

**12. FINANCIAL INFORMATION (Cont'd)****Other operating income**

The components of other operating income for the financial years/periods under review were as follows:

	<--- Pro forma --->		Audited	Audited	
	FYE 30 September			6-month FPE 31 March	
	2006	2007	2008	2008	2009
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Allowance for diminution in value written back	20	38	-	9	-
Bad debts recovered	-	2	1	1	2
Dividend received from quoted investments	4	8	3	1	3
Gain on disposal of property, plant and equipment	77	-	6	14	12
Gain on disposal of shares	-	4	-	2	-
Gain on foreign exchange	43	-	6	3	180
Insurance claim received	5	41	39	18	3
Insurance commission received	2	-	7	-	1
Interest received	73	66	42	10	2
Allowance for doubtful debts written back	207	24	157	81	2
Miscellaneous income	14	200	11	-	1
	<b>445</b>	<b>383</b>	<b>272</b>	<b>139</b>	<b>206</b>

Other operating income mainly comprises provisions for doubtful debts written back, interest income, gains on disposal of assets, gains on foreign exchange and insurance claims. Other operating income for the FYE 30 September 2006 was higher due to the large provisions for doubtful debts written back. For the FYE 30 September 2007, other operating income was mainly explained by the forfeiture of part of the purchase consideration for the acquisition of the tissue culture operations, due to the failure of the vendor to meet certain conditions of the said sales and purchase agreement.

**Operating expenses**

Our operating expenses comprise selling and marketing expenses and administrative expenses.

Selling and marketing expenses mainly comprise transport expenses, advertising and promotion, as well as sales incentives. It constituted 7.20%, 7.90%, 7.27% and 10.71% of our revenue for the FYE 30 September 2006, 2007, 2008 and six (6)-month FPE 31 March 2009.

Administrative expenses mainly comprise salaries and related expenses, office maintenance and regulatory compliance related expenses. It constituted 11.29%, 10.76%, 9.02% and 10.03% of our revenue for the FYE 30 September 2006, 2007, 2008 and six (6)-month FPE 31 March 2009.

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**12. FINANCIAL INFORMATION (Cont'd)****Research and development costs**

Expenditure on research activities is recognised as an expense in the year/period in which it is incurred. Our research and development costs for the financial years/period under review are set out in Section 6.17.8 of this Prospectus.

**Finance costs**

Our finance costs mainly comprise interest charges on our bank borrowings. The bank borrowings comprise bank overdrafts, bills payable, hire purchase facilities and term loans. Details of the interest rates charged based on these bank borrowing facilities are set out in Section 12.4.4 of this Prospectus.

**Tax**

All tax expenses represent the tax charges provided in respect of assessable profits derived from our operations in Malaysia and Singapore. As a result, our operations were taxed in accordance with the prevailing tax regulations in Malaysia and Singapore. Our tax expense comprises current tax payable and deferred tax.

Our effective tax rates, being tax expenses as a percentage of our PBT for the financial years/periods under review are as follows:

	<--- Pro forma --->		Audited	Audited	
	FYE 30 September			6-month FPE 31 March	
	2006	2007	2008	2008	2009
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Effective tax rate*	20.44	19.07	18.20	19.96	26.27
Malaysian statutory tax rate*	28.00	27.00	26.00	26.00	25.00

Note:

\* However, there is no tax charged against our Singapore subsidiary, namely Halex Chemicals (S) as it is in a tax loss position, and it has sufficient unabsorbed losses to offset against its profit over the past financial years/periods under review.

For the three (3) financial years up to the FYE 30 September 2008, the effective tax rates of our Group were lower than the statutory tax rates due to sufficient unutilised capital allowances and/or reinvestment allowances to offset against the profit for the years.

However, for the six (6)-month FPE 31 March 2009, the effective tax rate of our Group was marginally higher than the statutory tax rate mainly due to certain expenses being not deductible for income tax purposes.

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## 12. FINANCIAL INFORMATION (Cont'd)

## 12.2.2 Our results of operations

Detailed analysis of revenue and operating profit

## (a) Revenue

	<--- Pro forma --->		Audited	Audited	
	FYE 30 September			6-month FPE 31	
	2006	2007	2008	2008	2009
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
<b>By companies</b>					
HALEX	-	3,722	993	993	22,298
Halex (M)	39,756	44,494	59,563	29,179	18,146
Halex Woolton	22,318	26,514	34,123	16,025	16,837
Halex Industries	12,105	14,423	16,763	10,512	4,814
Halex Biotechnologies	5,635	6,322	5,839	2,668	3,536
Halex Chemicals (S)	473	-	-	-	40
Halex Trading	648	1,096	1,215	780	250
Halex Realty	<sup>^</sup>	<sup>^</sup>	<sup>^</sup>	-	-
	80,935	96,571	118,496	60,157	65,921
Less: Inter-company transactions	(11,485)	(18,330)	(17,599)	(11,818)	(26,809)
	69,450	78,241	100,897	48,339	39,112
<b>By products and services</b>					
Agrochemicals					
Pesticides	34,720	38,352	48,455	26,187	16,455
Fertilisers	3,982	3,026	4,036	1,385	1,372
Others	2,881	4,115	8,538	2,110	943
Horticulture	5,300	5,651	5,514	2,513	3,301
Tissue culture	293	630	282	145	235
Healthcare disposables	22,274	26,467	34,072	15,999	16,806
Others	<sup>^</sup>	<sup>^</sup>	<sup>^</sup>	<sup>^</sup>	<sup>^</sup>
	69,450	78,241	100,897	48,339	39,112
<b>By activities</b>					
Agrochemicals					
Manufacturing	22,513	28,695	42,772	21,901	12,551
Formulation and analysis	438	374	342	157	93
Handling and re-packaging	77	67	62	28	31
Distribution	13,530	8,289	10,683	4,213	4,005
Agency	5,025	8,068	7,170	3,383	2,090
Horticulture	5,300	5,651	5,514	2,513	3,301
Tissue culture	293	630	282	145	235
Healthcare disposables					
Manufacturing	22,099	26,212	33,763	15,896	16,590
Trading	175	255	309	103	216
Others	<sup>^</sup>	<sup>^</sup>	<sup>^</sup>	<sup>^</sup>	<sup>^</sup>
	69,450	78,241	100,897	48,339	39,112
<b>By geographical</b>					
Local	52,668	61,040	76,210	36,700	29,812
Export	16,782	17,201	24,687	11,639	9,300
	69,450	78,241	100,897	48,339	39,112

Note:

<sup>^</sup> Negligible

## 12. FINANCIAL INFORMATION (Cont'd)

## (b) Gross profit/(loss)

	<--- Pro forma --->		Audited	Audited	
	FYE 30 September			6-month FPE 31 March	
	2006	2007	2008	2008	2009
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
<b>By companies</b>					
HALEX	-	3,722	993	993	22,298
Halex (M)	10,777	11,591	11,871	5,705	4,217
Halex Woolton	5,275	6,794	9,034	4,366	3,965
Halex Industries	1,965	2,235	2,318	1,508	608
Halex Biotechnologies	3,839	4,417	3,759	1,802	2,297
Halex Chemicals (S)	171	-	-	-	6
Halex Trading	101	168	137	89	37
Halex Realty	^	^	^	-	-
	22,128	28,927	28,112	14,463	33,428
Less: Inter-company transactions	(41)	(3,756)	(990)	(983)	(22,295)
	22,087	25,171	27,122	13,480	11,133
<b>By products and services</b>					
Agrochemicals					
Pesticides	10,994	11,514	11,923	6,323	4,235
Fertilisers	1,023	1,063	1,032	427	356
Others	992	1,415	1,373	562	281
Horticulture	3,736	4,273	3,994	1,808	2,343
Tissue culture	67	112	(234)	(6)	(47)
Healthcare disposables	5,275	6,794	9,034	4,366	3,965
Others	^	^	^	^	^
	22,087	25,171	27,122	13,480	11,133
<b>By activities</b>					
Agrochemicals					
Manufacturing	7,161	7,582	8,584	4,528	2,920
Formulation and analysis	330	282	258	119	70
Handling and re-packaging	29	25	23	11	11
Distribution	3,615	2,569	2,270	1,152	1,157
Agency	1,874	3,534	3,193	1,502	714
Horticulture	3,736	4,273	3,994	1,808	2,343
Tissue culture	67	112	(234)	(6)	(47)
Healthcare disposables					
Manufacturing	5,230	6,736	8,969	4,348	3,913
Trading	45	58	65	18	52
Others	^	^	^	^	^
	22,087	25,171	27,122	13,480	11,133
<b>By geographical</b>					
Local	15,676	18,901	19,378	9,333	7,595
Export	6,411	6,270	7,744	4,147	3,538
	22,087	25,171	27,122	13,480	11,133

Note:

^ Negligible

**12. FINANCIAL INFORMATION (Cont'd)****(c) Gross profit/(loss) margin**

	<--- Pro forma --->		Audited	Audited	
	FYE 30 September			6-month FPE 31	
	2006	2007	2008	2008	2009
	(%)	(%)	(%)	(%)	(%)
<b>By products and services</b>					
Agrochemicals					
Pesticides	31.66	30.02	24.61	24.15	25.74
Fertilisers	25.69	35.13	25.57	30.83	25.95
Others	34.43	34.39	16.08	26.64	29.80
Horticulture	70.49	75.61	72.43	71.95	70.98
Tissue culture	22.87	17.78	(82.98)	(4.14)	(20.00)
Healthcare disposables	23.68	25.67	26.51	27.29	23.59
Others	-	-	-	-	-
<b>By activities</b>					
Agrochemicals					
Manufacturing	31.81	26.42	20.07	20.67	23.27
Formulation and analysis	75.34	75.40	75.44	75.80	75.27
Handling and re-packaging	37.66	37.31	37.10	39.29	35.48
Distribution	26.72	30.99	21.25	27.34	28.89
Agency	37.29	43.80	44.53	44.40	34.16
Horticulture	70.49	75.61	72.43	71.95	70.98
Tissue culture	22.87	17.78	(82.98)	(4.14)	(20.00)
Healthcare disposables					
Manufacturing	23.67	25.70	26.56	27.35	23.59
Trading	25.71	22.75	21.04	17.48	24.07
Others	-	-	-	-	-
<b>By geographical</b>					
Local	29.76	30.96	25.43	25.43	25.48
Export	38.20	36.45	31.37	35.63	38.04

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**12. FINANCIAL INFORMATION (Cont'd)****(d) PAT excluding exceptional items**

	<--- Pro forma --->		Audited	Audited	
	FYE 30 September			6-month FPE 31 March	
	2006	2007	2008	2008	2009
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
<b>By companies</b>					
HALEX	(75)	2,910	695	701	22,291
Halex (M)	3,733	3,962	3,658	1,825	2,965
Halex Woolton	1,979	2,304	3,229	1,521	891
Halex Industries	843	876	1,176	876	43
Halex Biotechnologies	862	1,190	494	255	369
Halex Chemicals (S)	159	(11)	(13)	(9)	(2)
Halex Trading	75	104	74	46	20
Halex Realty	247	(3)	(2)	(1)	(2)
	<u>7,823</u>	<u>11,332</u>	<u>9,311</u>	<u>5,214</u>	<u>26,575</u>
Less: Inter-company transactions	(279)	(2,662)	(702)	(711)	(24,355)
	<u>7,544</u>	<u>8,670</u>	<u>8,609</u>	<u>4,503</u>	<u>2,220</u>
<b>By activities</b>					
Agrochemicals					
Manufacturing	2,189	1,439	1,123	781	108
Formulation and analysis	129	256	407	213	37
Handling and re-packaging	176	239	388	163	53
Distribution	1,385	1,176	880	593	483
Agency	1,001	2,173	2,216	1,060	338
Horticulture	850	1,162	1,054	434	532
Tissue culture	12	28	(560)	(180)	(163)
Healthcare disposables					
Manufacturing	1,866	2,206	3,141	1,476	831
Trading	14	11	4	(1)	10
Others	(78)	(20)	(44)	(36)	(9)
	<u>7,544</u>	<u>8,670</u>	<u>8,609</u>	<u>4,503</u>	<u>2,220</u>

**Commentary on financial performance****FYE 30 September 2007 compared to FYE 30 September 2006*****Turnover***

Our revenue increased by approximately RM8.79 million or 12.66% from approximately RM69.45 million for the FYE 30 September 2006 to approximately RM78.24 million for the FYE 30 September 2007. The increase in revenue was mainly contributed by the sales of pesticides, particularly our Paraquat-based pesticides due to the lifting of a ban to sell and distribute Paraquat-based pesticides in November 2006 by the Pesticides Board of Malaysia. The sale of Paraquat-based pesticides was restricted by the Pesticides Board of Malaysia vide its letter dated 26 August 2005. Following the lifting of the ban on Paraquat-based pesticides, our finished Paraquat-based pesticides and Paraquat technical were re-registered by the Pesticides Board of Malaysia in mid-February 2007 and August 2007 respectively.

