loss.

ViTrox was granted Multimedia Super Corridor ("MSC") status by the Multimedia Development Corporation Sdn. Bhd. ("MDC") on 11 August 2004 for the development of QFP/ SO 3D Vision Inspection System, Leadless Package Vision Inspection System, BGA 3D Vision Inspection System and Line Scan and Laser 3D Vision Inspection System.

By virtue of its MSC status, the Ministry of International Trade and Industry under the Promotion of Investment Act, 1986 granted ViTrox pioneer status for a period of five years. Upon expiration of the pioneer status period, ViTrox has the option to renew its status for another 5 years. 100% of ViTrox's statutory income derived from the development of pioneer products will be exempted from income tax for a period of 5 years from 25 January 2005 to 24 January 2010.

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)**

- iii. The gross (loss)/ earnings per ordinary share is calculated by dividing the loss before tax by the number of ordinary shares in issue as of the end of the period.
- iv. The net (loss)/ earnings per ordinary share is calculated by dividing the loss after tax by the number of ordinary shares in issue as of the end of the period.

**5.2.2 VTSB**

	-----Financial year-----					5 months ended 31 May 2005 RM'000
	10 months ended 31 December 2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	
Revenue	3,428	2,654	3,983	6,571	13,648	4,727
Earnings before interest, depreciation and taxation	2,554	488	1,428	3,570	5,615	1,614
Interest expense	(4)	(30)	(35)	(35)	(43)	(16)
Depreciation expense	(30)	(156)	(177)	(276)	(499)	(209)
Profit before tax	2,520	302	1,216	3,259	5,073	1,389
Income tax expense	-	(5)	(2)	(3)	(10)	(7)
Profit after tax	2,520	297	1,214	3,256	5,063	1,382
Weighted average number of ordinary shares in issue (*000)	417	500	500	500	500	500
Gross earnings per ordinary share (sen)	604.32	60.40	243.20	651.80	1,014.60	277.80
Net earnings per ordinary share (sen)	604.32	59.40	242.80	651.20	1,012.60	276.40

**Notes:**

- i. There are no extraordinary items/ exceptional items during the financial period/ years under review.
- ii. VTSB had been granted pioneer status by the Ministry of International Trade and Industry for the development and production of automated vision inspection system. Under this incentive, 100% of VTSB's statutory income derived from the development and production of automated vision inspection system are exempted from income tax for a period of five years from 1 September 2000 to 31 August 2005.
- iii. The gross earnings per ordinary share is calculated by dividing the profit before tax by the weighted average number of ordinary shares in issue during the financial period/ years.
- iv. The net earnings per ordinary share is calculated by dividing the profit after tax by the weighted average number of ordinary shares in issue during the financial period/ years.



**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)****6. SUMMARISED BALANCE SHEETS**

As the Acquisition stated in Note 2.2 of this report only took place on June 15, 2005, it is therefore impracticable to present the proforma balance sheets of ViTrox Group throughout the financial period/ years under review. The proforma financial position of ViTrox Group has been presented by way of proforma statement of assets and liabilities as of 31 May 2005 in Note 7 of this report based on the latest audited financial statements as of 31 May 2005 of ViTrox Group and based on the assumption that the restructuring scheme as mentioned under note 2.2 of this report had been effected on 31 May 2005.

The summarised balance sheet of each company within the ViTrox Group based on their audited financial statements as of the end of the relevant financial period/ years are as follows:

**6.1 ViTrox**

	<b>As of 31 December 2004 RM'000</b>	<b>As of 31 May 2005 RM'000</b>
Current assets	282	787
Current liabilities	(286)	(656)
	<u>(4)</u>	<u>131</u>
Share capital	-	-
(Accumulated losses)/ Retained profit	(4)	131
	<u>(4)</u>	<u>131</u>
Number of ordinary shares in issue ('000)	0.2	0.2
Net tangible (liabilities)/ assets per ordinary share (RM)	(20)	655

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)****6.2 VTSB**

	----- As of 31 December-----					As of 31
	2000	2001	2002	2003	2004	May
	RM'000	RM'000	RM'000	RM'000	RM'000	2005
						RM'000
Property, plant and equipment	1,271	1,944	1,921	2,248	2,681	3,049
Current assets	3,628	2,224	3,127	6,830	11,895	13,038
Current liabilities	(1,487)	(411)	(320)	(1,175)	(1,579)	(1,716)
Net current assets	2,141	1,813	2,807	5,655	10,316	11,322
	3,412	3,757	4,728	7,903	12,997	14,371
Share capital	500	500	500	500	500	500
Proposed dividend	-	-	-	-	-	*1,500
Retained profit	2,520	2,817	3,886	7,042	12,105	11,988
Shareholders' equity	3,020	3,317	4,386	7,542	12,605	13,988
Long-term liabilities	392	440	342	361	392	383
	3,412	3,757	4,728	7,903	12,997	14,371
Number of ordinary shares of RM1.00 each ('000)	500	500	500	500	500	500
Net tangible assets per ordinary share (RM)	6.04	6.63	8.77	15.08	25.21	27.98

\* VTSB had proposed a final tax exempt dividend of RM3 per ordinary share, in respect of the financial year ended 31 December 2004 amounting to RM1,500,000 to its former shareholders. Such dividend was approved by the Securities Commission on 9 June 2005, was declared payable on 13 June 2005 and paid on 15 July 2005, prior to the listing of ViTrox on the MESDAQ market of Bursa Securities.

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)****7. STATEMENT OF ASSETS AND LIABILITIES**

The following are the detailed statement of assets and liabilities of ViTrox and its subsidiary ("Proforma Group") which have been prepared for illustrative purposes only and based on the audited financial statements of ViTrox ("the Company") and VTSB as of 31 May 2005. The statement of assets and liabilities of the Proforma Group have been prepared based on the assumption that the restructuring scheme as mentioned under Note 2.2 had been effected on 31 May 2005 and should be read in conjunction with the notes thereon.

	Note	ViTrox RM'000	Proforma Group RM'000
<b>PROPERTY, PLANT AND EQUIPMENT</b>	9.3	-	9,049
<b>CURRENT ASSETS</b>			
Inventories	9.4	-	2,068
Trade receivables	9.5	297	2,008
Other receivables and prepaid expenses	9.6	490	1,631
Short-term deposits with licensed banks		-	4,242
Cash and bank balances		*	4,685
<b>Total Current Assets</b>		787	14,634
<b>CURRENT LIABILITIES</b>			
Trade payables	9.7	-	428
Other payables and accrued expenses	9.8	656	793
Hire-purchase payables	9.9	-	107
Long-term loan - current portion	9.10	-	85
Tax liabilities		-	9
<b>Total Current Liabilities</b>		656	1,422
<b>NET CURRENT (LIABILITIES)/ ASSETS</b>		131	13,212
		131	22,261
<b>SHARE CAPITAL</b>	9.11	*	15,500
<b>RESERVES</b>	9.12	131	6,378
<b>SHAREHOLDERS' EQUITY</b>		131	21,878
<b>LONG TERM LIABILITIES</b>			
Hire-purchase payables	9.9	-	330
Long-term loan	9.10	-	53
<b>Total Long-Term Liabilities</b>		-	383
		131	22,261
Par value per ordinary share (sen)		10	10
Number of ordinary shares assumed in issue ('000)		0.200	155,000
Net Tangible Assets (RM'000)		131	21,878
Net Tangible Assets per ordinary share (sen)		655	14

\* RM20

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)****8. PROFORMA CONSOLIDATED CASH FLOW STATEMENT**

The following are the proforma consolidated cash flow statement of ViTrox and its subsidiary ("Proforma Group") which have been prepared for illustrative purposes only and based on the audited financial statements of ViTrox ("the Company") and VTSB for the 5 months period ended 31 May 2005. The proforma consolidated cash flow statement of the Proforma Group have been prepared on the assumption that the Proforma Group had been in existence throughout the said financial period and based on the assumption that the restructuring scheme as shown in note 2.2 had been effected.

	<b>Proforma Group</b>
	<b>RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Profit before tax	1,524
Adjustments for:	
Depreciation of property, plant and equipment	209
Interest expense	16
Interest income	(48)
	<hr/>
Operating profit before working capital changes	1,701
(Increase)/ Decrease in:	
Inventories	134
Trade receivables	1,294
Other receivables and prepaid expenses	(41)
Increase/ (Decrease) in:	
Trade payables	223
Other payables and accrued expenses	(639)
	<hr/>
Cash generated from operations	2,672
Tax paid	(3)
	<hr/>
Net cash generated from operating activities	2,669
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	48
Purchase of property, plant and equipment	(6,510)
	<hr/>
Net cash used in investing activities	(6,462)

(FORWARD)

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)**

	<b>Proforma Group RM'000</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from public issue	10,560
Dividends paid	(1,500)
Listing expenses paid	(810)
Repayment of term loan	(66)
Repayment of hire-purchase payables	(40)
Interest paid	(16)
Net cash generated from financing activities	8,128
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	4,335
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	4,592
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>8,927</b>
<b>Cash and cash equivalents comprise of:</b>	
Cash and bank balances	4,685
Fixed deposits with licensed banks	4,242
	<b>8,927</b>

**9. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES****9.1 BASIS OF PREPARATION OF STATEMENT OF ASSETS AND LIABILITIES**

The statement of assets and liabilities has been prepared in accordance with the provisions of the Companies Act, 1965 and the applicable approved accounting standards of the Malaysian Accounting Standards Board.

**9.2 SIGNIFICANT ACCOUNTING POLICIES****Basis of Accounting**

The financial statements of the Group and of the Company have been prepared under the historical cost convention unless stated otherwise in the accounting policies mentioned below.

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)****Basis of Consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiary company made up to the end of the financial period. All significant intercompany transactions, balances and resulting unrealised gains are eliminated on consolidation. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The Group adopts the acquisition method of consolidation. On acquisition, the assets and liabilities of the relevant subsidiary company are measured at its fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiary company acquired or disposed of during the financial period are included in the consolidated financial statements from the effective date of acquisition or up to the effective date of disposal.

Negative goodwill on consolidation which represents the excess of the Group's interest in the fair value of the identifiable net assets of the subsidiary company at the date of acquisition over the cost of acquisition is written off to the consolidated income statement.

**Revenue and Revenue Recognition**

Revenue of the Group and of the Company represents gross invoiced values of goods sold less returns and discounts.

Sales of goods are recognised upon delivery of products and when the risks and rewards of ownership have passed. Interest income and other revenue are recognised on an accrual basis.

**Foreign Currency Conversion**

Transactions in foreign currencies are recorded in Ringgit Malaysia at rates of exchange ruling at the time of the transactions. Foreign currency monetary assets and liabilities are translated at exchange rates ruling at balance sheet date. Translation gains and losses are recognised in the income statements as they arise.

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

	RM
1 United States Dollar	3.80
1 Singapore Dollar	2.36

**Income Tax**

Deferred tax is accounted for in respect of temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases used in the computation of taxable profit.

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)**

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilised.

**Employee Benefit Costs**

## i. Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as expenses in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

## ii. Defined contribution plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the employees' provident fund. Such contributions are recognised as expenses in the income statements as incurred.

**Borrowing Costs**

All interest and other costs incurred in connection with borrowings are expensed as incurred.

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation of property, plant and equipment except for construction in progress which is not depreciated, is computed on the straight-line method in order to write off the cost of each asset to its residual value over its estimated useful life.