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**12. FINANCIAL INFORMATION (Cont'd)**

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In March 2006, we acquired our own tissue culture operations to produce orchid plantlets and experiment on some new plant varieties. As such, we recorded higher revenue from our tissue culture operations improved from approximately RM293,000 for the FYE 30 September 2006 to approximately RM630,000 for the FYE 30 September 2007.

In July 2006, our TenderSoft brand was recognised and presented with the Superbrands Malaysia award from Asian Integrated Media Limited, Hong Kong. With our strong brand name and continued intensive marketing efforts, we also continued to enjoy strong demand for our healthcare disposable products, particularly our tissue-based products.

***Gross profit and gross profit margin***

We recorded a slight improvement in our gross profit margin of 32.17% for the FYE 30 September 2007 compared to approximately 31.80% for the FYE 30 September 2006. This was mainly due to the new launching of Pleo® 10.6EC insecticides in Malaysia, which yielded a higher gross profit margin.

Furthermore, our gross profit margin was also explained by the sales of our horticulture products, which yielded a higher gross profit margin as they are mainly exported products.

We also enjoyed the efficient usage of our healthcare disposables production facilities due to greater demand for our healthcare disposable products, after we have regained our market share in the healthcare disposables industry during this financial year.

***PAT and net profit margin***

In line with the improvement in our gross profit margin, we recorded a higher PAT and net profit margin of approximately RM8.67 million and 11.08% respectively for the FYE 30 September 2007, as compared to a PAT and net profit margin of approximately RM7.54 million and 10.86% respectively for the FYE 30 September 2006.

**FYE 30 September 2008 compared to FYE 30 September 2007*****Turnover***

For the FYE 30 September 2008, we recorded higher revenue of approximately RM100.90 million. During the financial year, we enjoyed stronger demand for our agrochemicals due to the lifting of a ban to sell and distribute Paraquat-based pesticides in November 2006 by the Pesticides Board of Malaysia, and the subsequent re-registration of our finished Paraquat-based pesticides and Paraquat technical in mid-February 2007 and August 2007 respectively, as well as good commodity prices, such as oil palm and rubber prices. Our higher revenue was also mainly attributed to higher raw material costs, which we have partially passed on to customers in order to maintain our competitiveness in the market.

We also recorded higher revenue for our healthcare disposable products, in particular with respect to our wet wipes. Our wet wipes were certified as safe products in May 2007, after they have been tested for hypoallergenicity and irritancy by the Philippines Board of Dermatology, Department of Health.

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**12. FINANCIAL INFORMATION (Cont'd)**

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However, we experienced a decline in our tissue culture revenue due to the disruption of operation during the shifting of our tissue culture operations to our new tissue culture facility at our Ban Foo nursery in November 2007.

***Gross profit and gross profit margin***

We recorded a lower gross profit margin of approximately 26.88% for the FYE 30 September 2008 compared to approximately 32.17% for the FYE 30 September 2007. This was mainly due to higher raw material costs which we have partially passed on to customers, lower margins from our Paraquat-based pesticides and some of our agrochemicals tender contracts secured in 2007, lower contributions from our horticulture products, and disruption of our tissue culture operation.

However, we enjoyed a higher gross profit margin for our healthcare disposable products. This was mainly due to the strong contribution of our wet wipes which yields a higher gross profit margin, as well as the efficient usage of our production facilities due to greater demand for our healthcare disposable products. The gross profit margin of our wet wipes was further improved as a result of better profit margin generated from the export sales.

***PAT and net profit margin***

In line with our gross profit margin, we recorded a lower net profit margin of approximately 8.53% for the FYE 30 September 2008.

**Six (6)-month FPE 31 March 2009 compared to six (6)-month FPE 31 March 2008*****Turnover***

For the six (6)-month FPE 31 March 2009, we recorded lower revenue of approximately RM39.11 million compared to the six (6)-month FPE 31 March 2008 of approximately RM48.34 million. This was mainly due to lower demand for our agrochemicals as a result of sharp declines in commodities prices, as well as lower selling prices for our agrochemicals as a result of sharp declines in raw material prices.

However, there was an increase of approximately 31.36% in the sales of horticulture products compared to the six (6)-month FPE 31 March 2008, mainly due to the exports to Japan as the Yen strengthened against the Malaysian Ringgit.

Our tissue culture revenue increased by approximately 62.07% compared to the six (6)-month FPE 31 March 2008, as our tissue culture production has since June 2008, partially recovered from the disruption during and after the shifting of our tissue culture operations to our new tissue culture facility at our Ban Foo nursery in November 2007.

During the six (6)-month FPE 31 March 2009, we recorded marginally higher revenue for our healthcare disposable products. The increase in revenue for our healthcare disposable products was mainly contributed by the sales of our tissue products. While our revenue generated from our tissue products improved significantly, we recorded lower revenue for our wet wipes for the six (6)-month FPE 31 March 2009. This was mainly explained by the global economic slowdown, as consumers have less and uncertain disposable income to spend, and hence, are spending on more essential items only.



**12. FINANCIAL INFORMATION (Cont'd)*****Gross profit and gross profit margin***

We recorded a higher gross profit margin of approximately 28.46% for the six (6)-month FPE 31 March 2009 compared to approximately 27.89% for the six (6)-month FPE 31 March 2008. This was mainly due to the sharp decline in raw material prices, while we had reduced the selling prices for our agrochemicals to maintain our competitiveness in the agrochemicals market.

We recorded a higher gross loss for our tissue culture operations compared to the six (6)-month FPE 31 March 2008 as we have incurred substantial stock losses as a result of the disruption of our tissue culture operations during and after the shifting of our tissue culture operations to our new tissue culture facility at our Ban Foo nursery. However, our gross loss margin for the six (6)-month FPE 31 March 2009 of approximately 20.00% was lower than the gross loss margin for the FYE 30 September 2008 of approximately 82.98%.

For the six (6)-month FPE 31 March 2009, we recorded lower gross profit margin for our healthcare disposable products of 23.59% compared to approximately 27.29% for the six (6)-month FPE 31 March 2008. This was mainly due to higher contribution from our tissue products, which yields a lower gross profit margin, and lower contribution from our wet wipes, which yields a higher gross profit margin.

***PAT and net profit margin***

We recorded lower PAT and net profit margin of approximately RM2.20 million and 5.68% respectively for the six (6)-month FPE 31 March 2009, as compared to a PAT and net profit margin of approximately RM4.50 million and 9.32% respectively for the six (6)-month FPE 31 March 2008 on the back of lower turnover vis-à-vis fixed operating and administrative expenses.

***Effective tax rate***

For the three (3) financial years up to the FYE 30 September 2008, the effective tax rates of our Group were lower than the statutory tax rates due to sufficient unutilised capital allowances and/or reinvestment allowances to offset against the profit for the years.

However, for the six (6)-month FPE 31 March 2009, the effective tax rate of our Group was marginally higher than the statutory tax rate mainly due to certain expenses being not deductible for income tax purposes.

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**12. FINANCIAL INFORMATION (Cont'd)**

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**12.2.3 Factors and trends affecting our financial condition and results of operations**

Our Group's financial condition and results of operations have been, and will continue to be affected by amongst others, the following key factors:

**(a) Growth of the agriculture sector**

Our financial performance is dependent on the agriculture sector, as it is the main end-user market for the agrochemicals and agro-biotechnology industries in which we operate. For the six (6)-month FPE 31 March 2009, our agrochemicals business performance was affected by lower commodities prices, which resulted in lower demand for our agrochemical products.

Through the initiatives provided by the Government, agriculture activities have also increased in tandem, in light of the following factors:

- (i) growing demand for food production amidst declining production and food stocks, and growing demand for crops to produce biofuels. Even though crude oil prices have dropped significantly since the second half of 2008, the demand for biofuels is still relatively strong due to its advantage in reducing carbon emissions. As such, this will result in an increase in planting acreage and thus, the use of agrochemicals; and
- (ii) rising demand and awareness for more environmentally-friendly and healthier agriculture produce, which encourages wider use of organic practices and inputs, such as organic fertilisers and biological control agents.

*(Source: Independent Market Research Report by D&B Malaysia)*

Our Board believes that our development into the arena of biotechnology and our ability to produce alternatives between chemical inputs and organic inputs will provide timely support to the growth in this area.

**(b) Competition**

The agrochemicals industry is very competitive in both the global and local arenas. While there are only a handful of global players that produce proprietary products, there are many small generic pesticides players which operate in their own countries. Inherently, competitive factors would also affect our pricing and profitability. Due to minimal product differentiation, the disposable hygienic products industry is also subject to price competition.

However, our Directors are of the opinion that with our continuous emphasis on R&D to enhance product efficacy, cost effectiveness and environmental-friendliness through the development of new products while eyeing the potential to apply for Intellectual Property Rights, opening up new uses for existing products, enhancing and/or complementing efficacy of existing products and assessing alternative sources of raw materials, we are competent to face the challenges ahead. Our R&D efforts are evidenced by our expansion into biotechnology with our investments in tissue culture production and vermiculture facilities and laboratory as well as the expansion of our healthcare disposable products range.

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**12. FINANCIAL INFORMATION (Cont'd)**

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Furthermore, the threat from new entrants is relatively low due to high barriers of entry such as the tight regulations surrounding the pesticides industry, the requirement of industrial knowledge and technical competency in the industries that we operate in, the existence of patented products, as well as the capital intensiveness of our businesses.

Please also refer to Section 6.6 of this Prospectus for further information on our competitive strengths.

**(c) *Potential threat from illegal pesticides***

It is estimated that the local illegal pesticides market was worth more than RM41 million in 2007. The value of illegal pesticides traded locally has remained steady compared to the previous year as the increase in volume has been diluted by lower pricing. In addition, the price competition amongst the illegal traders has become a major threat to the industry.

*(Source: Independent Market Research Report by D&B Malaysia)*

However, the MCPA together with the DOA has carried out various media campaigns and awareness programmes to curb the sale and use of illegal pesticides. Through such campaigns and programmes, the public is informed of the grave consequences arising from the use of illegal pesticides and the harmful effects caused by usage of unregistered pesticides. In addition, a task force comprising various Government agencies, including the Pesticides Board of Malaysia of the DOA and the Royal Customs and Excise Department, Malaysia, has been established to act as the Government's enforcement arm to combat illegal pesticides trading.

Nevertheless, there can be no assurance that the efforts taken by the relevant authorities in combating illegal pesticides usage will be successful.

**(d) *Shortage of raw materials and fluctuations in the prices of raw materials***

Any surge in oil prices may cut into the profits of many companies in different industries. However, as is the industry norm, any price increase in raw materials of our agrochemicals, horticulture products or healthcare disposable products are passed on to customers. Although we are able to pass on any increase in the price of raw materials to our customers, we cannot assure that any fluctuation in price of the raw materials will not have an impact on our business and performance.

Drastic changes in weather patterns will also cause a disruption to the source of major raw materials, such as the yellow phosphorous for the productions of, among others, glyphosate and triclopyr herbicides, as well as chlorpyrifos insecticides.

However, based on our established long working relationships with our suppliers, many of whom we have been dealing with for more than 15 years, the Board is of the opinion that there would be constant supplies of raw materials at reasonable prices, which will in turn ensure minimal disruption to our operations.



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**12. FINANCIAL INFORMATION (Cont'd)**

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**(e) Government regulations and registrations of pesticides**

Difficulties in introducing new products and modifications in a timely manner may impact our continued profitability.

New products can require long development and testing periods. Furthermore, as set out in Section 6.15 of this Prospectus, it usually takes between eight (8) months to four (4) years to obtain the required approvals for a registered pesticide. Any delay in developing and releasing new products may undermine our business. However, our Directors believe that we would be able to continually develop and introduce new products and modifications that respond to our customers' needs. They are also of the opinion that our R&D achievements as set out in Section 6.17.6 of this Prospectus are strong testimonies of our R&D capabilities to develop marketable products in a timely manner.

**(f) Global economic outlook**

Our business is, to a large extent, subject to the general economic conditions in Malaysia and other countries where we operate in and market our products to or source our supplies from. A recession in the global economy, such as that being brought about or threatened by the current global financial crisis, could have an adverse impact on the overall demand for our products, which can in turn adversely affect our business operations and financial position.

There is no assurance that the factors which have contributed to the success of our Group in the past will continue to occur in the future. Our business performance, future plans and operations will inevitably be affected should there be any major change in global economic conditions. Our profitability may be affected in the event such changes directly or indirectly affect the countries where we operate in and market our products to or source our supplies from.

After taking into consideration the factors affecting our financial position and operations and risk factors relating to the industries that we operate in and our operation as set out in Sections 4.2 and 4.3 of this Prospectus, our future plans as set out in Section 6.22 of this Prospectus, and the outlook of the agriculture sector, agro-based input industry and healthcare disposables industry as set out in the Executive Summary of the Independent Market Research Report under Section 14 of this Prospectus, we are of the opinion that our future financial condition and results of operations will remain favourable in the long-run.

Our competitive strengths as set out in Section 6.6 of this Prospectus will also provide the foundation for the sustainability of our business and financial growth.

However, the factors affecting our financial position and operation as set out above and in Section 4 of this Prospectus are not exhaustive.

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## 12. FINANCIAL INFORMATION (Cont'd)

### 12.3 Reporting Accountants' Letter on the Pro Forma Consolidated Financial Information

*(Prepared for inclusion in this Prospectus)*

## LEOU & ASSOCIATES

Chartered Accountants (AF 0659)

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A Member Firm Of The  
Malaysian Institute of Accountants  
(Established under the Accountants Act 1967)  
Institut Akauntan Malaysia  
(Dibubuatkan di bawah Akta Akauntan 1967)

Date: 27 July 2009

The Board of Directors  
Halex Holdings Berhad  
No. 9, Jalan Taruka  
Tampoi Industrial Estate  
81200 Johor Bahru  
Johor Darul Takzim

Dear Sirs/Madam,

#### **HALEX HOLDINGS BERHAD ("HALEX" or the "Company") PROFORMA CONSOLIDATED FINANCIAL INFORMATION**

1. We have reviewed the proforma consolidated financial information of HALEX and its subsidiaries ("HALEX Group" or "Group") from the financial years ended 30 September 2006 to 30 September 2008 and the six (6) months financial period ended ("FPE") 31 March 2009, together with the Notes thereon (collectively known as "Proforma Consolidated Financial Information"), as set out in the Appendix to this letter for which the Directors of HALEX are solely responsible.
2. The Proforma Consolidated Financial Information has been prepared for illustrative purposes only, for inclusion in the Prospectus of HALEX to be dated 19 August 2009 in connection with the admission of HALEX on the Official List and the listing of and quotation for the entire enlarged issued and paid-up share capital of HALEX on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

#### **Responsibilities**

3. It is the sole responsibility of the Directors of HALEX to prepare the Proforma Consolidated Financial Information in accordance with the requirements of the Prospectus Guidelines in respect of Public Offerings issued by the Securities Commission ("Prospectus Guidelines").
4. It is our responsibility to form an opinion as required by the Prospectus Guidelines on the Proforma Consolidated Financial Information and our report is given to you solely for this, and for no other purpose.

#### **Basis of opinion**

5. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the proforma consolidated financial information in the Appendix with the audited consolidated financial statements of HALEX, considering the evidence supporting the adjustments and discussing the Proforma Consolidated Financial Information with the Directors of the HALEX Group.
6. As the Proforma Consolidated Financial Information is prepared for illustrative purposes only, such information, because of its nature, may not reflect the actual financial position, results and cash flows of the HALEX Group. Furthermore, such information does not purport to predict the future financial position, results and cash flows of the HALEX Group.

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**12. FINANCIAL INFORMATION (Cont'd)**

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7. In our opinion:

- a) the Proforma Consolidated Financial Information has been properly prepared on the bases set out in the Notes thereon and such bases are consistent with the accounting policies adopted by HALEX Group in the preparation of the audited financial statements of the HALEX Group.
- b) the audited financial statements used in the preparation of the Proforma Consolidated Financial Information were prepared in accordance with the Financial Reporting Standards, the Malaysian Accounting Standards Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other than Private Entities; and
- c) each material adjustment made to the information used in the preparation of the Proforma Consolidated Financial Information is appropriate for the purpose of preparing such financial information.

Yours faithfully,



**LEOU & ASSOCIATES**  
CHARTERED ACCOUNTANTS  
FIRM NO: AF-0659



**LEOU THIAM LAI**  
APPROVED COMPANY AUDITOR  
TREASURY APPROVAL NO. 1269/6/10 (J)

## 12. FINANCIAL INFORMATION (Cont'd)

### HALEX HOLDINGS BERHAD AND ITS SUBSIDIARIES

#### PROFORMA CONSOLIDATED FINANCIAL INFORMATION

##### I. PROFORMA GROUP AND BASIS OF PREPARATION

The Proforma Consolidated Financial Information of the Halex Group has been prepared based on the audited financial statements of HALEX and its subsidiaries for the past three (3) financial years ended 30 September 2008 and for the six (6) months FPE 31 March 2009, on the assumption that HALEX Group had been in existence throughout the financial years and periods being reported on. Throughout this report, the financial information for the six (6) months FPE 31 March 2008 is presented for comparative purposes only.

The audited reports of HALEX and its subsidiaries on all the abovementioned audited financial statements were reported without any qualification and the reports did not include any emphasis of matter.

The Proforma Consolidated Financial Information has been prepared in accordance with the Financial Reporting Standards, the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, which is consistent with the accounting policies previously adopted by the HALEX Group in the preparation of the audited financial statements of the HALEX Group, and after incorporating adjustments that are appropriate for the preparation of the Proforma Consolidated Financial Information.

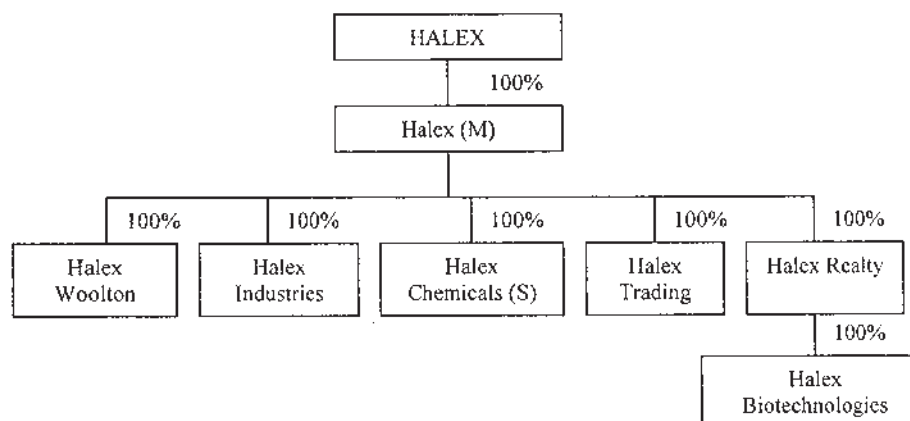
The proforma consolidated balance sheets and cash flow statements, together with the Notes thereon, have been prepared solely for illustrative purposes, to show the effect of the following flotation exercise had they been implemented and completed on 31 March 2009:-

##### Flotation Exercise

In conjunction with the listing of and quotation for the entire enlarged issued and paid-up share capital of HALEX on the Main Market of Bursa Securities, HALEX undertook the following flotation exercise:-

##### (a) Internal Restructuring

Prior to 22 January 2009, the corporate structure of the HALEX Group is set out below:-

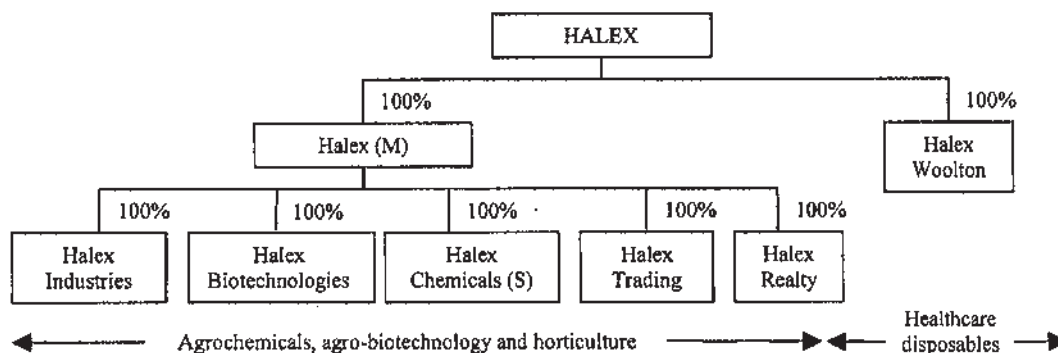


##### Notes:

“HALEX”	: Halex Holdings Berhad
“Halex (M)”	: Halex (M) Sdn Bhd
“Halex Biotechnologies”	: Halex Biotechnologies Sdn Bhd
“Halex Chemicals (S)”	: Halex Chemicals (S) Pte. Ltd.
“Halex Industries”	: Halex Industries (M) Sdn Bhd
“Halex Realty”	: Halex Realty Sdn Bhd
“Halex Trading”	: Halex Trading Sdn Bhd
“Halex Woolton”	: Halex Woolton (M) Sdn Bhd

## 12. FINANCIAL INFORMATION (Cont'd)

On 22 January 2009, the Company undertook an internal restructuring, which resulted in the corporate structure of the Group being segregated into two (2) distinct core business segments, being the agrochemicals, agro-biotechnology and horticulture business segment, and the healthcare disposables business segment. Upon completion of the internal restructuring, the corporate structure of the Group is depicted as follows:-



(b) **Share Split**

On 23 January 2009, HALEX undertook a share split of 12,280,000 ordinary shares to 24,560,000 ordinary shares by sub-dividing the par value of the ordinary share of RM1.00 per share in the Company to RM0.50 per share ("Share Split").

(c) **Declaration of Dividends**

An aggregate net dividend amount of RM2,378,110 for the six (6) months FPE 31 March 2009 has been declared and paid to the shareholder of Halex Industries, namely Halex (M) on 28 January 2009. Subsequently, an aggregate net dividend amount of RM22,297,723 for the six (6) months FPE 31 March 2009 has been declared and paid to the common shareholder of Halex (M) and Halex Woolton, namely HALEX on 28 January 2009 (collectively known as "Declaration of Dividends").



**12. FINANCIAL INFORMATION (Cont'd)****(d) Bonus Issue**

On 30 January 2009, the Company undertook a bonus issue of 45,440,000 new ordinary shares of RM0.50 each in HALEX ("HALEX Shares" or "Shares") ("Bonus Shares") on the basis of approximately two (2) Bonus Shares for every one (1) existing Share held in the Company ("Bonus Issue").

The Bonus Issue was effected through the capitalisation of the retained earnings and share premium of the Company, the details of which are as follows:-

	Company RM'000
<b>Retained earnings</b>	
Retained earnings before capitalisation for the Bonus Issue	(36)
Dividend received from the Declaration of Dividends	22,298
	22,262
Amount capitalised for the Bonus Issue	(21,538)
Audited as at 31 March 2009	724
<b>Share premium</b>	
Share premium before capitalisation for the Bonus Issue	1,182
Amount capitalised for the Bonus Issue	(1,182)
Audited as at 31 March 2009	-

The Bonus Shares rank *pari passu* in all respects with the existing issued Shares including voting rights and rights to all dividends and distributions, the entitlement date of which are subsequent thereof.

The Bonus Issue was completed on 30 January 2009, and the issued and paid-up share capital of HALEX has increased from RM12,280,000 comprising 24,560,000 Shares to RM35,000,000 comprising 70,000,000 Shares.

**(e) Public Issue**

HALEX shall issue 10,000,000 new Shares ("Public Issue Shares") at an issue price of RM0.78 per Share to be allocated in the following manner: -

- (a) 2,000,000 Public Issue Shares will be made available for application by the eligible employees;
- (b) 2,000,000 Public Issue Shares will be allocated by way of private placement to selected investors; and
- (c) 6,000,000 Public Issue Shares will be made available for application by the Malaysian public.

(collectively known as "Public Issue")

The Public Issue Shares will rank *pari passu* in all respects with the existing issued Shares including voting rights and rights to all dividends and distributions, the entitlement date of which are subsequent thereof.

Upon completion of the Public Issue, the issued and paid-up share capital of HALEX will increase from RM35,000,000 comprising 70,000,000 Shares to RM40,000,000 comprising 80,000,000 Shares.

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**12. FINANCIAL INFORMATION (Cont'd)**

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*(f) Offer For Sale*

In conjunction with the listing of and quotation for the entire enlarged issued and paid-up share capital of HALEX on the Main Market of Bursa Securities, the Company will undertake an offer for sale of up to 10,000,000 Shares to Bumiputera investors nominated and approved by the Ministry of International Trade and Industry at an offer price of RM0.78 per Share ("Offer for Sale").

(The Public Issue and Offer for Sale are collectively referred to as the "IPO")

*(g) Listing and Quotation*

The listing of and quotation for the entire enlarged issued and paid-up share capital of HALEX of RM40,000,000 comprising 80,000,000 Shares on the Main Market of Bursa Securities ("Listing").