The annual depreciation rates are as follows:

	<u>Rates</u>
Long leasehold land	1.67%
Building	2%
Shoplots	2%
Renovation	25%
Furniture, fittings and equipment	20% - 25%
Motor vehicles	25%
Electrical installation	25%
Container	25%

As of 31 May 2005, the unexpired lease period of the long leasehold land is 52 years.

Gains or losses arising from the disposal of an asset is determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset, and is recognised in the income statements.

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)**

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

**Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price in the ordinary course of business less selling and distribution costs and all other estimated costs to completion. Cost is determined on the weighted average method.

Cost of raw materials consists of the original purchase price plus the cost incurred in bringing the inventories to their present location. Cost of work-in-progress and finished goods consists of the cost of raw materials, direct labour and an appropriate proportion of factory overheads.

Allowance is made for obsolete, slow-moving or defective items where applicable.

**Research and Development Expenses**

Research and development expenses are charged to the income statements in the period in which they are incurred.

**Borrowings and Payables**

Borrowings and payables are stated at cost.

**Receivables**

Receivables are stated at nominal value as reduced by the appropriate allowance for estimated irrecoverable amounts. Allowance for doubtful debts is made based on estimates of possible losses which may arise from non-collection of certain receivables accounts.

**Hire-Purchase**

Property, plant and equipment acquired under hire-purchase arrangements are capitalised in the financial statements and the corresponding obligations are treated as liabilities. Finance charges are allocated to the income statements to give a constant periodic rate of interest on the remaining hire-purchase liabilities.

**Share Capital**

Ordinary shares are recorded at the nominal value and proceeds in excess of the nominal value of shares issued, if any, are accounted for as share premium. Both ordinary shares and share premium are classified as equity. Cost incurred directly attributable to the issuance of the shares are accounted for as a deduction from share premium, otherwise the cost is charged to the income statements if there is insufficient share premium.



**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)**

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**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and bank balances, demand deposits and highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Leased Assets**

Assets under leases which in substance transfer the risks and benefits of ownership of the assets are capitalised under property, plant and equipment. The assets and the corresponding lease obligations are recorded at the fair value of the leased assets which approximates the present value of the minimum lease payments, at the beginning of the respective lease terms.

Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statements over the term of the relevant lease period so as to give a constant periodic rate of charge on the remaining balance of the obligations for each accounting period. All other leases which do not meet such criteria are classified as operating leases and the related rentals are charged to the income statements as incurred.

**Financial Instruments**

Financial instruments carried on the balance sheets include demand deposits, cash and bank balances, receivables, payables and borrowings. The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interests, dividends, gains and losses relating to a financial instrument classified as liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group and the Company have a legally enforceable right to set off the recognised amounts and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)****9.3 PROPERTY, PLANT AND EQUIPMENT****Proforma Group**

	<u>Cost</u> RM'000	<u>Accumulated Depreciation</u> RM'000	<u>Net Book Value</u> RM'000
Long leasehold land and building	7,143	116	7,027
Shoplots	425	21	404
Renovation	212	212	-
Furniture, fittings and equipment	1,378	664	714
Motor vehicles	779	280	499
Electrical installation	49	47	2
Container	21	4	17
Construction in progress	386	-	386
	<u>10,393</u>	<u>1,344</u>	<u>9,049</u>

As of May 31, 2005, the net carrying amount of motor vehicles of the Group acquired under hire-purchase arrangements of which instalments are still outstanding is RM490,698.

Certain property, plant and equipment of the Group with a total carrying value of RM1,430,990 are pledged to a licensed bank as securities for banking facilities granted to the subsidiary company as mentioned in Note 9.10 and Note 9.13.

**9.4 INVENTORIES**

	<u>Proforma Group</u> RM'000
At cost:	
Raw materials	929
Work-in-progress	232
Finished goods	907
	<u>2,068</u>

**9.5 TRADE RECEIVABLES**

	<u>Proforma Group</u> RM'000
Trade receivables	2,291
Less: Allowance for doubtful debts	(283)
	<u>2,008</u>

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)**

Analysis of trade receivables by currencies:

	<u>Proforma Group</u> RM'000
Ringgit Malaysia	1,797
United States Dollar	211
	<hr/>
	2,008
	<hr/> <hr/>

Trade receivables comprise amounts receivable for sales of goods. The credit periods granted on sale of goods range from 30 to 90 days (2004: 30 to 60 days).

Set out below is a summary of the trade receivables ageing analysis:

	Credit period	-----Proforma Group-----						Total
		---Within credit period---			--- Exceed credit period ---			
		0-30 days	31-60 days	61-90 days	< 6 months	6-12 months	> 12 months	
Trade receivables (RM'000)	30-90 days	1,610	92	346	97	123	23	2,291
% of total trade receivables		70.27	4.02	15.11	4.23	5.37	1.00	100.00

As of 31 May 2005, the Group's trade receivables that have exceeded the 2004's credit period of 60 days but less than 180 days is about RM443,000. Subsequent to 31 May 2005, RM219,000 of the amounts which are outstanding for more than 60 days but less than 180 days have been collected and the balance of approximately RM224,000 have been provided as doubtful debts.

The Group's trade receivables as of 31 May 2005 outstanding for more than 180 days is approximately RM146,000. Subsequent to 31 May 2005, RM87,000 of the amounts which are outstanding for more than 180 days have been collected and the balance of approximately RM59,000 have been provided as doubtful debts.

**9.6 OTHER RECEIVABLES AND PREPAID EXPENSES**

	<u>Proforma Group</u> RM'000
Other receivables	7
Refundable deposits	14
Part payment for purchase of land	1,590
Other prepaid expenses	20
	<hr/>
	1,631
	<hr/> <hr/>

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)****9.7 TRADE PAYABLES**

Trade payables comprise amounts outstanding for trade purchases. The credit periods granted to the Group for trade purchases range from 7 to 60 days.

Analysis of trade payables by currencies:

	<u>Proforma Group</u> RM'000
Ringgit Malaysia	403
United States Dollar	18
Singapore Dollar	7
	<hr/> 428 <hr/>

**9.8 OTHER PAYABLES AND ACCRUED EXPENSES**

	<u>Proforma Group</u> RM'000
Other payables	395
Accrued expenses	398
	<hr/> 793 <hr/>

Other payables comprise mainly amounts outstanding for ongoing costs.

**9.9 HIRE-PURCHASE PAYABLES**

	<u>Proforma Group</u> RM'000
Total outstanding	487
Less: Interest-in-suspense outstanding	(50)
	<hr/> 437 <hr/>
Less: Portion due within one year	(107)
	<hr/> 330 <hr/>

It is the Group's policy to acquire certain of its property, plant and equipment under hire-purchase arrangements. The terms for hire-purchase are 5 years. The effective borrowing rates range from 4.39% to 6.23% per annum. Interest rates are fixed at the inception of the hire-purchase arrangements.

The Group's hire-purchase payables are secured by the financial institutions' charges over the motor vehicles under hire-purchase.

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)**

The non-current portion of hire-purchase payables is repayable as follows:

	<u>Proforma Group</u> RM'000
Later than 1 year and not later than 2 years	116
Later than 2 years and not later than 5 years	214
	<hr/>
	330
	<hr/> <hr/>

**9.10 LONG-TERM LOANS**

	<u>Proforma Group</u> RM'000
Secured:	
Term loan of RM500,000 repayable by 60 monthly instalments of RM10,091 each (inclusive of interest) commencing December 2000	41
Term loan of RM105,000 repayable by 60 monthly instalments of RM2,119 each (inclusive of interest) commencing August 2002	48
Term loan of RM105,000 repayable by 60 monthly instalments of RM2,119 each (inclusive of interest) commencing August 2002	49
	<hr/>
Outstanding amount	138
Less: Portion due within one year	(85)
	<hr/>
Portion due after one year	53
	<hr/> <hr/>

The non-current portion is repayable as follows:

	<u>Proforma Group</u> RM'000
Later than 1 year and not later than 2 years	47
Later than 2 years and not later than 5 years	6
	<hr/>
	53
	<hr/> <hr/>

The long-term loans are secured by legal charges over the Group's long leasehold land, building and shoplots and guaranteed by all the directors.

The Group's long-term loans bear interests at a rate of 1% per annum above the lending banks' base lending rates.

The annual effective interest rate of the long-term loans is 7.0% per annum.

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)****9.11 SHARE CAPITAL**

	<b>ViTrox</b>		<b>Proforma Group</b>	
	<b>No. of shares of 10 sen each '000</b>	<b>RM'000</b>	<b>No. of shares of 10 sen each '000</b>	<b>RM'000</b>
Authorised:				
Ordinary shares	250,000	25,000	250,000	25,000
Issued and fully paid:				
Ordinary shares:				
As of May 31, 2005	0.200	0.020	0.200	0.020
New shares issued pursuant to the Acquisition of VTSB	-	-	75,400	7,540
Public Issue	-	-	17,600	1,760
Bonus Issue	-	-	62,000	6,200
After restructuring scheme	0.200	0.020	155,000	15,500

**9.12 RESERVES**

	<b>Proforma Group RM'000</b>
Non-distributable:	
Share premium	1,302
Distributable:	
Retained profit	5,076
	<b>6,378</b>

Distributable reserve are those available for distribution by way of dividends.

The share premium arose from the following:

	<b>Proforma Group RM'000</b>
Share premium:	
Arising from the Acquisition of VTSB	2
Arising from the Public Issue (net of estimated listing expenses of RM1,300,000)	7,500
Capitalised for Bonus Issue	(6,200)
	<b>1,302</b>

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)****9.13 BANKING FACILITIES**

As of 31 May 2005, the Group has available bank facilities amounting to RM8,890,000 obtained from two local banks. The Group's bank facilities bear interests at rates ranging from 3.00% to 7.25% per annum and are secured by legal charges over the Group's leasehold land and buildings and guaranteed by all the directors.

**9.14 CAPITAL COMMITMENT**

As of 31 May 2005, the Group's capital expenditure contracted but not provided for in the financial statements amounted to approximately RM3,191,000.

**10. CONSOLIDATED NET TANGIBLE ASSETS**

Based on the statement of assets and liabilities of the Proforma Group as of 31 May 2005, the proforma consolidated net tangible assets per ordinary share of 10 sen each is as follows:

	<b>Proforma Group</b>
Net tangible assets of ViTrox Group as of 31 May 2005 (RM'000)	21,878
Number of ordinary shares in issue as of 31 May 2005 ('000)	*
Issue of ordinary shares of 10 sen each pursuant to the Acquisition of VTSB ('000)	75,400
Public Issue ('000)	17,600
Bonus Issue ('000)	62,000
Number of ordinary shares in issue after restructuring scheme ('000)	155,000
Net tangible assets per ordinary share of 10 sen each of the Proforma Group (sen)	14

\* The number of ordinary shares in issue as of 31 May 2005 is 200 ordinary shares of 10 sen each.

**11. REPORTING ACCOUNTANTS' REPORT (Cont'd)**


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**11. AUDITED FINANCIAL STATEMENTS**

No audited financial statements have been prepared in respect of any period subsequent to 31 May 2005.

Yours faithfully,

*Deloitte Kassim Chan*  
DELOITTE KASSIMCHAN  
AF 0080  
Chartered Accountants

  
LEE CHENG HEOH  
2225/04/06(J)  
Partner

Penang



## 12. DIRECTORS' REPORT

(Prepared for inclusion in this Prospectus)



## ViTrox Corporation Berhad <sup>(649966-K)</sup>

5, Lintang Bayan Lepas 2, Bayan Lepas Industrial Park,  
Phase 4, 11900 Bayan Lepas, Penang, Malaysia.

Tel: (+604) 646-6227 (4 Lines) Fax: (+604) 646-6327

URL: <http://www.vitrox.com>

**Registered Office**  
3rd Floor, Wisma Wang  
251-A Jalan Burma  
10350 Penang  
04 AUG 2005

The shareholders of ViTrox Corporation Berhad

Dear Sir/Madam:

On behalf of the Board of Directors of ViTrox Corporation Berhad ("ViTrox"), I report that after making due enquiries that during the period from 31 May 2005, being a date which the last audited financial statements of ViTrox and its subsidiary, ViTrox Technologies Sdn Bhd ("VTSB"), have been made up, and 04 AUG 2005, a date not earlier than fourteen (14) days before the issue of this Prospectus:

- (i) the business of ViTrox and VTSB has, in the opinion of the Directors of ViTrox, been satisfactorily maintained;
- (ii) in the opinion of the Directors of ViTrox, save as disclosed in the Prospectus, no circumstances have arisen since the last audited financial statements of ViTrox and VTSB which have adversely affected the trading or the value of the assets of ViTrox or VTSB;
- (iii) the current assets of ViTrox and VTSB appear in the books at values which are believed to be realisable in the ordinary course of business;
- (iv) save as disclosed in Section 10.3 of the Prospectus, no contingent liabilities have arisen by reason of any guarantee or indemnity given by ViTrox or VTSB;
- (v) since the last audited financial statements of ViTrox and VTSB, there has been no default, or any known event that could give rise to a default situation, in respect of any payment of either interest and/or principal sums in relation to any borrowings of ViTrox and/or VTSB; and
- (vi) save as disclosed in Section 11 of the Prospectus, there have been no material changes to the published reserves or any unusual factors affecting the profits of ViTrox and VTSB since the last audited financial statements of ViTrox and VTSB.

Yours faithfully

For and on behalf of the Board of Directors  
**VITROX CORPORATION BERHAD**

**CHU JENN WENG**  
Managing Director/Executive Chairman



Deloitte  
Technology Fast500



GLOBAL

"... innovating vision"

**13. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT AND LETTER THEREON**

(Prepared for inclusion in this Prospectus)

**Infocredit** 

*Creating value...building trust*

15 July 2005

Board of Directors  
ViTrox Corporation Berhad  
5, Lintang Bayan Lepas 2  
Bayan Lepas Industrial Park, Phase 4  
11900 Bayan Lepas  
Penang

**Infocredit D&B (Malaysia) Sdn Bhd** (527570-M)  
Level 9-3A, Menara Milenium, Jalan Damanlela,  
Pusat Bandar Damansara, 50490 Kuala Lumpur, Malaysia.  
Tel: (603) 2718 1000 Fax: (603) 2718 1001  
Website: [www.icdnb.com.my](http://www.icdnb.com.my)

**RE: EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT ("EXECUTIVE SUMMARY") FOR VITROX CORPORATION BERHAD**

Infocredit D&B (Malaysia) Sdn Bhd ("Infocredit D&B") has prepared an Independent Market Research report ("Report") dated 28 June 2004, of which the Executive Summary dated 15 July 2005 which contains extracts updated from the said Report has been prepared for inclusion in the Prospectus to be dated 16 August 2005 pursuant to the proposed listing of ViTrox Corporation Berhad ("the Company") on the MESDAQ Market of the Bursa Malaysia Securities Berhad.

This research is undertaken with the purpose of providing an overview of the Machine Vision Industry in Malaysia. The research methodology for the research includes both primary research, involving in-depth trade interviews and telephone interviews of pertinent companies, as well as secondary research such as reviewing press articles, periodicals, trade/government literatures, in-house databases, Internet research as well as online databases.

Infocredit D&B has prepared this Executive Summary in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the Executive Summary. In addition, Infocredit D&B acknowledges that if there are significant changes affecting the content of Infocredit D&B's Executive Summary after the issue of the Prospectus and before the issue of securities, then Infocredit D&B has an on-going obligation to either cause the Executive Summary to be updated for the changes and, where applicable, cause the Company to issue a Supplementary Prospectus, or withdraw our consent to the inclusion of the Executive Summary in the Prospectus.

This Executive Summary is highlighted in the following sections.

For and on behalf  
**INFOCREDIT D&B (MALAYSIA) SDN BHD**



Tan Sze Chong  
Managing Director

**13. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT AND LETTER THEREON (Cont'd)**

## 1. Introduction

Human vision has always played an important role in quality control of manufacturing process in the areas of locating and positioning work, tracking the flow of parts, inspecting quality consistency. Today, however, the requirements of many manufacturing processes have surpassed the limits of human eyesight. The speed of manufacturing processes could be too quick or products have too narrow a tolerance level to be analysed by human eyesight. In response to the new trends and needs, a new technology known as "machine vision" has emerged, providing manufacturing equipment with the gift of sight.

This new technology allows the equipment to 'see' by employing a specialised computer interfaced with a video camera. The machine vision inspection system captures the image of an object being manufactured, analyses the image, and then provides information about the object. Machine vision inspection system could perform the following at the speed of up to hundreds of parts per minute:

- identify products/components,
- inspect for defects,
- measure part dimensions, and
- instruct equipment, such as a robotic arm, to perform actions.

In summary, a machine vision system is the process of visually inspecting a component or assembly for defects and/or measurement criteria. It has become a critical part of today's manufacturing process for inspection, quality control, machine control and robotic control. Demands for increased quality and lower production cost, coupled with ever-increasing manufacturing throughput requirements, have made machine vision systems a vital component for meeting these increasingly stringent demands.

**13. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT AND LETTER THEREON (Cont'd)**

## 2. Major Application Markets

Machine vision system has been successfully applied to many industrial inspection processes, leading to faster and more accurate quality control. It has been used in many industries such as the following:

- semiconductor industry;
- electronics & electrical (E&E) industry;
- automotive industry;
- food industry; and
- pharmaceuticals industry.

The focus of this study is the semiconductor industry which is ViTrox Corporation Berhad's main market. Machine vision inspection system is an integral part of semiconductor processing. It is used in almost all processes in the manufacturing of Integrated Circuit (IC) packages to ensure consistency in product quality.

The semiconductor industry is one of the largest industries in the world estimated to be worth more than United States Dollar (US\$) 200 billion a year. Semiconductors are the basic building blocks used to create a variety of products. The semiconductor industry is hence an important industry encompassing a wide area of end-user markets ranging from telecommunications, automotive to various E&E products. For over 30 years, semiconductor advancement has contributed to smaller, more complex and reliable devices.

**13. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT AND LETTER THEREON (Cont'd)****3. Emerging Trends**

Customers are continuously demanding machine vision systems that are faster and more accurate, cheaper, easier to use and more robust. Previously, machine vision system designers have always traded off one element for another, for example in order to have increased accuracy, the system will operate at a lower speed. However, with increased demands from customers, these trade-offs are increasingly hard to justify. Thus, machine vision suppliers need to look for new innovative ways to fulfil customers' demands. One way to reduce cost can be by adopting the use of open standards which dispenses with the need to pay for licensing.

Secondly the advancement in machine vision components such as cameras, lenses and frame grabbers has also enabled the industry to adopt the use of smaller components with higher speed and greater accuracy. For example, the use of telecentric lenses has been very popular as it eliminates perspective errors thus produces more reliable and accurate results. This technology has enabled machine vision to conduct three-dimension (3D) inspections. In addition, technology has enabled higher resolution cameras to be produced at lower cost. New cameras have the capabilities to process an image area that is beyond the range of a standard 640 pixels by 480 pixels area-scan camera as compared to those of 1000 pixels range and above. The increasing need to inspect large image areas has also prompted the use of line scan cameras, which builds an image by capturing the entire object to be inspected, line by line and feeding it into a frame grabber for input to the personal computer (PC).

Traditionally, the software of the machine vision system is perceived to have complex algorithms which make the system not easily adaptable. The new trend is to use adaptive algorithms which consist of software models that can adapt to changes without requiring major reprogramming from the suppliers. Artificial intelligence (AI) is a new adaptive algorithms technology which allows high versatility during inspection. In addition, designers of machine vision systems have also incorporated the use of human machine interface (HMI) to ensure ease-of-use and to empower end-users with the capability to conduct customised solutions without the need for major development work.

**13. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT AND LETTER THEREON (Cont'd)**



With the help of new technologies in the machine vision industry and the continued efforts made by machine vision developers to fulfil customers' demands for faster, cheaper, more accurate, more robust and easier to use systems, the prospects of these systems being utilised in multiple application markets are regarded to be high. This in turn creates more demand for machine vision systems.

#### **4. Barriers to Entry**

The machine vision industry has high barriers to entry due to the following factors:

##### **4.1 REQUIREMENT FOR TECHNICAL KNOWLEDGE**

The design, development and production of machine vision systems require extensive knowledge and understanding of multi-disciplinary technologies including lighting, optics/imaging, sensors/cameras, electronics, mechanical and software. For example, in-depth technical expertise is required in determining the right cameras, lenses and frame grabbers. Technical expertise is also required in the mounting and positioning of these components. Proper camera mounting and light positioning, for example, will eliminate many problems in the machine vision systems such as false-failures (wrongly identifying good parts as bad). Besides, software is another critical component as it processes the image and assists the machine vision system to make the decisions (such as pass/reject the part under inspection). Different types of software tools and vision algorithms are required to address specific tasks such as measuring, gauging, identifying and presence verification.

The challenge in producing a machine vision system lies in the combination of in-depth technical knowledge of components with the experience in developing an optimal solution that conforms to customers' requirements and exceed their expectations. In short, the design and development of a machine vision system requires high technical knowledge in optical technology, software design and hardware configurations. Such technical knowledge is typically acquired through experience and exposure to machine vision applications in the industry. The technology trend has been moving very fast, thus it will be very challenging for the new entrants to learn on the job.

**13. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT AND LETTER THEREON (Cont'd)****4.2 RESEARCH AND DEVELOPMENT (R&D) EFFORTS AND INVESTMENT**

The industry requires high R&D investment in terms of capital expenditure and continuous R&D efforts in order to be able to introduce new, improved and innovative products. Due to the rapid advancement of technology, there are many innovative IC packages which are smaller, requiring more precise visual inspection machines. Companies such as Vitrox Corporation Berhad ("Vitrox") need to invest continuously into R&D activities in order to compete with many foreign companies. This is a challenge for new entrants. New entrants will also need to have ample resources to ride through the gestation period while the company concentrates on R&D activities before the systems are accepted in the market place.

**4.3 TRACK RECORD & CLIENTELE BASE**

The long period of time required in establishing a strong track record in terms of building up relationships with clients, especially with multinational corporations (MNCs) and established machine makers, can prove daunting to newcomers. It is mutually beneficial for both customers and suppliers to form long-standing relationships once the quality of services are accepted and recognised. As the consumers of the semiconductor industry demand for high quality end-products, semiconductor manufacturers are more inclined to turn to machine vision systems to deliver the level of quality control to their assembly process. However, with time being the essence for many semiconductor manufacturers, they will prefer to look for suppliers with a proven track record. More established machine vision players, such as Vitrox, with their extensive clientele base in various industries will most likely be the preferred choice. This reputation among the end-users and Original Equipment Manufacturers (OEMs) will be a barrier of entry for new players.