**12. FINANCIAL INFORMATION (Cont'd)****2. PROFORMA CONSOLIDATED INCOME STATEMENTS FOR THE FINANCIAL YEARS ENDED 30 SEPTEMBER 2006 TO 30 SEPTEMBER 2008 AND SIX (6) FPE 31 MARCH 2009**

	Proforma FYE 30.09.2006 RM'000	Proforma FYE 30.09.2007 RM'000	^ Audited FYE 30.09.2008 RM'000	^ Audited Six (6) months FPE 31.03.2008 RM'000	^ Audited Six (6) months FPE 31.03.2009 RM'000
Revenue	69,450	78,241	100,897	48,339	39,112
Less: Cost of sales	(47,363)	(53,070)	(73,775)	(34,859)	(27,979)
Gross profit	22,087	25,171	27,122	13,480	11,133
Other operating income	445	383	272	139	206
Profit before depreciation, interest, taxation and amortisation	11,010	12,281	12,375	6,512	3,918
Finance cost	(205)	(241)	(442)	(231)	(218)
Depreciation and amortisation	(1,323)	(1,327)	(1,409)	(655)	(689)
Operating profit	9,482	10,713	10,524	5,626	3,011
Exceptional items <sup>(1)</sup>	-	-	-	-	-
Share of profits of associated companies	-	-	-	-	-
PBT	9,482	10,713	10,524	5,626	3,011
Taxation	(1,938)	(2,043)	(1,915)	(1,123)	(791)
Profit from ordinary activities	7,544	8,670	8,609	4,503	2,220
Extraordinary items <sup>(1)</sup>	-	-	-	-	-
MI	-	-	-	-	-
PAT and MI	7,544	8,670	8,609	4,503	2,220
Gross profit margin (%)	31.80	32.17	26.88	27.89	28.46
Profit before tax margin (%)	13.65	13.69	10.43	11.64	7.70
Profit after tax margin (%)	10.86	11.08	8.53	9.32	5.68
Effective tax rate (%)	20.44	19.07	18.20	19.96	26.27
Interest coverage (times)	47	45	25	25	15
Trade receivables turnover period (days)	64	74	67	40	87
Trade payables turnover period (days)	22	23	21	17	23
Gearing ratio (times)	0.03	0.27	0.26	0.31	0.28
No. of ordinary shares of RM0.50 each in issue ('000) <sup>(2)</sup>	70,000	70,000	70,000	70,000	70,000
Gross EPS (Sen) <sup>(3)</sup>	13.55	15.30	15.03	8.04	4.30
Net EPS (Sen) <sup>(4)</sup>	10.78	12.39	12.30	6.43	3.17

^ The proforma group structure of HALEX is already in existence for the FPE 31 March 2008, FYE 30 September 2008 and FPE 31 March 2009.

\* Inter-company transactions between companies within the HALEX Group for each of the years/periods under review have been eliminated on consolidation.

(1) There were no exceptional and extraordinary items for the financial years/periods under review.

(2) The number of Shares assumed in issue is the number of issued and paid-up share capital of RM0.50 each immediately prior to the IPO.

(3) The gross EPS is calculated based on the PBT attributable to the shareholders of HALEX for the respective financial years/periods divided by the number of Shares in issue.

(4) The net EPS is calculated based on the PAT attributable to the shareholders of HALEX for the respective financial years/periods divided by the number of Shares in issue.

## Notes:

FYE	: Financial year ended	PAT	: Profit after taxation
PBT	: Profit before taxation	EPS	: Earnings per share
MI	: Minority interest		

**12. FINANCIAL INFORMATION (Cont'd)****3. PRO FORMA CONSOLIDATED BALANCE SHEETS**

		Audited	Proforma I	Proforma II
		FPE 31 March 2009	After Public Issue	After Utilisation of proceeds
	NOTE	RM'000	RM'000	RM'000
<b>Non-current assets</b>				
Property, plant and equipment	3.1	39,268	39,268	43,868
Investment in property		90	90	90
Investment in quoted shares		62	62	62
Other investments		26	26	26
Intangible assets		27	27	27
Development costs		490	490	490
Prepaid lease payments		1,522	1,522	1,522
<b>Total non-current assets</b>		<b>41,485</b>	<b>41,485</b>	<b>46,085</b>
<b>Current assets</b>				
Inventories		26,975	26,975	26,975
Trade receivables		18,837	18,837	18,837
Other receivables and deposits	3.2	3,240	3,240	1,910
Other investments		43	43	43
Deposits with licensed banks		908	908	908
Tax recoverable		373	373	373
Cash and bank balances	3.3	1,597	9,397	3,377
<b>Total current assets</b>		<b>51,973</b>	<b>59,773</b>	<b>52,423</b>
<b>Total assets</b>		<b>93,458</b>	<b>101,258</b>	<b>98,508</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>				
Financed by:				
Share capital	3.4	35,000	40,000	40,000
Share premium	3.5	-	2,800	1,250
Revaluation reserves		1,387	1,387	1,387
Exchange reserves		293	293	293
Unappropriated profit		30,993	30,993	30,993
<b>Shareholders' equity</b>		<b>67,673</b>	<b>75,473</b>	<b>73,923</b>



**12. FINANCIAL INFORMATION (Cont'd)****3. PRO FORMA CONSOLIDATED BALANCE SHEETS (CONT'D)**

		Audited	Proforma I	Proforma II
		FPE 31 March 2009 RM'000	After Public Issue RM'000	After Utilisation of proceeds RM'000
<b>Non-current liabilities</b>				
Term loans	3.6	7,812	7,812	6,612
Deferred taxation		541	541	541
<b>Total current liabilities</b>		<b>8,353</b>	<b>8,353</b>	<b>7,153</b>
<b>Current liabilities</b>				
Trade payables		2,859	2,859	2,859
Other payables and accruals		3,179	3,179	3,179
Finance lease and hire purchase payables		1	1	1
Bills payable		6,704	6,704	6,704
Term loans	3.6	1,231	1,231	1,231
Provision for taxation		70	70	70
Bank overdraft		3,388	3,388	3,388
<b>Total current liabilities</b>		<b>17,432</b>	<b>17,432</b>	<b>17,432</b>
<b>Total liabilities</b>		<b>25,785</b>	<b>25,785</b>	<b>24,585</b>
<b>Total equity and liabilities</b>		<b>93,458</b>	<b>101,258</b>	<b>98,508</b>
No. of Shares in issue ('000)		70,000	80,000	80,000
Net assets ("NA")		67,673	75,473	73,923
NA per Share (RM)		0.97	0.94	0.92
Net tangible assets ("NTA")		67,156	74,956	73,406
NTA per Share (RM)		0.96	0.94	0.92

**12. FINANCIAL INFORMATION (Cont'd)****NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 31 MARCH 2009**

The Internal Restructuring, Share Split, Declaration of Dividends and Bonus Issue were completed during the six (6) months FPE 31 March 2009.

The proforma consolidated balance sheets have been prepared solely for illustrative purposes, to show the effects of the following flotation exercise on the assumption that they had been implemented and completed on 31 March 2009: -

- **Proforma I** incorporates the effects the Public Issue.
- **Proforma II** incorporates the effects of utilisation of proceeds arising from the Public Issue which are as follows: -

Utilisation	Amount RM'000
Extension/expansion work on factory building and operations	2,000
Nursery land and development cost	1,100
Capital and Research and Development ("R&D") expenditures	1,500
Repayment of bank borrowing	1,200
Working capital	450
Estimated listing expenses	1,550
<b>TOTAL</b>	<b>7,800</b>

**3.1 Property, plant and equipment**

	Cost/ Valuation RM'000	Accumulated Depreciation RM'000	Impairment RM'000	Net Book Value as per Audited RM'000	Utilisation of Proceeds -Additions RM'000	Net Book Value as per Proforma II RM'000
Freehold land	9,030	-	-	9,030	1,100	10,130
Buildings and structures	12,778	(2,707)	(213)	9,858	2,000	11,858
Building under construction	12,557	(17)	-	12,540	-	12,540
Plant and machinery	11,452	(5,790)	-	5,662	1,300	6,962
Tools, equipment, furniture and fittings	4,941	(2,881)	-	2,060	200	2,260
Motor vehicle	710	(592)	-	118	-	118
	<u>51,468</u>	<u>(11,987)</u>	<u>(213)</u>	<u>39,268</u>	<u>4,600</u>	<u>43,868</u>

**3.2 Other receivables and deposits**

	RM'000
Audited as at 31 March 2009	3,240
Prepaid listing expenses of approximately RM1.33 million which were already incurred and to be written off against the share premium account after the completion of the Public Issue	(1,330)
As per Proforma II	<u>1,910</u>

**12. FINANCIAL INFORMATION (Cont'd)****3.3 Cash and bank balances**

	RM'000
Audited as at 31 March 2009	1,597
Proceeds from the Public Issue	7,800
As per Proforma I	<u>9,397</u>
Utilisation of proceeds from the Public Issue:	
- Extension/expansion work on factory building and operations	(2,000)
- Nursery land and development cost	(1,100)
- Capital and R&D expenditures	(1,500)
- Repayment of bank borrowing	(1,200)
- Estimated listing expenses (after deducting the prepaid listing expenses of approximately RM1.33 million which were already incurred)	(220)
As per Proforma II	<u><u>3,377</u></u>

**3.4 Share capital**

	Number of Ordinary Shares ( <b>'000</b> )	Amount of Share Capital RM'000
Audited as at 31 March 2009	70,000	35,000
Public Issue	10,000	5,000
As per Proforma I	<u>80,000</u>	<u>40,000</u>

**3.5 Share premium**

	RM'000
Audited as at 31 March 2009	-
Public Issue	2,800
As per Proforma I	<u>2,800</u>
Estimated listing expenses	(1,550)
As per Proforma II	<u><u>1,250</u></u>

**12. FINANCIAL INFORMATION (Cont'd)****3.6 Term loans**

	<b>RM'000</b>
Audited as at 31 March 2009	
- current	1,231
- non-current	7,812
	<u>9,043</u>
Utilisation of proceeds from the Public Issue for repayment of term loan	
- current	-
- non-current	(1,200)
	<u>(1,200)</u>
As per Proforma II	
- current	1,231
- non-current	6,612
	<u>7,843</u>

**12. FINANCIAL INFORMATION (Cont'd)****4. PRO FORMA CONSOLIDATED CASH FLOW STATEMENTS**

	Audited FPE 31 March 2009	Proforma I After Public Issue	Proforma II After Utilisation of proceeds
NOTE	RM'000	RM'000	RM'000
Profit before taxation	3,011	3,011	3,011
Adjustments for :			
Allowance for diminution in value of investment in quoted shares	20	20	20
Allowance for doubtful debts written back	(2)	(2)	(2)
Allowance for doubtful debts	2	2	2
Amortisation	17	17	17
Bad debts recovered	(2)	(2)	(2)
Depreciation	686	686	686
Gain on disposal of property, plant and equipment	(12)	(12)	(12)
Dividend received	(3)	(3)	(3)
Interest expense	218	218	218
Interest income	(1)	(1)	(1)
Operating profit before working capital changes	3,934	3,934	3,934
Inventories	(298)	(298)	(298)
Receivables	(79)	(79)	1,251
Payables	(1,729)	(1,729)	(1,729)
Cash generated from operations	1,828	1,828	3,158
Tax paid	(856)	(856)	(856)
Tax refund	2	2	2
Interest paid	(218)	(218)	(218)
Net cash from operating activities	756	756	2,086
<b>CASH FLOW FOR INVESTING ACTIVITIES</b>			
Interest received	1	1	1
Dividend received	3	3	3
Proceeds from disposal of property, plant and equipment	13	13	13
Purchase of property, plant and equipment	(1,731)	(1,731)	(6,331)
Development costs	(85)	(85)	(85)
Acquisition of intangible assets	(10)	(10)	(10)
Net cash used in investing activities	(1,809)	(1,809)	(6,409)



**12. FINANCIAL INFORMATION (Cont'd)****4. PRO FORMA CONSOLIDATED CASH FLOW STATEMENTS (CONT'D)**

		Audited FPE 31 March 2009	Proforma I After Public Issue	Proforma II After Utilisation of proceeds
	NOTE	RM'000	RM'000	RM'000
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Proceeds from issuance of shares	4.3	-	7,800	6,250
Repayment of finance lease and hire purchase payables		(49)	(49)	(49)
Drawdown of term loans		452	452	452
Repayment of bank borrowing	4.4	(628)	(628)	(1,828)
Net cash (used in)/from financing activities		<u>(225)</u>	<u>7,575</u>	<u>4,825</u>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		(1,278)	6,522	502
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		(440)	(440)	(440)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u>(1,718)</u>	<u>6,082</u>	<u>62</u>
<b>CASH AND CASH EQUIVALENTS COMPRISE :</b>				
Other investments		43	43	43
Deposits with licensed bank - not pledged		30	30	30
Cash and bank balances		1,597	9,397	3,377
Bank overdraft		(3,388)	(3,388)	(3,388)
		<u>(1,718)</u>	<u>6,082</u>	<u>62</u>