**13. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT AND LETTER THEREON (Cont'd)**

## **5. Market Challenges & Risks**

### **5.1 INDUSTRY LIFE CYCLE**

ViTrox's performance is closely related to the semiconductor industry's life cycle, which is characterised as a cyclical one albeit registering high growth generally. The semiconductor industry is generally affected by global and regional economic conditions. Severe downturn could happen with significant reduced product demand and excess production capacity causing consolidation and cutbacks. For example, the industry experienced one of the worst downturns in 2001 with a decline of 32% after registering a high growth rate of 38% in 2000.

The cyclical nature of the industry poses a challenge for all machine vision system companies servicing the semiconductor industry. Market players need to forecast the market demand more accurately by making timely expenditure for capital equipment. It is a challenge for players to monitor their capital investment and operational capacity in their quest to constantly augment their services to remain competitive.

In this regard, the Directors of Vitrox are committed to adopt prudent cash flow management and have a viable business model that allows the ViTrox and its subsidiary, namely ViTrox Technologies Sdn Bhd (collectively known as "ViTrox Group" or "Group") to respond in accordance to the market supply and demand conditions. In addition, the Group plans to accelerate its market penetration into the international arena especially in China, Taiwan, Japan and South East Asia.

### **5.2 HIGH INTERNATIONAL STANDARDS**

In the regional and global market place, big customers and MNCs have high quality standards and expectation in choosing their suppliers. This is especially true in the semiconductor industry with the increasing minute size and complexity of modern ICs. Typically, potential customers in the semiconductor industry would seek business partners/suppliers that have been internationally acclaimed and met the standards of good quality management in the international context. Hence, penetrating into the international market is a big challenge for machine vision players.



**13. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT AND LETTER THEREON (Cont'd)**

As manufacturing and inspection needs advance, machine vision system players must continuously carry out R&D activities to enhance the system effectiveness and efficiency, to improve the robustness of technology in order to increase the system's capabilities and make it more appealing to the customers.

Realising such challenges, ViTrox being an established industry player in the machine vision industry had obtained the ISO 9001:2000 certification. This will be a competitive edge for the Group in order to sustain its existing network of customers and to further expand into the international market. ViTrox also intends to pursue the Six Sigma accreditation as part of its plans to ensure international visibility in the international market. Both the ISO 9001:2000 and Six Sigma certifications will be assets to ViTrox as they move towards being internationally recognised as the leading total machine vision solutions provider.

## 6. Players & Competition

In the international market, there are many players in the machine vision system industry. Among them, ICOS Vision System Corporation NV (Belgium) ("ICOS") is the leading developer and supplier of machine vision inspection equipment primarily for use in the backend semiconductor manufacturing. Its products consist of standalone inspection equipment, board-level and system-level inspection systems. As at financial year end (FYE) 2004, ICOS recorded total revenue of 89.3 million Euro (FYE2003: 44.8 million Euro)<sup>1</sup>. Another international player is Cognex Corporation ("Cognex"). Its modular vision systems division registered an increase in revenue in FYE2004 reaching US\$173.7 million (FYE2003: US\$121.6 million)<sup>2</sup>. The strong earnings of both companies is a good indication of the potential in the international market for machine vision systems.

<sup>1</sup> Source: News release dated February 17, 2005 on ICOS website <http://www.icos.be/investor/>

<sup>2</sup> Source: News release dated January 24, 2005 on Cognex website [http://www.cognex.com/news/press\\_release/](http://www.cognex.com/news/press_release/)

**13. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT AND LETTER THEREON (Cont'd)**



In Malaysia, the machine vision system players are diverse in their activities where many of them do not just specialise in the development of machine vision. As these companies do not segment their revenues into machine vision systems and other revenues, it is not meaningful to analyse the positioning of ViTrox based on revenue comparison with these players.

Below is a list of selected industry players in Malaysia that have indicated the development of machine vision as one of its activities. Save for ViTrox, all the companies are involved in several related industries such as the manufacturing of factory automation and test equipments.

- AT Engineering Sdn Bhd
- iHS Solutions Sdn Bhd
- Pentamaster Technology Sdn Bhd
- TT Vision Sdn Bhd
- ViTrox

ViTrox, being highly focused on the machine vision system, has an added advantage over these players which have diverse interests in different areas of the industry.

**13. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT AND LETTER THEREON (Cont'd)**

## **7. Market Growth Factors**

### **7.1 ASIA'S SEMICONDUCTOR INDUSTRY**

The use of machine vision systems has predominantly been utilised in the semiconductor industry. Thus the prospect of growth of machine vision systems will largely be dependent on the semiconductor industry. In Asia, the semiconductor industry has played a significant role in the development of many countries. This region has tremendous opportunities especially with the increasing outsourcing activities of the semiconductor into the region. Asia Pacific has been an increasingly important market for the semiconductor and semiconductor equipment industries. Based on Semiconductor Industry Association's (SIA's) statistics, the market share of Asia Pacific (ex-Japan) to the total worldwide semiconductor sales has grown from a mere 6% in 1980, to 14% in 1990 and to 41.7% in 2004. Countries like Malaysia, Singapore, Philippines and Thailand have benefited from the outsourcing of many semiconductor manufacturing companies to this region. With the emergence of China in the international market, Asia will continue to be the focus of many semiconductor companies.

### **7.2 TECHNOLOGY ADVANCEMENT**

The semiconductor industry is advancing very rapidly in terms of technology. Within the front-end processing, especially in wafer fabrication, the wafer size had grown from 200mm in the mid 1980's to 300mm. As the cost of fabricating wafer increases along with its size, the importance of machine vision system increases in tandem. The trend is moving towards integrated metrology tools which can replace the standalone devices.

In addition, the technology for IC packages has also changed as they become more complex and lead count has also increased. The current trend in IC packages is towards increased speed, larger number of pin counts and the reduction in the size of packages. Demand is also pushing for more advanced packages such as Ball Grid Arrays (BGAs) and Chip Scale Packages (CSPs) with greater acceptance of leadless package. With such rapid development, the need for machine vision systems becomes more critical leading to potential growth opportunities for the machine vision industry.

**13. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT AND LETTER THEREON (Cont'd)****7.3 WIDE APPLICATION MARKETS**

Machine vision systems can be used in a wide variety of applications. For example, it is used during the printed circuit board assembly process to detect solder paste presence, component leads, verify presence and position for components and pattern position during board assembly process. Machine vision systems are also being used to inspect flat panel displays. With the increasing demand for flat panel displays, this is another industry which will significantly impact the sales of machine vision system. Within the electronics industry specifically, the higher demand for machine vision systems is driven by the ever-smaller components, increased components per square inch and finer pitch density etc. The trend is moving into 3D machine vision system to measure solder paste volume and X-ray based systems used to inspect soldered boards. In North America, there was an increase of 21.2% in 3D machine vision systems in 2003 compared to 2002 (2002: US\$21.2 million; 2003: US\$25.7 million).

Other application markets such as the food industry have been using machine vision system to reduce the need for manual labour and increase production efficiency. In the automotive industry, machine vision systems are being used in the assembly lines. Machine vision systems can also be used in inspection of dashboard graphics, robot guidance for assembly, identifying of spare parts etc. Another industry which has received a great deal of attention from the machine vision industry is the pharmaceutical industry. Machine vision systems are being used in verifying and proofreading some of the labels on the boxes to ensure that the descriptions are accurate. Machine vision systems have proven to be very successful in the packaging of pharmaceutical products as it relieves the industry from hiring manual workers to perform these tasks. With the growing acceptance of machine vision system in different manufacturing industries, the use of machine vision systems will increase tremendously.

**13. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT AND LETTER THEREON (Cont'd)**

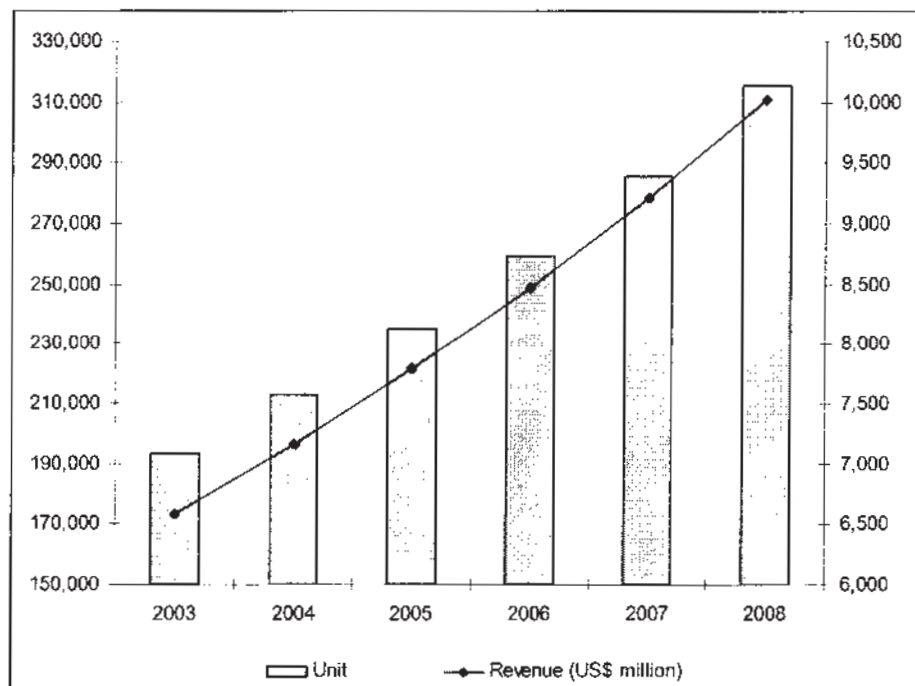


**8. Outlook & Conclusion**

According to the Automated Imaging Association (AIA), the total world market for all types of machine vision systems is estimated at US\$6.6 billion in 2003 which represents an increase of 13.5% from the previous year. Based on the revenue analysis of 2003, Japan has the largest market at 35%, followed by North America at 24%, Europe at 23% and the rest of the world has about 18% of the global market size.

It is estimated that the global machine vision industry, in terms of revenue, will be worth more than US\$10 billion by 2008. This represents a compound annual growth rate (CAGR) of 8.8% per annum from 2003 to 2008. Below is the worldwide projected growth of the machine vision industry:

**Projected Worldwide Market for Machine Vision System**



Source: Automated Imaging Association (AIA)

**13. EXECUTIVE SUMMARY OF THE INDEPENDENT MARKET RESEARCH REPORT AND LETTER THEREON (Cont'd)**



In Asia (ex-Japan), the machine vision industry is estimated to be worth between US\$1.0 billion and US\$1.2 billion in 2003, which is a very large industry for the local machine vision players to explore. The growth potential in countries like China, Taiwan and South East Asia is very promising. Compared to international companies in the United States of America (USA) or Europe, Malaysian companies have a distinct advantage in penetrating this region based on cultural and language similarities.

With such a scenario, it is clear that the machine vision players should not only be confined to the Malaysian market and attention needs to be paid to the entire Asian region and, to a certain extent, the international market. Companies need to have their operations bases to be located within a closer proximity to customers in order to provide timely service and create market presence in the region. As such, ViTrox's plans to expand its operations in Asia and establish regional offices in countries like China and Taiwan are very timely as it is moving towards where the demands are.

**14. ESOS**

**VITROX CORPORATION BERHAD  
EMPLOYEES' SHARE OPTION SCHEME**

**THE DRAFT BY-LAWS OF THE SCHEME****1. DEFINITIONS AND INTERPRETATIONS**

1.1 Except where the context otherwise requires, the following expressions in these By-Laws shall have the following meanings:

“Authorised Nominee”	:	A person who is authorised to act as a nominee as specified in accordance with the schedule prescribed under Part VIII of the Rules of the Bursa Depository
“Board”	:	The Board of Directors ViTrox
“Bursa Depository or Central Depository”	:	Bursa Malaysia Depository Sdn Bhd (165570-D), a subsidiary of Bursa Malaysia Berhad
“Bursa Securities”	:	Bursa Malaysia Securities Berhad (635998-W)
“By-Laws”	:	The By-Laws governing the Scheme
“CDS”	:	Central Depository System
“Central Depositories Act”	:	The Securities Industry (Central Depositories) Act, 1991
“Deposited Security(ies)”	:	A security standing to the credit of a Securities Account and includes a security in a Securities Account that is in suspense
“Depositor”	:	A holder of a Securities Account
“Duration of the Scheme”	:	The duration of the Scheme shall be five (5) years from the commencement of the Scheme as defined in By-Law 19.1 hereof unless extended by the Option Committee in accordance with By-Law 19.2 hereof or terminated by the Option Committee in accordance with By-Law 20 hereof
“Eligible Employee”	:	An employee (including a Director), of any member of the ViTrox Group (provided that the company is not dormant) who meets the criteria of eligibility for participation in the Scheme as set out in By-Law 4 hereof
“ESOS”	:	Employees’ share option scheme
“Director”	:	A Director (including a non-executive director) on the board of any member of the ViTrox Group (provided that the company is not dormant) who satisfies the criteria set out in By-Law 4 hereof
“Grantee”	:	An Eligible Employee who has accepted an Offer in the manner indicated in By-Law 8 hereof
“Listing Requirements”	:	Listing Requirements of Bursa Securities for the MESDAQ Market

**14. ESOS (Cont'd)**

“Market Day”	:	A day on which the Bursa Securities is open for trading in securities
“Maximum Allowable Allotment”	:	The maximum number of new ViTrox Shares in respect of which Offers may be made to Eligible Employees, as provided in By-Law 6 hereof
“Offer”	:	An offer made in writing by the Option Committee to an Eligible Employee in the manner indicated in By-Law 5 hereof
“Offer Date”	:	The date on which an Offer is made by the Option Committee to an Eligible Employee to participate in the Scheme in accordance with the By-Laws
“Option”	:	The rights of a Grantee to subscribe for new ViTrox Shares pursuant to the contract constituted by acceptance by an Eligible Employee, in the manner as set out in By-Law 8 hereof, of an Offer made to such Eligible Employee pursuant to By-Law 5 hereof
“Option Committee”	:	The committee to be appointed by the Board to implement and administer the Scheme
“Option Period”	:	A period commencing from the Offer Date and expiring on a date which the Option Committee may in its discretion decide PROVIDED THAT no option period shall extend beyond the Duration of the Scheme
“Option Price”	:	The price per share at which a Grantee shall be entitled to subscribe for new ViTrox Shares as set out in By-Law 7 hereof
“Record of Depositors”	:	A record of Depositors provided by the Bursa Depository to an issuer pursuant to an application under Chapter 24 of the Rules of Bursa Depository
“RM” and “sen”	:	Ringgit Malaysia and sen respectively
“Rules of Bursa Depository”	:	The Rules of Bursa Depository as issued pursuant to the Securities Industry (Central Depositories) Act 1991
“Scheme”	:	The ViTrox Employees’ Share Option Scheme for Eligible Employees to subscribe for new ViTrox Shares on the terms as set out herein
“Securities Account”	:	An account established by Bursa Depository for a Depositor for the recording of Deposited Securities and for dealings in such securities by the Depositor
“Senior Management”	:	Executive Chairman, Managing Director, Executive Director, Independent Non-Executive Director or Senior Manager and other senior positions as may be determined by the Option Committee from time to time
“Subsidiary(ies)”	:	A subsidiary company of ViTrox as defined in Section 5 of the Companies Act, 1965
“ViTrox” or “Company”	:	ViTrox Corporation Berhad (649966-K)
“ViTrox Group” or “Group”	:	ViTrox and its Subsidiary(ies), which are not dormant, collectively



**14. ESOS (Cont'd)**

“ViTrox Shares” : Ordinary shares of 10 sen each in ViTrox

- 1.2 Any reference in these By-Laws to a statutory provision shall include any subordinate legislation made from time to time under the provision of any Listing Requirements (in each case, whether or not having the force of law but, if not having the force of law, the compliance with which is in accordance with the reasonable commercial practice of persons to whom such requirements, are addressed to by Bursa Securities);
- 1.3 Any reference in these By-Laws to a statutory provision shall include that provision as from time to time modified or re-enacted after the date of these By-Laws so far as such modification or re-enactment applies or is capable of applying to any options offered and accepted prior to the expiry of the scheme;
- 1.4 Words in these By-Laws denoting the singular shall include the plural and references to gender shall include both genders and the neuter;
- 1.5 Any liberty or power which may be exercised or any determination which may be made under these By-Laws by the Option Committee may be exercised at the Option Committee’s discretion;
- 1.6 The heading in these By-Laws are for convenience only and shall not be taken into account in the interpretation of these By-Laws; and
- 1.7 If an event occurs on a stipulated day which is not a Market Day, then the stipulated day will be taken to be the first Market Day after that day.

**2. NAME OF SCHEME**

This Scheme will be known as the “ViTrox Corporation Berhad Employees’ Share Option Scheme”.

**3. MAXIMUM NUMBER OF SHARES ALLOWABLE UNDER THE SCHEME**

- 3.1 Subject to By-Law 3.2, the maximum number of new ViTrox Shares which may be available under the Scheme shall not exceed in aggregate ten per centum (10%) of the issued and paid-up share capital of the Company at any one time.
- 3.2 Notwithstanding the provision of By-Law 3.1 nor any other provisions herein contained, in the event the aggregate number of new ViTrox Shares comprised in the Options granted under the Scheme exceeds the aggregate ten per centum (10%) of the issued and paid-up share capital of the Company as a result of the Company purchasing its own shares or undertaking any other corporate proposal which diminishes its issued and paid-up capital, then such Options granted prior to the adjustment of the issued and paid-up capital of the Company shall remain valid and exercisable in accordance with the provisions of this Scheme.

However, no further Offer shall be made to any Eligible Employees as long as the aggregate number of ViTrox Shares comprised in the Options granted exceeds ten per centum (10%) of the issued and paid-up share capital of the Company as a result of the Company purchasing its own shares or undertaking any other corporate proposal which diminishes its issued and paid-up capital.

- 3.3 The Company will during the Option Period keep available sufficient authorised and unissued shares to satisfy all Options, which may be exercised, in whole or in part during the Option Period.

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**14. ESOS (Cont'd)**

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**4. ELIGIBILITY**

- 4.1 Subject to the eligibility criteria as may be set by the Option Committee and the Board, any employee (including Director) of the ViTrox Group shall be eligible to participate in the Scheme PROVIDED ALWAYS THAT the selection of any employee for participation in the Scheme shall be at the discretion of the Option Committee and the decision of the Option Committee shall be final and binding.
- 4.2 Eligibility under the Scheme does not confer on an Eligible Employee a claim or right to participate in or any rights whatsoever under the Scheme and an Eligible Employee does not acquire or have any rights over or in connection with the Options or the new ViTrox Shares comprised herein unless an Offer has been made by the Option Committee to the Eligible Employee and the Eligible Employee has accepted the Offer in accordance with the terms of the Offer and the Scheme.

**5. OFFER**

- 5.1 The Option Committee may at its absolute discretion at any time and from time to time within the Duration of the Scheme as it shall deem fit make an Offer to any Eligible Employee whom the Option Committee may in its discretion select, to subscribe during the Option Period for new ViTrox Shares in accordance with the terms of the Scheme.
- 5.2 Nothing herein shall prevent the Option Committee from making more than one Offer to any Eligible Employee provided always that, the total aggregate number of new ViTrox Shares in respect of the Options granted shall not be less than one hundred (100) new ViTrox Shares but not exceeding the Maximum Allowable Allotment of such Eligible Employee and shall always be in multiples of one hundred (100) ViTrox Shares.
- 5.3 Each Offer shall be made in writing by the Option Committee and shall state the number of new ViTrox Shares which the Eligible Employee shall be entitled to subscribe, the price at which the Eligible Employee is entitled to subscribe for each new ViTrox Share and the closing date for acceptance of the Offer.
- 5.4 No Option shall be granted to any Director of the Company unless specific grant of Options to that Director shall have previously been approved by the shareholders of the Company in a general meeting.
- 5.5 With the exception to By-Law 10, the Offer shall automatically lapse and be null and void in the event of the Eligible Employee ceasing to be employed by the ViTrox Group for any reason whatsoever prior to the acceptance of the Offer by the Eligible Employee in the manner set out in By-Law 8 hereof.
- 5.6 The Offer shall automatically lapse and be null and void in the event of death of the Eligible Employee prior to the acceptance of the Offer.

**6. MAXIMUM ALLOWABLE ALLOTMENT AND THE BASIS OF ALLOTMENT**

- 6.1 Subject to any adjustments which may be made under By-Law 14 hereof, the maximum number of new ViTrox Shares that may be offered and allotted to an Eligible Employee shall be determined at the discretion of the Option Committee and the Board taking into consideration the performance, seniority and years of service of the Eligible Employee and such other factors that the Option Committee and the Board may deem relevant, subject always to the following:
- (i) that subject to By-Law 3.2, the number of new ViTrox Shares comprised in the Options granted under the Scheme shall not exceed the amount stipulated in By-Law 3.1;
  - (ii) that the allocation to the eligible Executive Directors and Senior Management shall not in aggregate exceed fifty per centum (50%) of the new ViTrox Shares available under the Scheme; and

## **14. ESOS (Cont'd)**

- (iii) that not more than ten per centum (10%) of the new ViTrox Shares available under the Scheme should be allocated to any Eligible Employee who, either singly or collectively, through persons connected with him (as defined in Rule 1.1 of the Listing Requirements), holds twenty per centum (20%) or more of the issued and paid-up capital of the Company.
- 6.2 The number of Options so offered pursuant to the Scheme and the new ViTrox Shares arising from the exercise of the Options shall be verified by the audit committee and a statement to that effect that the audit committee has conducted such verification shall be disclosed in the Company's annual report.
- 6.3 A set of criteria on employee eligibility and allocation shall be clearly specified and all employees shall be made aware of it through notification in writing to the employees or any other appropriate mediums.
- 6.4 In the circumstances where the maximum share allocation as provided under Rule 3.14.1(c) of the Listing Requirements is amended by Bursa Securities from time to time, the Option Committee and the Board shall have the discretion to make the necessary adjustments so that the number of new ViTrox Shares comprised in the Options that may be offered to any one of the Eligible Employees shall be in accordance with the provisions of the Listing Requirements on ESOS prevailing during the Option Period.

## **7. OPTION PRICE**

Subject to any adjustments in accordance with By-Law 14 hereof, the price payable at which a Grantee is entitled to subscribe for each new ViTrox Share under an Option shall be:

- (i) not less than the initial public offer price, if the ESOS is implemented as part of the Company's listing proposal; or
- (ii) based on the five (5) day weighted average market price of ViTrox Shares immediately preceding the Offer Date of the Option, with a discount of not more than ten per centum (10%), or at the par value of ViTrox Shares, whichever is higher, if the Options were offered after the date of listing of the Company.