**12. FINANCIAL INFORMATION (Cont'd)****NOTES TO THE PROFORMA CONSOLIDATED CASH FLOW STATEMENTS****4.1 Receivables**

	RM'000
Audited as at 31 March 2009	(79)
Prepaid listing expenses of approximately RM1.33 million which were already incurred and to be written off against the share premium account after the completion of the Public Issue	<u>1,330</u>
As per Proforma II	<u><u>1,251</u></u>

**4.2 Purchase of property, plant and equipment**

	RM'000
Audited as at 31 March 2009	1,731
Utilisation of proceeds from the Public Issue:-	
- Extension/expansion work on factory building and operations	2,000
- Nursery land and development cost	1,100
- Capital and R&D expenditures	<u>1,500</u>
As per Proforma II	<u><u>6,331</u></u>

**4.3 Proceeds from issuance of shares**

	RM'000
Audited as at 31 March 2009	-
Proceeds from the Public Issue	<u>7,800</u>
As per Proforma I	7,800
Estimated listing expenses	<u>(1,550)</u>
As per Proforma II	<u><u>6,250</u></u>

**4.4 Repayment of bank borrowing**

	RM'000
Audited as at 31 March 2009	(628)
Utilisation of proceeds from the Public Issue for repayment of bank borrowing	<u>(1,200)</u>
As per Proforma II	<u><u>(1,828)</u></u>

## 12. FINANCIAL INFORMATION (Cont'd)

### 12.4 Liquidity and Capital Resources

#### 12.4.1 Working capital

We have been financing our operations through cash generated from our operating activities and external sources of funds. Our external sources of funds mainly comprise bank borrowings.

Our principal sources of liquidity as at 31 March 2009 are set out below:

	(RM'000)
Cash and bank balances	1,597
Deposits with licensed banks	908
Bank borrowings	19,136

We are of the opinion that, after taking into consideration our current cash flow position together with the proceeds arising from the Public Issue and banking facilities available, as well as our capacity to obtain further institutional financing based on our debt to equity ratio of 0.24 times (based on our pro forma consolidated balance sheets as at 31 March 2009 after incorporating the effects of our Flotation Exercise and the use of proceeds arising from the IPO), we will have sufficient working capital for a period of twelve (12) months from the issue date of this Prospectus.

#### 12.4.2 Cash flow

Our Group's audited consolidated cash flow for the FYE 30 September 2008 and six (6)-month FPE 31 March 2009 is set out below:

	FYE 30 September 2008 (RM'000)*	6-month FPE 31 March 2009 (RM'000)*
Net cash generated from operating activities	4,462	756
Net cash used in investing activities	(7,662)	(1,809)
Net cash used in financing activities	(202)	(225)
Net decrease in cash and cash equivalents	(3,402)	(1,278)
Cash and cash equivalents at the beginning of year/period	2,962	(440)
Cash and cash equivalents at the end of year/period	(440)	(1,718)

Note:

\* Our pro forma consolidated cash flow statement has been prepared after the Bonus Issue but before taking into account the Public Issue and utilisation of proceeds.

#### **Cash flows generated from operating activities**

During the FYE 30 September 2008, our Group generated net cash flow before working capital changes of approximately RM12.46 million. Out of this, approximately RM7.05 million was used to finance our inventories, in anticipation of a hike in raw material prices, and approximately RM2.21 million was for the payment of tax. This was, however, offset by the collection from our debtors of approximately RM1.09 million, giving rise to cash generated from operations of approximately RM4.46 million.

**12. FINANCIAL INFORMATION (Cont'd)**

During the six (6)-month FPE 31 March 2009, our Group generated net cash flow before working capital changes of approximately RM3.93 million. After accounting for an increase in trade and other receivables of approximately RM79,000, an increase in inventories of approximately RM298,000, a decrease in trade and other payables of approximately RM1.73 million, income tax paid of approximately RM856,000 and interest paid of approximately RM218,000, our net cash generated from operating activities was approximately RM756,000.

***Cash flows used in investing activities***

During the FYE 30 September 2008 and six (6)-month FPE 31 March 2009, we acquired certain property, plant and equipment amounting to approximately RM7.53 million and RM1.73 million respectively. This was partly financed through our cash flows generated from operating activities and our bank borrowings that we had obtained earlier.

***Cash flow used in financing activities***

Net cash flow used in our financing activities of approximately RM202,000 during the FYE 30 September 2008 was mainly for the repayment of term loans taken up by our Group to finance the purchase and refurbishment of factory land and other property, plant and equipment, as well as dividends paid to the existing shareholders. This was offset by a drawdown on another term loan from Hong Leong Bank Berhad.

The net cash used in financing activities for the six (6)-month FPE 31 March 2009 was mainly attributable to the repayment of bank borrowings of approximately RM628,000.

Our Directors are of the view that there are no legal, financial or economic restrictions on the ability of our subsidiary to transfer funds to our Company in the form of cash dividends and/or loan or advances.

**12.4.3 Borrowings**

As at 31 March 2009, we have total outstanding local borrowings, all of which are interest-bearing, amounting to approximately RM19.14 million comprising the following:

	(RM'000)
Short-term borrowings	11,324
Long-term borrowings	7,812
Total	<u>19,136</u>
Gearing ratio as at 31 March 2009 (times)	0.28
Gearing ratio after IPO and utilisation of proceeds (times)	0.24

We have no outstanding foreign interest-bearing borrowings as at 31 March 2009.

We have not defaulted on any payment of interest or principal sum throughout the FYE 30 September 2008 and six (6)-month FPE 31 March 2009 and up to the date of this Prospectus.

**12. FINANCIAL INFORMATION (Cont'd)**

We are not in breach of any terms and conditions or covenants associated with credit arrangement or bank loan, which can materially affect our financial results or business operations, or the investments by holders of securities in our Group.

**12.4.4 Types of financial instruments used**

As at LPD, the types of financial instruments that we use are as follows:

Type of financial instruments used	Maturity date	Interest rate
Term loans	Term loan 1 (last instalment in mid-2017)	1.50% above the bank's cost of funds
	Term loan 2 (last instalment in mid-2015)	1.50% above the bank's cost of funds
Bankers' acceptances	Between 90 to 120 days	Between 3.26% fixed interest to 1.00%~ 2.00% above the bank's base-lending rate
Overdraft	Not applicable	Within 1.25% to 2.25% above the bank's base-lending rate

A significant portion of our business transactions are carried out in foreign currencies. Our raw material purchases are primarily in USD and SGD. Our revenues from international markets are denominated in USD, SGD and Yen. As such, we would hedge against foreign currency fluctuations through the locking in of foreign currency rates at the time of order placement, such as entering into forward contracts with our suppliers to hedge against fluctuations in the prices of these raw materials. By hedging forward, we minimise our foreign exchange exposure risk.

**12.4.5 Indirect/Contingent liabilities**

Save for corporate guarantees given to certain licensed banks for banking facilities granted to our subsidiaries to the extent of approximately RM26.35 million, as at LPD, we do not have any indirect or material contingent liabilities.

**12.4.6 Material capital commitments**

As at LPD, we do not have any material capital commitment.

**12.4.7 Material litigation**

As at LPD, we are not engaged in any material litigation or arbitration, either as plaintiff or defendant, which has or might have material effects on our business or financial position, and our Directors do not know of any proceeding pending and threatened, and of any fact likely to give rise to any proceeding which might materially and adversely affect our business or financial position.



## 12. FINANCIAL INFORMATION (Cont'd)

## 12.4.8 Key financial ratios

The key financial ratios of our Group are as follows:

	← Pro forma →		Audited	Audited	
	FYE 30 September			8-month FPE 31 March	
	2008	2007	2008	2008	2009
Trade receivables turnover (days) <sup>(1)</sup>	64	74	67	74	67
Trade payables turnover (days) <sup>(2)</sup>	22	23	21	20	23
Inventory turnover (days) <sup>(3)</sup>	67	108	115	113	174
Current ratio (times)	4.97	2.90	2.63	2.65	2.98

## Notes:

- (1) Our normal credit period granted to our customers ranges from 30 to 90 days.  
 (2) The credit period granted to us by our suppliers ranges from 30 to 90 days.  
 (3) Our inventory turnover for the financial years ended 30 September 2007 and 2008 as well as the six (6)-month FPE 31 March 2009 were relatively higher due to our anticipation of higher raw material prices and our committed orders from our customers. For the six (6)-month FPE 31 March 2009, the inventory turnover was significantly higher as this was also aggravated by an anticipated shortage of supply caused by a fire at the paper mill of one of our three (3) main suppliers of tissue jumbo rolls.

Please refer to Section 13 of this Prospectus for an ageing analysis of our trade receivables and trade payables as at 31 March 2009.

## 12.5 Capitalisation and indebtedness

You should read the financial information presented below together with the Reporting Accountants' letter on our Pro forma Consolidated Financial Information and the Reporting Accountants' Report, together with the notes, assumptions and bases thereto, as set out in Sections 12.3 and 13 of this Prospectus respectively.

The following table sets out our pro forma consolidated cash and cash equivalents, capitalisation and indebtedness as at 31 March 2009 based on our audited consolidated balance sheets as at 31 March 2009 to show the effects of our Flotation Exercise and the use of proceeds arising from the IPO on the assumptions that the transactions had been effected on that date:

	As at 31 March 2009 (RM'000)	After the IPO and utilisation of proceeds (RM'000)
Cash and cash equivalents	(1,718)	62
<b>Indebtedness</b>		
Short-term indebtedness		
- Secured	11,324	11,324
- Unsecured	-	-
Long-term indebtedness		
- Secured	7,612	6,612
- Unsecured	-	-
<b>Total indebtedness</b>	<b>18,936</b>	<b>17,936</b>
<b>Total shareholders' equity</b>	<b>67,673</b>	<b>73,923</b>
<b>Total capitalisation and indebtedness</b>	<b>86,809</b>	<b>91,859</b>

As at 31 March 2009, none of our borrowings are guaranteed. The indirect and contingent liabilities of our Group are set out in Section 12.4.5 of this Prospectus.

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**12. FINANCIAL INFORMATION (Cont'd)**

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**12.6 Impact of Foreign Exchange/Interest Rates/Commodity Prices**

As set out in Section 4.3.11 of this Prospectus, a significant portion of our business transactions are carried out in foreign currencies. Our plans to expand into other international markets may also further increase our exposure to foreign exchange risks. As such, we currently adopt prudent foreign currency management procedures in hedging against foreign currency fluctuations through the locking in of foreign currency rates at the time of order placement. Furthermore, our foreign receipts and expenses, to some extent serve as a natural hedge and reduce our cost of carrying currency conversion.

As is the industry norm, any price increase in raw materials are passed on to customers. Furthermore, we have entered, and will continue to enter into forward contracts with our suppliers to hedge against fluctuations in the prices of these raw materials. As such, we are not materially affected by fluctuations on commodity prices.

For the financial years/period under review, our historical financial performance is not materially affected by foreign exchange, interest rates and commodity prices.

**12.7 Impact of Inflation**

For the financial years/period under review, our historical financial performance has not been materially affected by the impact of inflation. Although we are able to pass on any increase in the price of raw materials to our customers, we cannot assure you that any future increase in inflation rates will not have an impact on our business and performance.

**12.8 Government/Economic/Fiscal/ Monetary Policies**

Risks relating to government, economic, fiscal and monetary policies, which may materially affect our operation, are set out in Sections 4.4.1 and 4.4.2 of this Prospectus.

Nevertheless, our Board believes that with the Government's efforts to promote the agriculture sector, especially with the recent food shortage, which is testament with the promulgation of the Third National Agriculture Policy 1998-2010 and Ninth Malaysia Plan 2006-2010, we stand in a position to benefit from the agriculture sector. Furthermore, our agro-based input products are also used by the public health sector apart from agricultural applications.

For the financial years/period under review, our historical financial performance is not materially affected by the government, economic, fiscal and monetary policies.