## **8. ACCEPTANCE OF THE OFFER**

- 8.1 The Offer to participate in the Scheme shall be valid for acceptance for a period of fourteen (14) days from the Offer Date or such longer period as may be determined by the Option Committee on a case to case basis at its discretion. The acceptance of an Offer shall be made by way of a written notice from the Eligible Employee to the Option Committee in the form prescribed by the Option Committee within the prescribed period. In the event that the Eligible Employee fails to accept the Offer within the prescribed period, the Offer shall automatically lapse (and be null and void and of no further effect to the Eligible Employee) PROVIDED THAT the Option Committee shall not be precluded from making a new Offer to the Eligible Employee subsequently.
- 8.2 Acceptance of the Offer by an Eligible Employee shall be accompanied by the payment of Ringgit Malaysia One (RM 1.00) as non-refundable consideration for the grant of the Option.
- 8.3 An Option shall be personal to the Grantee and cannot be assigned, transferred or otherwise disposed of in any manner whatsoever.

## **9. EXERCISE OF OPTIONS**

- 9.1 Subject to By-Law 9.2 hereof, an Option may be exercised by the Grantee by notice in writing to the Company in the prescribed form during the Option Period in respect of all or any part of the new ViTrox Shares comprised in the Option, provided that where an Option is exercised in respect of a part

**14. ESOS (Cont'd)**

of the new ViTrox Shares comprised therein, the number of new ViTrox Shares of which such Option may be exercised shall not be less than one hundred (100) and shall be in multiples of one hundred (100) or such other denominations as determined by the Bursa Securities.

- 9.2 Subject to By-Law 14 hereof, the Option Committee may, at any time and from time to time, before or after an Option is granted, limit the exercise of the Option to a maximum number of new ViTrox Shares and/or such percentage of the total new ViTrox Shares comprised in the Option during such periods within the Option Period and impose any other terms and/or conditions deemed appropriate by the Option Committee in its discretion.

The partial exercise of an Option shall not preclude the Grantee from exercising the Option for the remaining duration of the Option Period in respect of the balance of the new ViTrox Shares comprised in the Option.

Any new ViTrox Shares comprised in an Option not subscribed for in any year following the date on which the Option was granted, may be subscribed for in any subsequent year until and including the last year of the Option Period.

- 9.3 Every such written notice referred to in By-Law 9.1 hereof must be in the form prescribed by the Option Committee from time to time and accompanied by a remittance (calculated in accordance with the provisions of By-Law 7 hereof) for the full amount of the subscription monies for the new ViTrox Shares in respect of which notice is given. Within ten (10) Market Days from the receipt by the Company of the aforesaid notice and remittance from the Grantee or such other period as may be prescribed by the Bursa Securities, the Company shall allot such new ViTrox Shares and despatch a notice of allotment to the Grantee accordingly, subject to and in accordance with the provisions of the Articles of Association of the Company, the Central Depositories Act and the Rules of the Bursa Depository.

- 9.4 A Grantee who exercises his Option shall provide the Option Committee with his CDS account number or the CDS account number of his Authorised Nominee, as the case may be, in the notice referred to in By-Law 9.1. The new ViTrox Shares to be issued pursuant to the exercise of an Option will be credited into the CDS account of the Grantee or his Authorised Nominee, as the case may be and a notice of allotment stating the number of shares credited into such CDS account will be issued and despatched to the Grantee or the Grantee's Authorised Nominee with a copy to the Grantee, as the case may be, within ten (10) Market Days from the date of receipt by the Company of the written notice of the exercise of the Option or such other period as may be prescribed by the Bursa Securities together with the requisite remittance. No physical share certificate(s) will be issued.

- 9.5 No Options shall be exercisable after the expiry of the Option Period.

- 9.6 In the event that a Grantee is subject to disciplinary proceedings (whether or not such disciplinary proceedings will give rise to a dismissal or termination of service) the Option Committee may, in its discretion, suspend and/or cancel the right of the Grantee to exercise his Option pending the outcome of such disciplinary proceedings. The Option Committee may impose such terms and conditions as the Option Committee shall deem appropriate having regard to the nature of the charges made or brought against the Grantee and the outcome of such disciplinary proceedings PROVIDED ALWAYS THAT in the event that such Grantee shall subsequently be found to be not guilty of the charges which gave rise to such disciplinary proceedings, the Option Committee shall reinstate the rights of such Grantee to exercise his Option PROVIDED THAT such reinstatement is within the Duration of the Scheme in accordance with By-Law 19 hereof.

- 9.7 Notwithstanding the provisions of By-Law 9.3 and By-Law 9.4, the Board, the Option Committee, the Company and/or any officer of the Company shall not under any circumstances be held liable for any cost, loss, expense and/or damages whatsoever or howsoever arising in any event relating to the delay on the part of the Company in allotting the new ViTrox Shares within the stipulated deadline.

**14. ESOS (Cont'd)**

- 9.8 Subject to the discretion of the Option Committee, failure by the Grantee to comply with the procedure for an exercise of an Option as stipulated in By-Laws 9.1 to 9.5 herein will invalidate the purported exercise of such Option by a Grantee.
- 9.9 Every Option shall be subject to the condition that no new ViTrox Shares shall be issued to a Grantee pursuant to the exercise of an Option if such issue would be contrary to any law, enactment, rules and/or regulations of any legislative or non-legislative body which may be in force during the Option Period or such period as may be extended.
- 9.10 The Company will undertake to keep available sufficient unissued ViTrox Shares in the authorised capital of the Company to satisfy all outstanding Options.

**10. TERMINATION OF THE OPTIONS**

- 10.1 All remaining unexercised Options shall forthwith lapse and/or be deemed to be cancelled and cease to be exercisable in relation to any new ViTrox Shares in respect of which such Options have not been exercised upon the occurrence of one or more of the following events:
- (i) subject to By-Law 10.2, the Grantee ceasing to be in employment with a member of the ViTrox Group;
  - (ii) the liquidation of ViTrox; or
  - (ii) the bankruptcy of the Grantee.
- 10.2 Notwithstanding the provisions of By-Law 10.1(i), the Option Committee may at its discretion allow a Grantee to exercise his unexercised Option or Options within the relevant Option Period or Periods or such other shorter period as the Option Committee may at its discretion determine when the Grantee ceases his employment or appointment with the Group by reason of:
- (i) retirement on attaining the retirement age under the ViTrox Group's retirement policy;
  - (ii) retirement before attaining the normal retirement age but with the consent of the employer company within the Group;
  - (iii) redundancy or any voluntary separation scheme;
  - (iv) ill-health, injury, physical or mental disability;
  - (v) resignation under circumstances which are acceptable to the Option Committee; or
  - (vi) any other circumstances which are acceptable to the Option Committee.
- 10.3 In the event of the death of a Grantee before the expiry of the Option Period and on the date of his death, the Grantee held Options which are unexercised, the whole or any part of the unexercised Options shall lapse forthwith and be null and void and of no further force and effect provided however the Option Committee may at its discretion allow the next of kin or beneficiary or legal representatives of the deceased Grantee in question to exercise the deceased's unexercised Options, in whole or in part, within the relevant Option Period or such other shorter period as the Option Committee may at its discretion determine.

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**14. ESOS (Cont'd)**

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**11. TAKEOVER**

11.1 Notwithstanding By-Law 9 hereof and subject to the provisions of any applicable statutes, rules, regulations and/or conditions issued by the relevant authorities, in the event of:

- (i) a takeover offer being made for the Company through a general offer under the Malaysian Code on Take-Overs and Mergers, 1998 to acquire the whole of the issued share capital of the Company (or such part thereof not at the time owned by the person making the general offer ("Offeror") or any persons acting in concert with the Offeror) a Grantee will be entitled, within such period to be determined by the Option Committee, to exercise all or any part of his Options as yet unexercised; and
- (ii) the Offeror becoming entitled or bound to exercise the right of compulsory acquisition of ViTrox Shares under the provisions of any applicable statutes, rules and/or regulations and gives notice to the Company that it intends to exercise such right on a specific date, a Grantee will be entitled to exercise all or any part of his Option as yet unexercised from the date of service of the said notice to the Company until and inclusive of the date on which the right of compulsory acquisition is exercised.

PROVIDED ALWAYS THAT any Option to the extent unexercised after the expiry of the periods stipulated in the aforesaid circumstances shall automatically lapse and shall become null and void and no further effect.

11.2 There is no obligation on the part of the Company or the Directors or the Option Committee to ensure that such an offer be extended to any new ViTrox Shares that may be issued pursuant to the exercise of the Option under the Scheme or any unsubscribed new ViTrox Shares comprised in the Option.

**12. SCHEME OF ARRANGEMENT, AMALGAMATION, RECONSTRUCTION, ETC.**

Notwithstanding By-Law 9 hereof and subject to the discretion of the Option Committee, in the event of the court sanctioning a compromise or arrangement between the Company and its members proposed for the purposes of, or in connection with, a scheme of arrangement and reconstruction of the Company under Section 176 of the Companies Act, 1965 or its amalgamation with any other company or companies under Section 178 of the Companies Act, 1965 a Grantee may be entitled to exercise all or any part of his Option or Options at any time commencing from the date upon which the compromise or arrangement is sanctioned by the court and ending with the date upon which it becomes effective or on any other date specified by the Option Committee within the Option Period PROVIDED ALWAYS THAT any part of an Option which remains unexercised after the expiry of the period stipulated above shall be automatically terminated thereafter.

**13. RETENTION PERIOD**

The new ViTrox Shares to be issued and allotted to a Grantee pursuant to the exercise of any Option or Options will not be subject to any retention period, unless the Grantee is a non-executive director, in which case, he must not sell, transfer or assign the new ViTrox Shares obtained through the exercise of the Options offered to him pursuant to the Scheme within one (1) year from the date of offer of such Options.

**14. ALTERATION OF SHARE CAPITAL DURING THE OPTION PERIOD**

14.1 In the event of any alteration in the capital structure of the Company during the Option Period, whether by way of capitalisation of profit or reserves, rights issue, bonus issue, subdivisions or consolidation of shares or capital reduction or any other variation of capital:

**14. ESOS (Cont'd)**

- (i) the Option Price; and/or
- (ii) the number of new ViTrox Shares comprised in the Option so far as unexercised

shall be adjusted in such manner as the external auditors of the Company for the time being (acting as experts and not as arbitrators), upon reference to them by the Option Committee, confirm in writing to be in their opinion, fair and reasonable, PROVIDED ALWAYS THAT:

- (i) no adjustment to the Option Price shall be made which would result in the new ViTrox Shares to be issued on the exercise of the Option being issued at a discount to par value, and if such an adjustment would but for this provision have so resulted, the Option Price payable shall be the par value of the new ViTrox Shares;
- (ii) upon any adjustment being made pursuant to this By-Law hereof, the Option Committee shall within thirty (30) days of the effective date of the alteration in the capital structure of the Company notify the Grantee (or his legal or personal representatives where applicable) in writing informing him of the adjusted Option Price thereafter in effect and/or the revised number of new ViTrox Shares thereafter to be issued on the exercise of the Option; and
- (iii) all Grantees or Eligible Employees are given the same proportion of the issued and paid-up share capital of the Company as they were previously entitled to, by ensuring the capital outlay to be incurred by them in exercising their Options remains unaffected. Where it is not practicable to ensure that the capital outlay to be incurred by the Grantees or Eligible Employees in exercising their options remains unaffected, the Company shall seek a waiver from the Bursa Securities from complying with the said requirement.

Nevertheless, the external auditors of the Company need not confirm, in writing, any adjustments to the Option Price and/or the number of new ViTrox Shares comprised in the Option so far as unexercised arising from bonus issues.

Should there be other circumstances which give rise to a consideration for adjustments to the Option Price or the number of new ViTrox Shares in favour of all Grantees, but it is decided that no adjustments will be made, such decision must be made known to all the Grantees via a timely notice subject to compliance with the Listing Requirements.

14.2 In addition to By-Law 14.1 and not in derogation thereof, the Option Price and the number of Options which a Grantee is entitled to shall from time to time be adjusted in accordance with the following relevant provisions in consultation with the merchant bank and/or the auditors:

- (a) If and whenever a ViTrox Share by reason of any consolidation or subdivision or conversion shall have a different par value, the Option Price shall be adjusted by multiplying it by the revised par value and dividing the result by the former par value and the additional number of Options which a Grantee may be entitled to be issued with shall be calculated in accordance with the following formula:

$$\text{Additional number of Options} = T \times \left[ \frac{\text{Former Par Value}}{\text{Revised Par Value}} \right] - T$$

Where T = existing number of Options held

Each such adjustment will be effective from the close of business on the next Market Day following the date on which the consolidation or subdivision or conversion becomes effective (being the date when ViTrox Shares are traded on Bursa Securities at the new par value), or such period as may be prescribed by Bursa Securities.

- (b) If and whenever the Company shall make any issue of ViTrox Shares to ordinary shareholders credited as fully paid-up, by way of capitalisation of profits or reserves (whether of a capital

**14. ESOS (Cont'd)**

or income nature and including any share premium account and capital redemption reserve fund), the Option Price shall be adjusted multiplying it by the following fraction:

$$\frac{A}{A + B}$$

and the additional number of Options which a Grantee may be entitled to be issued with shall be calculated as follows:

$$\text{Additional number of Options} = \left[ T \times \frac{A + B}{A} \right] - T$$

Where

A = The aggregate number of issued and paid-up ViTrox Shares immediately before such capitalisation issue

B = The aggregate number ViTrox Shares to be issued pursuant to any allotment to ordinary shareholders credited as fully paid-up by way of capitalisation of profit or reserves (whether of a capital or income nature and including any share premium account and capital redemption reserve fund)

T = Existing number of Options held

The adjustment pursuant to this By-Law shall be made on the day immediately following the books closure date for such issue.

- (c) If and whenever the Company shall make:
- (i) a Capital Distribution (as defined below) to ordinary shareholders whether on a reduction of capital or otherwise (but excluding any cancellation of capital which is lost or unrepresented by available assets);
  - (ii) any offer or invitation to its ordinary shareholders whereunder they may acquire or subscribe for ViTrox Shares by way of rights; or
  - (iii) any offer or invitation to ordinary shareholders by way of rights whereunder they may acquire or subscribe for securities convertible into ViTrox Shares or securities with rights to acquire or subscribe for ViTrox Shares,

then and in respect of each such case, the Option Price shall be adjusted by multiplying it by the following fraction:

$$\frac{C - D}{C}$$

and in respect of each such case referred to in By-Law 14.2(c)(ii) hereof, the number of additional Options which a Grantee may be entitled to be issued with, shall be calculated as follows:

$$\text{Additional number of Options} = \left[ T \times \frac{C}{C - D} \right] - T$$

Where



**14. ESOS (Cont'd)**

- T = Existing number of Options held
- C = The current market price of each ViTrox Shares on the Market Day immediately preceding the date on which the Capital Distribution or, as the case may be, the offer or invitation is publicly announced to Bursa Securities or (failing any such announcement) immediately preceding the date of the Capital Distribution or, as the case may be, of the offer or invitation
- D = (i) In the case of an offer or invitation to acquire or subscribe for ViTrox share under By-Law 14.2(c)(ii) above or for securities convertible into or with rights to acquire or subscribe for ViTrox Shares under By-Law 14.2(c)(iii) above, the value of rights attributable to one (1) ViTrox Share (as defined below); or
- (ii) In the case of any other transaction falling within By-Law 14.2(c) hereof, the fair market value as determined (with the concurrence of the auditor) by the merchant bank of that portion of the capital distribution attributable to one (1) ViTrox Shares.

For the purpose of definition (i) of D above, the “value of rights attributable to one (1) ViTrox Share” shall be calculated in accordance with the formula:

$$\frac{C - E}{F + 1}$$

Where

- C = As C above
- E = The subscription price for one (1) additional ViTrox Share under the terms of offer or invitation or one (1) additional security convertibles into ViTrox Shares or one (1) additional security with rights to acquire or subscribe for ViTrox Shares
- F = The number of ViTrox Shares which it is necessary to hold in order to be offered or invited to acquire or subscribe for one (1) additional ViTrox Share or security convertible into ViTrox Shares or rights to acquire or subscribe for ViTrox Shares

In the case of paragraphs 14.2(c)(ii) and 14.2 (c)(iii) hereof, the number of additional Options which a Grantee may be entitled to be issued, shall be calculated as follows:

$$\text{Additional number of Options} = T \times \frac{C}{C - D^*} - T$$

- D\* = The value of rights attributable to one (1) ViTrox Share (as defined below)

For the purpose of definition D\* above, the “value of rights attributable to one (1) ViTrox Share” shall be calculated in accordance with the formula:

$$\frac{C - E^*}{F^* + 1}$$

Where

**14. ESOS (Cont'd)**

- C = As C above
- E\* = The subscription price for one (1) additional ViTrox Share under the terms of offer or invitation
- F\* = The number of ViTrox Shares which it is necessary to hold in order to be offered or invited to acquire or subscribe for one (1) additional ViTrox Share

For the purpose of By-Law 14.2(c) hereof, "Capital Distribution" shall (without prejudice to the generality of that expression) include distribution in cash or specie or by way of issue of ViTrox Shares (not falling under By-Law 14.2(b) hereof) or other securities credited as fully or partly paid-up by way of capitalisation of profits or reserves (whether of a capital or income nature and including any share premium account or capital redemption reserve fund).

Any dividend charged or provided for in the account of any period shall (whenever paid and howsoever described) be deemed to be a Capital Distribution unless it is paid out of the aggregate of the net profits attributable to the ordinary shareholders as shown in the audited consolidated financial statements of the Company.

The adjustment pursuant to this By-Law shall be made on the day immediately following the books closure date for the above transactions.

- (d) If and whenever the Company makes any allotment to its ordinary shareholders as provided in By-Law 14.2(b) above and also makes any offer or invitation to its ordinary shareholders as provided in By-Laws 14.2(c)(ii) or (iii) above and the record date for the purpose of the allotment is also the book closure date for the purpose of the offer or invitation, the Option Price shall be adjusted by multiplying it by the following fraction:

$$\frac{(G \times C) + (H \times I)}{(G + H + B) \times C}$$

and where the Company makes any allotment to its ordinary shareholders as provided in By-Law 14.2(b) above and also makes any offer or invitation to its ordinary shareholders as provided in By-Law 14.2(c)(ii) above and the record date for the purpose of the allotment is also the record date for the purpose of the offer or invitation, the number of additional Options which a Grantee may be entitled to be issued with shall be calculated as follows:

$$\text{Additional number of Options} = \left[ \frac{T \times (G + H^* + B) \times C}{(G \times C) + (H^* \times I^*)} \right] - T$$

Where

- G = The aggregate number of issued and fully paid-up ViTrox Shares on the book closure date
- C = As C above
- H = The aggregate number of new ViTrox Shares under an offer or invitation to acquire or subscribe for ViTrox Shares by way of rights or under an offer or invitation by way of rights to acquire or subscribe for securities convertible into ViTrox Shares as the case may be
- H\* = The aggregate number of new ViTrox Shares under an offer or invitation to acquire or subscribe for ViTrox Shares by way of rights
- I = The subscription price of one (1) additional ViTrox Share under the offer or invitation to acquire or subscribe for ViTrox Shares or the exercise price on conversion of such securities or exercise of such rights to acquire or subscribe

**14. ESOS (Cont'd)**

for one (1) additional ViTrox Share, as the case may be

- I\* = The Option Price of one (1) additional ViTrox Share under the offer or invitation to acquire or subscribe for ViTrox Shares
- B = As B above
- T = As T above

The adjustment pursuant to this By-Law shall be made on the day immediately following the books closure date for such issue.

- (e) If and whenever the Company makes any offer or invitation to its ordinary shareholders to acquire or subscribe for ViTrox Shares as provided in By-Law 14.2(c)(ii) above together with an offer or invitation to acquire or subscribe for securities convertible into or rights to acquire or subscribe for ordinary shareholders as provided in By-Law 14.2(c)(iii) above, the Option Price shall be adjusted by multiplying it by the following fraction:

$$\frac{(G \times C) + (H \times I) + (J \times K)}{(G + H + J) \times C}$$

and the number of additional Options which a Grantee may be entitled to be issued with shall be calculated as follows:

$$\text{Additional number of Options} = \left[ \frac{T \times (G + H^*) \times C}{(G \times C) + (H^* \times I^*)} \right] - T$$

Where

- G = As G above
- C = As C above
- H = As H above
- H\* = As H\* above
- I = As I above
- I\* = As I\* above
- J = The aggregate number of ViTrox Shares to be issued to its ordinary shareholders upon conversion of such securities or exercise of such rights to subscribe for ViTrox Shares by the ordinary shareholders
- K = The exercise price on conversion of such securities or exercise of such rights to acquire or subscribe for one (1) additional ViTrox Share
- T = As T above

The adjustment pursuant to this By-Law shall be made on the day immediately following the books closure date for the above transactions.

- (f) If and whenever the Company makes an allotment to its ordinary shareholders as provided in By-Law 14.2(b) above and also makes an offer or invitation to acquire or subscribe for ViTrox Shares to its ordinary shareholders as provided in By-Law 14.2(c)(ii) above, together with rights to acquire or subscribe for securities convertible into or with rights to acquire or subscribe for ViTrox Shares as provided in By-Law 14.2(c)(iii) above, and the books closure

**14. ESOS (Cont'd)**

date for the purpose of the offer or invitation, the Option Price shall be adjusted by multiplying it by the following fraction:

$$\frac{(G \times C) + (H \times I) + (J \times K)}{(G + H + J + B) \times C}$$

and the number of additional Options which a Grantee shall be entitled to be issued with shall be calculated as follows:

$$\text{Additional number of Options} = \left[ \frac{T \times (G + H^* + B) \times C}{(G \times C) + (H^* \times I^*)} \right] - T$$

Where

- G = As G above
- C = As C above
- H = As H above
- H\* = As H\* above
- I = As I above
- I\* = As I\* above
- J = As J above
- T = As T above
- K = As K above
- B = As B above

The adjustment pursuant to this By-Law shall be made on the day immediately following the books closure date for the above transactions.