**12.9 Trend Information**

For the financial years/periods under review up to LPD, our Directors have observed the following trends based on the sales and operations of our Group:

- (a) Our financial performance is dependent on the agriculture sector, as it is the main end-user market for the agrochemicals and agro-biotechnology industries in which we operate. For the FYE 30 September 2008, the demand for our agrochemicals was higher due to higher commodities prices. However, for the six (6)-month FPE 31 March 2009, our agrochemicals business performance was affected by lower commodities prices, which resulted in lower demand for our agrochemical products. Nonetheless, our Directors do not expect a significant decline in demand for our

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**12. FINANCIAL INFORMATION (Cont'd)**


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agrochemicals in view of the emphasis being placed on agriculture by the Government, as well as the increasing demand for food crops.

In addition, as commodities prices have improved and stabilised since February 2009 and as the global economy shows signs of recovery, our Directors expect that the sales of agrochemicals will resume as the main contributor to the total revenue of our Group.

- (b) Our Directors also expect our sales in healthcare disposable products to increase due to the increase in population, higher standards of living and higher demand for improved hygiene, especially with the recent outbreak of the influenza A (H1N1) virus;
- (c) The selling prices of our agrochemicals, horticulture, tissue culture and healthcare disposable products have generally remained stable. Our Directors believe that we would be able to generally maintain our selling prices through our brand image and recognition, as well as high quality of our products;
- (d) Our Directors believe that our costs of production are not expected to increase or fluctuate significantly. However, in the event of any material price increase in raw materials of our agrochemicals, horticulture products or healthcare disposable products, our Directors are of the opinion that we are able to pass on any increase in the price of raw materials to customers. Furthermore, our manpower cost is only expected to increase in tandem with the increase in the demand for our products and the general increase in salaries of our staff; and
- (e) Based on the above, our Directors are not aware of any circumstance which would result in significant fluctuations of our gross profit margins, and expect our gross profit margins to remain relatively stable in the near future.

Save as disclosed above and the sections entitled "Risk Factors", "Our Business", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Prospects and Outlook" of this Prospectus, our Directors believe that there are no other significant known recent trends in production, sales and inventory, and in the costs and selling prices of our products, or other known trends, demands, commitments, events or uncertainties that are reasonably likely to have a material effect on our financial performance, position, operations, liquidity and capital resources, or that would cause the historical financial information disclosed in this Prospectus not to be indicative of our future financial performance and position.

**12.10 Dividend Policy**

Our Company may declare dividends upon the recommendation of our Board and upon approval by a majority of our shareholders at our annual general meeting. Going forward, our ability to pay dividends or make other distributions to our shareholders to allow our shareholders to participate in our Group's profits is subject to various factors such as:

- (a) the level of our cash, marketable financial assets and level of indebtedness;
- (b) required and expected interest expense, cash flows, our profits, return on equity and earnings;
- (c) our expected results of operations; and
- (d) our projected levels of capital expenditure and other investment plans.

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## 13. ACCOUNTANTS' REPORT

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*(Prepared for inclusion in this Prospectus)*

### ACCOUNTANTS' REPORT

*(Prepared for inclusion in the Prospectus)*

## LEOU & ASSOCIATES

Chartered Accountants (AF 0659)

107-B, Jalan Aminuddin Baki,  
Taman Tun Dr. Ismail,  
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A Member Firm Of The  
Malaysian Institute of Accountants  
(Established under the Accountants Act 1967)  
Institut Akauntan Malaysia  
(Dibentukkan di bawah Akta Akauntan 1967)

Date: 27 July 2009

The Board of Directors  
**Halex Holdings Berhad**  
No. 9, Jalan Taruka  
Tampoi Industrial Estate  
81200 Johor Bahru  
Johor Darul Takzim

Dear Sirs/Madam,

### HALEX HOLDINGS BERHAD ("HALEX" or the "Company") ACCOUNTANTS' REPORT

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#### 1.0 INTRODUCTION

This report has been prepared by Leou & Associates, an approved company auditor, for inclusion in the Prospectus of HALEX to be dated 19 August 2009 in connection with the admission of HALEX on the Official List and the listing of and quotation for the entire enlarged issued and paid-up share capital of HALEX on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

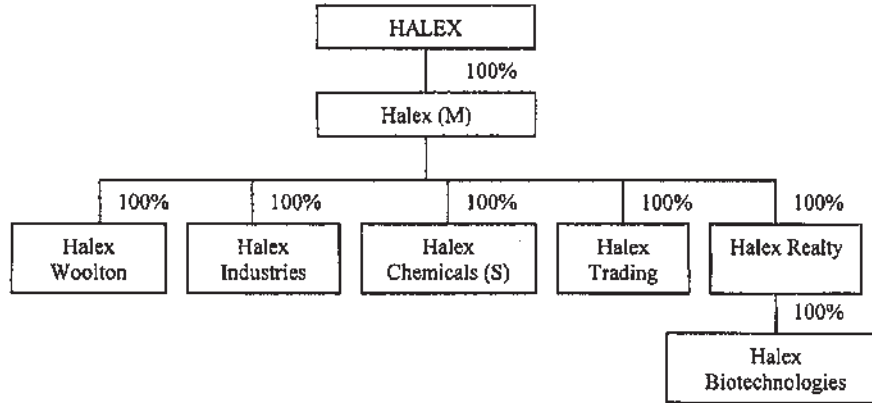
#### 2.0 FLOTATION EXERCISE

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 the Company on the Main Market of Bursa Securities ("Listing"), the Company undertook the following flotation exercise:-

13. ACCOUNTANTS' REPORT (Cont'd)

(a) Internal Restructuring

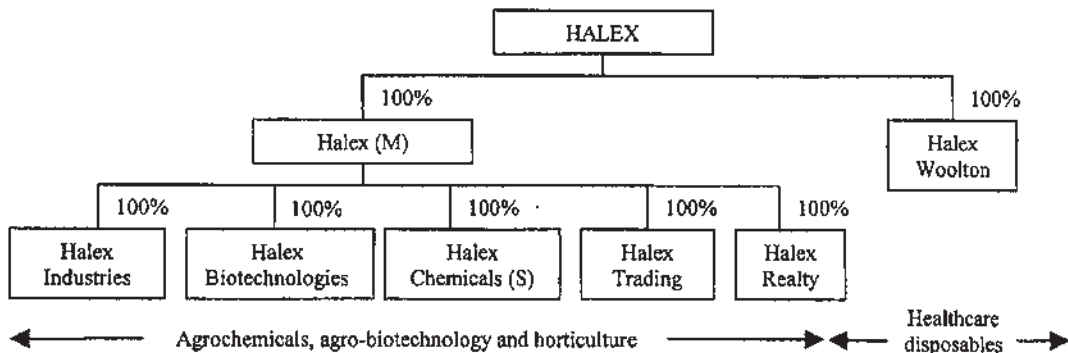
Prior to 22 January 2009, the corporate structure of the Company and its subsidiaries ("HALEX Group" or "Group") is set out below:-



Notes:

- "HALEX" : Halex Holdings Berhad
- "Halex (M)" : Halex (M) Sdn Bhd
- "Halex Biotechnologies" : Halex Biotechnologies Sdn Bhd
- "Halex Chemicals (S)" : Halex Chemicals (S) Pte. Ltd.
- "Halex Industries" : Halex Industries (M) Sdn Bhd
- "Halex Realty" : Halex Realty Sdn Bhd
- "Halex Trading" : Halex Trading Sdn Bhd
- "Halex Woolton" : Halex Woolton (M) Sdn Bhd

On 22 January 2009, the Company undertook an internal restructuring, which resulted in the corporate structure of the Group being segregated into two (2) distinct core business segments, being the agrochemicals, agro-biotechnology and horticulture business segment, and the healthcare disposables business segment. Upon completion of the internal restructuring, the corporate structure of the Group is depicted as follows:-





**13. ACCOUNTANTS' REPORT (Cont'd)****(b) Share Split**

On 23 January 2009, HALEX undertook a share split of 12,280,000 ordinary shares to 24,560,000 ordinary shares by sub-dividing the par value of the ordinary share of RM1.00 per share in the Company to RM0.50 per share.

**(c) Declaration of Dividends**

An aggregate net dividend amount of RM2,378,110 for the six (6) months FPE 31 March 2009 has been declared and paid to the shareholder of Halex Industries, namely Halex (M) on 28 January 2009. Subsequently, an aggregate net dividend amount of RM22,297,723 for the six (6) months FPE 31 March 2009 has been declared and paid to the common shareholder of Halex (M) and Halex Woolton, namely HALEX on 28 January 2009.

**(d) Bonus Issue**

On 30 January 2009, the Company undertook a bonus issue of 45,440,000 new ordinary shares of RM0.50 each in HALEX ("HALEX Shares" or "Shares") ("Bonus Shares") on the basis of approximately two (2) Bonus Shares for every one (1) existing Share held in the Company.

The bonus issue was effected through the capitalisation of the retained earnings and share premium of the Company, the details of which are as follows:-

	Company RM'000
<b>Retained earnings</b>	
Retained earnings before capitalisation for the Bonus Issue	(36)
Dividend received from the Declaration of Dividends	22,298
	22,262
Amount capitalised for the Bonus Issue	(21,538)
Audited as at 31 March 2009	724
<b>Share premium</b>	
Share premium before capitalisation for the Bonus Issue	1,182
Amount capitalised for the Bonus Issue	(1,182)
Audited as at 31 March 2009	-

The Bonus Shares rank *pari passu* in all respects with the existing issued Shares including voting rights and rights to all dividends and distributions, the entitlement date of which are subsequent thereof.

The bonus issue was completed on 30 January 2009, and the issued and paid-up share capital of HALEX increased from RM12,280,000 comprising 24,560,000 Shares to RM35,000,000 comprising 70,000,000 Shares.

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**13. ACCOUNTANTS' REPORT (Cont'd)**

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**(e) Public Issue**

The public issue of 10,000,000 new Shares ("Public Issue Shares") at an issue price of RM0.78 per Share are to be allocated in the following manner:-

- (i) 2,000,000 Public Issue Shares will be made available for application by the eligible employees of the Group;
- (ii) 2,000,000 Public Issue Shares will be allocated by way of private placement to selected investors; and
- (iii) 6,000,000 Public Issue Shares will be made available for application by the Malaysian public.

(collectively known as "Public Issue")

The Public Issue Shares will rank *pari passu* in all respects with the existing issued Shares including voting rights and rights to all dividends and distributions, the entitlement date of which are subsequent thereof.

Upon completion of the public issue, the issued and paid-up share capital of HALEX will increase from RM35,000,000 comprising 70,000,000 Shares to RM40,000,000 comprising 80,000,000 Shares.

**(f) Offer For Sale**

The offer for sale of up to 10,000,000 Shares to Bumiputera investors nominated and approved by the Ministry of International Trade and Industry at an offer price of RM0.78 per Share.

**(g) Listing and Quotation**

The listing of and quotation for the entire enlarged issued and paid-up share capital of HALEX of RM40,000,000 comprising 80,000,000 Shares on the Main Market of Bursa Securities.

**13. ACCOUNTANTS' REPORT (Cont'd)****3.0 GENERAL INFORMATION****3.1 Background**

HALEX was incorporated in Malaysia on 13 October 1990 under the Companies Act, 1965 as a private limited company under the name of Halex Holdings Sdn Bhd. Subsequently on 11 January 2007, the Company converted its status from a private limited company to a public company to facilitate its listing on the Main Market of Bursa Securities.

**3.2 Share Capital**

The authorised share capital of the Company is RM100,000,000 comprising 200,000,000 ordinary shares of RM0.50 each.

The changes in the issued and fully paid-up capital of the Company since its incorporation were as follows:-

<b>Date of Allotment</b>	<b>Number of Ordinary Shares</b>	<b>Par Value</b>	<b>Consideration</b>	<b>Cumulative Total Paid-up Capital</b>
		RM		RM
13.10.1990	2	1.00	Subscribers' shares	2
06.05.1998	2,599,881	1.00	Other than cash	2,599,883
17.06.1998	449,303	1.00	Other than cash	3,049,186
01.09.1998	260,941	1.00	Other than cash	3,310,127
10.05.1999	194,083	1.00	Cash – Rights issue	3,504,210
25.06.2001	174,214	1.00	Cash – Rights issue	3,678,424
18.07.2002	135,230	1.00	Cash – Rights issue	3,813,654
14.07.2003	144,579	1.00	Cash – Rights issue	3,958,233
27.07.2004	302,089	1.00	Cash – Rights issue	4,260,322
06.02.2006	639,048	1.00	Cash – Rights issue	4,899,370
09.03.2006	33,000	1.00	Other than cash	4,932,370
28.07.2006	4,267,630	1.00	Cash	9,200,000
29.09.2006	3,080,000	1.00	Cash	12,280,000
23.01.2009	-	0.50	Share split	12,280,000
30.01.2009	45,440,000	0.50	Bonus issue	35,000,000

**13. ACCOUNTANTS' REPORT (Cont'd)****3.3 Principal Activities**

HALEX is principally an investment holding company, and provides management services to its subsidiaries.