- (g) If and whenever (otherwise than pursuant to a rights issue available to all ordinary shareholders and requiring an adjustment under By-Law 14.2(c)(ii), (c)(iii), (d), (e) or (f) above), the Company shall issue either any ViTrox Shares or any securities convertible into ViTrox Shares or any rights to acquire or subscribe for ViTrox Shares, and in any such case, the total effective consideration per ViTrox Share (as defined below) is less than 90% of the average price for one (1) ViTrox Share (as defined below) or, as the case may be, the price at which the ViTrox Shares will be issued upon conversion of such securities or exercise of such rights is determined, the Option Price shall be adjusted by multiplying it by the following fraction:

$$\frac{L + M}{L + N}$$

Where

- L = The number of ViTrox Shares in issue at the close of business on the Market Day immediately preceding the date on which relevant adjustment becomes effective
- M = The number of ViTrox Shares which the Total Effective Consideration (as

**14. ESOS (Cont'd)**

defined below) would have purchased at the average price (exclusive of expenses)

N = The aggregate number of ViTrox Shares so issued or, in the case of securities convertible into ViTrox Shares or rights to acquire or subscribe for ViTrox Shares, the maximum number (assuming no adjustment of such rights) of ViTrox Shares issuable upon full conversion of such securities or the exercise in full of such rights

For the purpose of By-Law 14.2(g), the "Total Effective Consideration" shall be determined by the Board of ViTrox with the concurrence of the merchant bank and shall be:

- (i) In the case of the issue of ViTrox Shares, the aggregate consideration receivable by the Company on payment in full for such ViTrox Shares; or
- (ii) In the case of the issue by the Company of securities wholly or partly convertible into ViTrox Shares, the aggregate considerations receivable by the Company on payment in full for such securities or such part of the securities as is convertible together with the total amount receivable by the Company upon full conversion of such securities (if any); or
- (iii) In the case of the issue by the Company of securities with rights to acquire or subscribe for ViTrox Shares, the aggregate considerations attributable to the issue of such rights together with the total amount receivable by the Company upon full exercise of such rights;

in each case without any deduction of any commission, discount or expenses paid, allowed or incurred in connection with the issue thereof, and the "Total Effective Considerations per ViTrox Share" shall be the Total Effective Consideration divided by the number of ViTrox Shares issued as aforesaid or, in the case of securities convertible into ViTrox Shares or securities with rights to acquire or subscribe for ViTrox Shares, by the maximum number of ViTrox Shares issuable on full conversion of such securities or on exercise in full of such rights.

For the purpose of By-Law 14.2(h), the average price of a ViTrox Share shall be the average price of one (1) ViTrox Shares as derived from the last dealt prices for one or more board lots of ViTrox Shares as quoted on Bursa Securities on the Market Days comprised in the period used as a basis upon which the issue price of such ViTrox Shares is determined.

Each such adjustment will be calculated (if appropriate retroactively) from the close of business on Bursa Securities on the Market Day next following the date on which the issue is announced, or (failing any such announcement) on the Market Day next following the date on which the Company determines the offering price of such ViTrox Shares. Each such adjustment will be effective (if appropriate retroactively) from the commencement of the Market Day next following the completion of the above transactions.

14.3 The provisions of this By-Law shall not apply where the alteration in the capital structure of the Company arises from:

- (a) the issue of securities as consideration for an acquisition;
- (b) a special issue of new ViTrox Shares to Bumiputera parties approved by the Ministry of International Trade and Industry, Malaysia and/or other Government authorities to comply with the Government policy on Bumiputera capital participation;
- (c) a private placement or restricted issue of new ViTrox Shares by the Company;
- (d) a share buy-back arrangement by the Company pursuant to the Section 67A of the Act;

**14. ESOS (Cont'd)**

- (e) an issue of new ViTrox Shares arising from the exercise of any conversion rights attached to securities convertible to new ViTrox Shares or upon exercise of any other rights including warrants (if any) issued by the Company; and
- (f) an issue of new ViTrox Shares upon the exercise of Options pursuant to the Scheme.

14.4 An adjustment pursuant to this By-Law shall be made according to the following terms:

- (i) In the case of a rights issue, bonus issue or other capitalisation issue, on the Market Day immediately following the entitlement date in respect of such issue; or
- (ii) In the case of a consolidation or subdivision of shares or reduction of capital, on the Market Day immediately following the date of allotment of new ViTrox Shares in respect of such consolidation, subdivision or reduction.

**15. QUOTATION OF SHARES**

The new ViTrox Shares referred to in By-Law 3 above and the new ViTrox Shares (if any) to be allotted and issued to the Grantee will not be listed or quoted on the Bursa Securities until the Option is exercised in accordance with By-Law 9 above whereupon the Company shall within ten (10) Market Days or such other period as may be prescribed by the Bursa Securities, from the date of receipt of notice referred to in By-Law 9.1 and the remittance for the full amount of the subscription monies for the new ViTrox Shares referred to in By-Law 9.3, make the necessary application to the Bursa Securities for the listing of and quotation for such new ViTrox Shares and use its best endeavours to obtain such approval.

The Option Committee, the Company and the officers and agents of the Company, shall not under any circumstances be held liable for any costs, expenses, charges and damages whatsoever and howsoever arising in any event relating to the delay on the part of the Company in allotting and issuing the new ViTrox Shares or in procuring the Bursa Securities to list the new ViTrox Shares.

**16. RANKING OF NEW VITROX SHARES**

The new ViTrox Shares to be allotted upon any exercise of any Options granted shall upon allotment and issue, rank *pari passu* in all respects with the existing ViTrox Shares PROVIDED ALWAYS that the new ViTrox Shares so allotted will not be entitled to any dividends, rights, allotments and/or other distributions unless such new ViTrox Shares are specified as being credited to the Securities Account of the Grantee in the Record of Depositors issued by Bursa Depository at the request of the Company for the purpose of determining persons entitled to such dividends, rights, allotments, and/or other distributions in accordance with the Company's Articles of Association.

**17. ADMINISTRATION**

The Scheme shall be administered by the Option Committee on behalf of the Board. The Option Committee shall consist of such persons appointed by the Board. The Option Committee shall administer the Scheme in such manner as it shall in its discretion deem fit. For the purpose of administering the Scheme, the Option Committee may do all such acts and things and enter into any transactions, agreements, deeds, documents or arrangements, and make rules, regulations or impose terms and conditions or delegate part of its power relating to the administration of the Scheme, as the Option Committee may in its discretion deem fit necessary and/or expedient for the implementation of the Scheme. The Board shall have power from time to time to rescind the appointment of any person to the Option Committee as it deems fit.

**14. ESOS (Cont'd)**

The Board shall have power at any time and from time to time to assume and/or exercise or execute any of the powers and authorities conferred upon the Option Committee pursuant to this By-Law.

**18. AMENDMENT AND/OR MODIFICATION TO THE SCHEME**

The Board shall have the power at any time and from time to time by resolution to amend and/or modify all or any of the provisions of the Scheme PROVIDED THAT no such amendment and/or modification shall be made which would either materially prejudice the rights then accrued to any Grantee without the Grantee's prior consent or be to the advantage of any Grantee in respect of any provisions of the Scheme without the prior approval of the Company's shareholders in a general meeting. Upon amending and/or modifying all or any of the provisions of the Scheme, the Company shall submit to the Bursa Securities the amendments to the By-Laws together with a letter of compliance written by a person with legal qualifications or the adviser confirming that the provisions of the By-Laws comply with the provisions of the Listing Requirements on ESOS and the Rules of Bursa Depository, no later than five (5) Market Days after the effective date of the said amendments.

**19. DURATION OF THE SCHEME**

19.1 The Scheme shall be in force for a period of five (5) years commencing from the effective date for the implementation of the Scheme, which shall be the date of the letter of compliance with the Listing Requirements including the following:

- (i) submission of the final copy of the By-Laws of the Scheme to Bursa Securities pursuant to Rule 3.14.6 of the Listing Requirements;
- (ii) receipt of approval-in-principle for the issuance and listing of the ViTrox Shares to be issued under the Scheme from Bursa Securities;
- (iii) procurement of shareholders' approval for the Scheme;
- (iv) receipt of approval of any other relevant authorities, where applicable; and
- (v) fulfilment of all conditions attached to the above approvals, if any.

19.2 Upon the expiry of the Scheme, the Board shall have the discretion to extend the Duration of the Scheme PROVIDED THAT any extension of the Scheme shall be for a maximum duration of five (5) years.

**20. TERMINATION OF THE SCHEME**

Notwithstanding the provisions of By-Law 19, the Company has the right to terminate the Scheme at any time during the duration of the Scheme provided the following approval(s)/consent are obtained:

- (i) consent of the shareholders of the Company at a general meeting wherein at least a majority of the shareholders present voted in favour of the termination; and
- (ii) written consent of all Grantees who have yet to exercise their Options, either in part or in whole.

**21. SUBSEQUENT EMPLOYEES' SHARE OPTION SCHEME**

The Company may establish a new employees' share option scheme after the expiry of the Scheme or upon termination of the Scheme subject to the approval of the Bursa Securities, shareholders of the Company at a general meeting and any other relevant authorities/parties, and the provisions of By-Law 20.

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**14. ESOS (Cont'd)**

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**22. DISPUTES**

In the event of any dispute between the Option Committee and an Eligible Employee or Grantee, as to any matter or thing of any nature arising hereunder, the Option Committee shall determine such dispute or difference by a written decision given to the Eligible Employee or Grantee, as the case may be. The said decision shall be final and binding on the parties unless the Eligible Employee or Grantee, as the case may be, shall dispute the same by written notice to the Option Committee within fourteen (14) days of the receipt of the written decision, in which case such dispute shall be referred to the decision of the external auditors of the Company for the time being, acting as experts and not as arbitrators, whose decision shall be final and binding in all respects.

**23. COMPENSATION**

23.1 An Eligible Employee or Grantee who ceases to hold office or employment shall not be entitled to any compensation for the loss of any right or benefit or prospective right or benefit under the Scheme which he might otherwise have enjoyed whether such compensation is claimed by way of damages for wrongful dismissal or other breach of contract or by way of compensation for loss of office.

23.2 No Eligible Employee or Grantee or legal or personal representatives shall bring any claim, action or proceeding against the Company or the Option Committee or any other party for compensation, loss or damages whatsoever and howsoever arising from the suspension of his rights to exercise his Option or his Option ceasing to be valid pursuant to the provisions of these By-Laws, or as the same may be amended from time to time in accordance with By-Law 18 hereof.

**24. SUBSIDIARIES OF VITROX**

In the event there is any new member to the ViTrox Group as a result of any acquisition or incorporation of any Subsidiary during the tenure of this Scheme, the Scheme shall apply to such eligible employees of the new Subsidiaries falling within the expression of "Eligible Employee" under By-Law 1 hereof and the provisions of these By-Laws shall apply.

**25. DIVESTMENT FROM THE GROUP**

If a Grantee who was in the employment of a member of the Group which has ceased to be a Subsidiary as a result of a restructuring or divestment exercise or otherwise (other than a takeover under By-Law 11 hereof) then such Grantee:

- (i) may be entitled to continue to exercise all such unexercised Options which were granted to him under the Scheme within a particular time frame determined within the Option Period at the discretion of the Option Committee, failing which the right granted to such Grantee to subscribe for that number of new ViTrox Shares or any part thereof granted under such unexercised Options shall automatically lapse; and
- (ii) shall not be eligible to participate for further Options under the Scheme.

**26. LIQUIDATION OF THE COMPANY**

In the event of any proceedings of winding up to the Company, all unexercised Options shall be suspended until the winding up proceedings are withdrawn or resolved subsequent to which only any unexercised Options shall be allowed to be exercised, PROVIDED ALWAYS the exercise of the Options is within the Option Period.



**14. ESOS (Cont'd)**

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**27. COSTS AND EXPENSES**

All costs and expenses incurred in relation to the Scheme including but not limited to the costs and expenses relating to the issue and allotment of the new ViTrox Shares upon the exercise of any Option shall be borne by the Company.

**28. NOT A TERM OF EMPLOYMENT**

This Scheme does not form part nor shall it in any way be construed as part of the terms and conditions of employment of any employee of the Group.

**29. ARTICLES OF ASSOCIATION**

Notwithstanding the terms and conditions contained in this Scheme, if a situation of conflict should arise between this Scheme and the Articles of Association of the Company, the provisions of the Articles of Association of the Company shall at all times prevail.

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