Details of its subsidiaries, all of which are incorporated as private limited companies, are as follows:-

Name of company	Date and Country of Incorporation	Authorised Share Capital	Issued And Fully Paid Up Share Capital	Effective Equity Interest	Principal Activities
		RM	RM	%	
<i><b>Direct</b></i>					
Halex (M)	29 May 1979 Malaysia	5,000,000	3,310,125	100	Manufacturing, distribution and agency of agrochemicals
Halex Woolton	18 May 1987 Malaysia	5,000,000	2,200,000	100	Manufacturing and distribution of healthcare disposable products
<i><b>Indirect through Halex (M)</b></i>					
Halex Industries	24 July 1980 Malaysia	250,000	249,998	100	Manufacturer of agrochemicals
Halex Biotechnologies	26 Feb 1990 Malaysia	250,000	250,000	100	Horticulture and agro-biotechnologies
<b>Halex Chemicals (S)</b>	16 April 1980 Singapore	250,000 (SGD)	215,000 (SGD)	100	Trading of agrochemicals
<b>Halex Trading</b>	21 Aug 1987 Malaysia	250,000	50,000	100	Trading of agrochemicals
Halex Realty	9 Sept 1985 Malaysia	499,000	408,200	100	Property investment and plantation activities

**13. ACCOUNTANTS' REPORT (Cont'd)****3.4 Dividends**

Details of dividends declared and paid by the Group for the financial years/periods under review are as follows :-

**HALEX**

		<-----FYE 30 September ----->				6 months FPE 31 March	
		2006(i)	2006(ii)	2007	2008	2008	2009
Issued and paid-up share capital	RM'000	12,280	12,280	12,280	12,280	12,280	35,000
Gross dividend rate	%	6.05	24.20	5.84	-	-	6.00
Tax rate	%	Tax-exempt	28.00	*Single tier	-	-	*Single tier
Net dividend declared	RM'000	-	-	-	-	-	737
Net dividend declared and paid	RM'000	743	2,140	717	-	-	-

**Halex (M)**

		<-----FYE 30 September ----->				6 months FPE 31 March	
		2006(i)	2006(ii)	2007	2008	2008	2009
Issued and paid-up share capital	RM'000	3,310	3,310	3,310	3,310	3,310	3,310
Gross dividend rate	%	22.45	90.00	30.00	-	-	586.11
Tax rate	%	Tax-exempt	28.00	27.00	-	-	*Single tier
Net dividend declared and paid	RM'000	743	2,145	725	-	-	19,401

**Halex Woolton**

		<-----FYE 30 September ----->				6 months FPE 31 March	
		2006(i)	2006(ii)	2007	2008	2008	2009
Issued and Paid-up share capital	RM'000	2,200	2,200	2,200	2,200	2,200	2,200
Gross dividend rate	%	-	-	-	-	-	131.67
Tax rate	%	-	-	-	-	-	*Single tier
Net dividend declared and paid	RM'000	-	-	-	-	-	2,897

**Halex Industries**

		<-----FYE 30 September ----->				6 months FPE 31 March	
		2006(i)	2006(ii)	2007	2008	2008	2009
Issued and paid-up share capital	RM'000	250	250	250	250	250	250
Gross dividend rate	%	-	-	-	-	-	951.25
Tax rate	%	-	-	-	-	-	*Single tier
Net dividend declared and paid	RM'000	-	-	-	-	-	2,378

\* In the 2008 budget, single tier dividend was introduced to replace the present imputation for franking system. The imputation for franking system will be slowly phased out until 2013. Beyond 2013, all dividends will be either tax exempt or single tier dividend which are both not taxable in the hands of the shareholders.



**13. ACCOUNTANTS' REPORT (Cont'd)**

Save as disclosed above, no dividend has been paid or declared by the other subsidiaries during the relevant financial years/periods under review.

The Group does not have any fixed dividend payment policy for all the financial years/periods under review.

Note:

- (i) This is the first dividend declared during the FYE30 September 2006.  
(ii) This is the second dividend declared during the FYE30 September 2006.

**4.0 AUDITORS AND AUDITED FINANCIAL STATEMENTS**

The auditors of the respective companies for the financial years/periods under review and the audited financial statements of the respective companies in respect of which the financial information set out in this report are based upon are as follows:

Name of Company	Relevant Financial Year/Period	Auditors
HALEX	FYE 30 September 2006 to 2008 FPE 31 March 2008 FPE 31 March 2009	Leou & Associates
Halex (M)	FYE 30 September 2006 to 2008 FPE 31 March 2008 FPE 31 March 2009	Leou & Associates
Halex Woolton	FYE 30 September 2006 to 2008 FPE 31 March 2008 FPE 31 March 2009	Leou & Associates
Halex Industries	FYE 30 September 2006 to 2008 FPE 31 March 2008 FPE 31 March 2009	Leou & Associates
Halex Biotechnologies	FYE 30 September 2006 to 2008 FPE 31 March 2008 FPE 31 March 2009	Leou & Associates
Halex Chemicals (S)	FYE 30 September 2006 to 2008 FPE 31 March 2008 FPE 31 March 2009	Seow Teng Liang & Co
Halex Trading	FYE 30 September 2006 to 2008 FPE 31 March 2008 FPE 31 March 2009	Leou & Associates
Halex Realty	FYE 30 September 2006 to 2008 FPE 31 March 2008 FPE 31 March 2009	Leou & Associates

### 13. ACCOUNTANTS' REPORT (Cont'd)

#### 4.1 Auditors' Report

The financial statements of HALEX and its subsidiaries for all the financial years/periods under review were reported without any qualification and the reports did not include any emphasis of matter.

#### 4.2 Accounting Policies and Standards

This report is prepared on a basis consistent with the accounting policies adopted by the Group as disclosed in Section 6 of this report, and the information presented in this report has been prepared in accordance with applicable approved accounting standards in Malaysia.

#### 4.3 Material Changes in the Accounting Policies Adopted

The material changes in the accounting policies adopted by the Group during the financial years/periods under review are summarised in Note 6.1.

#### 4.4 Restatements to the Audited Financial Statements

##### 4.4.1 The following figures for the FYE 30 September 2006 have been reclassified to conform with the presentation for the FYE 30 September 2007, 2008 and the six (6) months FPE 31 March 2009:-

GROUP	As previously reported RM'000	Reclassification RM'000	As restated RM'000
<b>30.09.2006</b>			
Other investment - current	-	1,049	1,049
Other investment - non current	1,075	(1,049)	26

##### 4.4.2 The following figures for the FYE 30 September 2006 have been restated upon the adoption of Financial Reporting Standard ("FRS") 117 in 2007 as disclosed in Note 6.1 :-

GROUP	As previously reported RM'000	Reclassification RM'000	As restated RM'000
<b>30.09.2006</b>			
Property, plant and equipment	18,600	(1,609)	16,991
Prepaid lease payments	-	1,609	1,609

#### 5.0 AUDITED FINANCIAL STATEMENTS

The current structure of the HALEX Group only existed subsequent to the FYE 30 September 2008, upon completion of the following:-

- (i) acquisition of the remaining 60% equity interest in Halex Trading not held by Halex (M) on 1 July 2006; and
- (ii) disposal of Halex Maju on 1 November 2006.

Details of the said transactions are set out in Notes 5.1.8.1 and 5.1.8.2 of this report.

Accordingly, we have presented the financial statements of HALEX and the HALEX Group in Sections 5.1 and 5.2 respectively based on the audited financial statements, for the purpose of this report.

Throughout this report, the financial information for the six (6) months FPE 31 March 2008 is presented for comparative purposes only.

**13. ACCOUNTANTS' REPORT (Cont'd)****5.1 HALEX****5.1.1 Income Statements**

		<--- FYE 30 September --->			<-6 months FPE 31 March-->	
		2006	2007	2008	2008	2009
		RM '000	RM '000	RM '000	RM '000	RM '000
Revenue	5.1.5	-	3,722	993	993	22,298
Cost of sales		-	-	-	-	-
Gross profit		-	3,722	993	993	22,298
Other operating income		-	-	-	-	-
(Loss)/Profit before depreciation, interest, taxation and amortisation		(75)	3,714	951	959	22,290
Finance cost		-	-	-	-	-
Depreciation and amortisation		-	-	-	-	-
Operating (loss)/profit		(75)	3,714	951	959	22,290
Exceptional items		-	-	-	-	-
Share of profits of associated companies		-	-	-	-	-
(Loss)/Profit before taxation	5.1.6	(75)	3,714	951	959	22,290
Taxation	5.1.7	-	(804)	(256)	(258)	-
(Loss)/Profit from ordinary activities		(75)	2,910	695	701	22,290
Extraordinary items		-	-	-	-	-
(Loss)/Profit after taxation		(75)	2,910	695	701	22,290
Gross profit margin	(%)	N/A	100.00	100.00	100.00	100.00
Profit before tax margin	(%)	N/A	99.79	95.77	96.58	99.96
Net profit after tax margin	(%)	N/A	78.18	69.99	70.59	99.96
Effective tax rate	(%)	N/A	21.65	26.92	26.90	N/A
Weighted average no. of ordinary shares of RM1.00 each in issue	'000	5,471	12,280	12,280	12,280	-
Weighted average no. of ordinary shares of RM0.50 each in issue	'000	-	-	-	-	32,098
Interest coverage	(times)	N/A	N/A	N/A	N/A	N/A
Gross (loss)/earnings per share	(Sen)	(1.37)	30.24	7.74	7.81	69.44
Net (loss)/earnings per share	(Sen)	(1.37)	23.70	5.66	5.71	69.44

Notes :-

N/A Not applicable

- The gross and net (loss)/earnings per share were calculated based on the audited (loss)/profit before taxation and (loss)/profit after taxation attributable to shareholders of HALEX for the financial years/periods respectively divided by the weighted average number of ordinary shares in issue for each financial year/period under review.
- The effective tax rates were computed to include the deferred tax effects and any under or over provision of tax pertaining to the previous years/periods.
- There were no exceptional and extraordinary items in respect of the relevant years/periods under review.

**13. ACCOUNTANTS' REPORT (Cont'd)****5.1.2 Balance Sheets**

	<---As at 30 September--->			<---As at 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Investment in subsidiaries	5.1.8	3,310	3,310	3,310	5,510
Amount due from subsidiaries	5.1.9	6,627	9,449	8,964	28,817
<b>Total non-current assets</b>		<b>9,937</b>	<b>12,759</b>	<b>12,274</b>	<b>34,327</b>
<b>Current assets</b>					
Other receivables and deposits		293	670	1,125	1,364
Tax recoverable		2	32	42	42
Cash and bank balances		3,201	1	4	2
<b>Total current assets</b>		<b>3,496</b>	<b>703</b>	<b>1,171</b>	<b>1,408</b>
<b>Total assets</b>		<b>13,433</b>	<b>13,462</b>	<b>13,445</b>	<b>35,735</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	5.1.10	12,280	12,280	12,280	35,000
Share premium		1,182	1,182	1,182	-
(Accumulated loss)/Unappropriated profit		(32)	(5)	(28)	724
<b>Shareholders' equity</b>		<b>13,430</b>	<b>13,457</b>	<b>13,434</b>	<b>35,724</b>
<b>Current liabilities</b>					
Other payables and accruals		3	5	11	11
<b>Total current liabilities</b>		<b>3</b>	<b>5</b>	<b>11</b>	<b>11</b>
<b>Total liabilities</b>		<b>3</b>	<b>5</b>	<b>11</b>	<b>11</b>
<b>Total equity and liabilities</b>		<b>13,433</b>	<b>13,462</b>	<b>13,445</b>	<b>35,735</b>
Number of ordinary shares of RM1 in issue ('000)		12,280	12,280	12,280	-
Number of ordinary shares of RM0.50 in issue ('000)		-	-	-	70,000
Net assets (RM'000)		13,430	13,457	13,434	35,724
Net assets per share (RM)		1.09	1.10	1.09	0.51
Net tangible assets (RM'000)		13,430	13,457	13,434	35,724
Net tangible assets per share (RM)		1.09	1.10	1.09	0.51
Gearing ratio (times)		N/A	N/A	N/A	N/A
Current ratio (times)		1,165	141	106	152
Trade receivables' turnover period (days)		N/A	N/A	N/A	N/A
Trade payables' turnover period (days)		N/A	N/A	N/A	N/A
Inventories' turnover period (days)		N/A	N/A	N/A	N/A

Note :-

N/A Not applicable

**13. ACCOUNTANTS' REPORT (Cont'd)****5.1.3 Statements of Changes in Equity**

	Share Capital RM '000	Share Premium RM '000	(Accumulated Loss)/ Unappropriated Profit RM '000	Total RM '000
Balance at 1 October 2005	4,260	475	895	5,630
Issue of shares at par	6,933	-	-	6,933
Issue of shares at premium of RM0.50	1,054	527	-	1,581
Issue of shares at premium of RM5.44	33	180	-	213
Net loss for the year	-	-	(75)	(75)
Dividends paid - 10% less tax	-	-	(852)	(852)
Balance at 30 September 2006	12,280	1,182	(32)	13,430
Net profit for the year	-	-	2,910	2,910
Dividends paid - 10% less tax	-	-	(2,883)	(2,883)
Balance at 30 September 2007	12,280	1,182	(5)	13,457
Net profit for the year	-	-	695	695
Dividends paid - 5.84%	-	-	(718)	(718)
Balance at 30 September 2008	12,280	1,182	(28)	13,434
Issuance of share capital	22,720	(1,182)	(21,538)	-
Net profit for the period	-	-	22,290	22,290
Balance at 31 March 2009	35,000	-	724	35,724

**13. ACCOUNTANTS' REPORT (Cont'd)****5.1.4 Cash Flow Statements**

	<--- FYE 30 September --->			<-6 months FPE 31 March->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
(Loss)/Profit before taxation	(75)	3,714	951	959	22,290
Adjustments for :					
Dividend income	-	-	-	-	-
Operating (loss)/profit before working capital changes	(75)	3,714	951	959	22,290
Receivables	(293)	(377)	(455)	(190)	(240)
Payables	^	3	5	^	1
Subsidiaries	(5,160)	(2,823)	485	223	(19,853)
Cash (used in)/generated operating activities	(5,528)	517	986	992	2,198
Tax paid	-	(834)	(268)	(268)	(2)
Tax refund	-	-	2	2	2
Net cash (used in)/from operations	(5,528)	(317)	720	726	2,198
<b>CASH FLOW FOR INVESTING ACTIVITIES</b>					
Investment in subsidiaries	-	-	-	-	(2,200)
Dividend received	854	-	-	-	-
Net cash from/(used in) investing activities	854	-	-	-	(2,200)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Dividend paid	(852)	(2,883)	(717)	(717)	-
Proceeds from issue of shares	8,726	-	-	-	-
Net cash generated from/(used in) financing activities	7,874	(2,883)	(717)	(717)	-
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	3,200	(3,200)	3	9	(2)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD</b>	1	3,201	1	1	4
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD</b>	3,201	1	4	10	2
<b>CASH AND CASH EQUIVALENTS COMPRISE :</b>					
Cash and bank balances	3,201	1	4	10	2
	3,201	1	4	10	2

Note :-

^ Less than RM1,000

**5.1.5 Revenue**

	<-----FYE 30 September----->			<-6 months FPE 31 March->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
Gross dividends from subsidiaries	-	3,722	993	993	22,298



**13. ACCOUNTANTS' REPORT (Cont'd)****5.1.6 (Loss)/Profit before taxation**

This has been determined after charging the following items:-

	<----FYE 30 September---->			6 months	
	2006	2007	2008	<---FPE 31 March--->	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
Audit fees	3	5	5	5	5

**5.1.7 Taxation**

The provision for taxation for the financial years/periods are computed at the prevailing tax rates.

	<-----FYE 30 September----->			6 months	
	2006	2007	2008	<---FPE 31 March--->	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
Provision for current year/period	-	804	243	258	-
Underprovision in prior years	-	-	13	-	-
	-	804	256	258	-

A reconciliation of income tax expenses applicable to (loss)/profit before taxation at the statutory income tax rate to income tax expenses at the effective income tax rate of the Company is as follows:

	<-----FYE 30 September----->			6 months	
	2006	2007	2008	<---FPE 31 March--->	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
(Loss)/Profit before taxation	(75)	3,714	951	959	22,290
Taxation at the Malaysian statutory tax rate of 25% (2008 - 26%, 2007 - 27%, 2006 - 28%)	(21)	1,003	247	249	5,572
Expenses not deductible for tax purposes	21	-	-	9	-
Income not subjected to tax	-	(199)	(4)	-	(5,572)
Underprovision of income tax in prior years	-	-	13	-	-
Tax expense for the year/period	-	804	256	258	-

**5.1.8 Investment in subsidiaries**

	<---As at 30 September--->			<---As at 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
Unquoted shares - at cost	3,310	3,310	3,310	3,310	5,510

**13. ACCOUNTANTS' REPORT (Cont'd)****5.1.8.1 Acquisition of subsidiary**

On 1 July 2006, the Group acquired an additional 60% equity interest in Halex Trading, a company incorporated in Malaysia for a consideration of RM61,000 consisting of 30,000 ordinary shares of Halex Trading. As a result of the acquisition, Halex Trading has changed from associated company to a wholly-owned subsidiary of the Group with a total purchase consideration of RM81,000 consisting of 50,000 ordinary shares of Halex Trading.

The acquisition had the following effects on the Group's financial results for the FYE 30 September 2006:

	FYE 30 September 2006 RM '000
Revenue	310
Profit before taxation	22
Profit after taxation	<u>7</u>

The acquisition had the following effects on the financial position of the Group as at 30 September 2006:

	As at 30 September 2006 RM '000
Property, plant and equipment	#
Investment in quoted shares	1
Trade receivables	142
Amount due from Halex (M)	19
Cash and bank balances	94
Other payables, accruals and deposits	(14)
Provision for taxation	(2)
	<u>240</u>

# RMI

The fair value of the assets acquired and liabilities assumed from the acquisition of subsidiary is as follows:

	FYE 30 September 2006 RM '000
Property, plant and equipment	2
Investment in quoted shares	1
Trade receivables	121
Amount due from Halex (M)	48
Tax recoverable	10
Cash and bank balances	53
Other payables, accruals and deposits	(1)
Deferred taxation	(2)
Net assets acquired	<u>232</u>
Share of associated company's result	(47)
Goodwill on consolidation	(104)
Total consideration	<u>81</u>
Purchase consideration satisfied by cash	<u>81</u>
Cash outflow arising on acquisitions:	
Purchase consideration satisfied by cash	81
Cash and cash equivalents of subsidiary acquired	(53)
	<u>28</u>

**13. ACCOUNTANTS' REPORT (Cont'd)****5.1.8.2 Disposal of subsidiary**

On 1 November 2006, the Group disposed off 30,000 ordinary shares of RM1 each representing 60% equity interest in Halex Maju for a total sale consideration of RM16,132.

The disposal had no effects on the Group's financial results for the FYE 30 September 2007.

The disposal had the following effects on the financial position of the Group as at 30 September 2007:

	As at 30 September 2007
	RM '000
Other receivables	27
Cash and bank balances	1
Other payables, accruals and deposits	<u>(1)</u>
Net assets disposed	27
Less: Minority interest	<u>(20)</u>
	7
Disposal proceeds	<u>(16)</u>
Gain on disposal to the Group	<u>(9)</u>
Disposal proceeds settled by:	
Cash	<u>16</u>
	FYE 30 September 2007
	RM '000
Cash consideration	16
Cash and cash equivalent of subsidiaries disposed	<u>(1)</u>
Net cash inflow to the Group	<u>15</u>

**5.1.9 Amount due from subsidiaries**

These amounts are interest-free, unsecured and have no fixed terms of repayment.

**5.1.10 Share capital**

	<-----FYE 30 September----->			<-6 months FPE 31 March->	
	2006	2007	2008	2008	2009
<u>Authorised:</u>					
Ordinary shares at RM1 each at the beginning of the year/period ('000)	5,000	100,000	100,000	100,000	100,000
Increased during the financial year/period ('000)	95,000	-	-	-	-
Split to RM0.50 per share ('000)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
Ordinary shares at RM1 each at the end of the year/period ('000)	100,000	100,000	100,000	100,000	-
Ordinary shares at RM0.50 each at the end of the year/period ('000)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
At the beginning of the year/period (RM'000)	5,000	100,000	100,000	100,000	100,000
Increased during the financial year/period (RM'000)	95,000	-	-	-	-
At the end of the year/period (RM'000)	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

**13. ACCOUNTANTS' REPORT (Cont'd)****5.1.10 Share capital (cont'd)**

	<-----FYE 30 September----->			<-6 months FPE 31 March->	
	2006	2007	2008	2008	2009
<u>Issued and fully paid:</u>					
Ordinary shares at RM1 each at the beginning of the year/period ('000)	4,260	12,280	12,280	12,280	12,280
Split to RM0.50 per share ('000)	-	-	-	-	12,280
Allotment during the financial year/period ('000)	8,020	-	-	-	45,440
Ordinary shares at RM1 each at the end of the year/period ('000)	12,280	12,280	12,280	12,280	-
Ordinary shares at RM0.50 each at the end of the year/period ('000)	-	-	-	-	70,000
At the beginning of the year/period (RM'000)	4,260	12,280	12,280	12,280	12,280
Allotment during the financial year/period (RM'000)	8,020	-	-	-	22,720
At the end of the year/period (RM'000)	12,280	12,280	12,280	12,280	35,000

**13. ACCOUNTANTS' REPORT (Cont'd)****5.2 HALEX Group****5.2.1 Income Statements**

	Note	<-----FYE 30 September----->			<--6 months FPE 31 March-->	
		2006	2007	2008	2008	2009
		RM '000	RM '000	RM '000	RM '000	RM '000
Revenue	5.2.5	69,392	78,241	100,897	48,339	39,112
Cost of sales		(47,363)	(53,070)	(73,775)	(34,859)	(27,979)
Gross profit		22,029	25,171	27,122	13,480	11,133
Other operating income		425	392	272	139	206
Profit before depreciation, interest, taxation and amortisation		11,076	12,290	12,375	6,512	3,918
Finance cost		(205)	(241)	(442)	(231)	(218)
Depreciation and amortisation		(1,323)	(1,327)	(1,409)	(655)	(689)
Operating profit		9,548	10,722	10,524	5,626	3,011
Exceptional items		-	-	-	-	-
Share of profits of associated companies		-	-	-	-	-
Profit before taxation	5.2.6	9,548	10,722	10,524	5,626	3,011
Taxation	5.2.7	(1,939)	(2,043)	(1,915)	(1,123)	(791)
Profit from ordinary activities		7,609	8,679	8,609	4,503	2,220
Extraordinary items		-	-	-	-	-
Minority interest		-	-	-	-	-
Profit after taxation and minority		7,609	8,679	8,609	4,503	2,220
Gross profit margin	(%)	31.75	32.17	26.88	27.89	28.46
Profit before tax margin	(%)	13.76	13.70	10.43	11.64	7.70
Profit after tax margin	(%)	10.97	11.09	8.53	9.32	5.68
Effective tax rate	(%)	20.31	19.05	18.20	19.96	26.27
Interest coverage	(times)	47.58	45.49	24.81	25.35	14.81
Weighted average no. of ordinary shares of RM1.00 each in issue	'000	5,471	12,280	12,280	12,280	-
Weighted average no. of ordinary shares of RM0.50 each in issue	'000	-	-	-	-	32,098
Gross earnings per share	(Sen)	174.52	87.31	85.70	45.81	9.38
Net earnings per share	(Sen)	139.08	70.68	70.11	36.67	6.92

Notes :-

- The gross and net earnings per share were calculated based on the audited consolidated profit before taxation and profit after taxation attributable to shareholders of HALEX for the financial years/periods respectively divided by the weighted average number of ordinary shares in issue for each financial year/period under review.
- The effective tax rates were computed to include the deferred tax effects and any under or over provision of tax pertaining to the previous years/periods.
- There were no exceptional and extraordinary items in respect of the relevant years/periods under review.

**13. ACCOUNTANTS' REPORT (Cont'd)****5.2.1 Income Statements (cont'd)**

The audited consolidated income statements of the HALEX Group for the FYE 30 September 2006 included only the results of the 40% equity interest in Halex Trading, which the remaining 60% equity interest of Halex Trading was subsequently acquired on 1 July 2006. Furthermore, the audited consolidated income statements of the HALEX Group for the FYE 30 September 2006 and 2007 included the results of Halex Maju, which was disposed off by Halex (M) on 1 November 2006. The results of Halex Trading for the FYE 30 September 2006 and Halex Maju for the FYE 30 September 2006 and 2007 are as follows:

**Halex Trading**

	FYE 30 September 2006 (RM'000)
Revenue	648
Gross profit	101
Profit before taxation	90
Profit after taxation	<u>75</u>

**Halex Maju**

	FYE 30 September 2006 (RM'000)	FYE 30 September 2007 (RM'000)
Revenue	-	-
Gross profit	-	-
Loss before taxation	(2)	(2)
Loss after taxation	<u>(2)</u>	<u>(2)</u>



**13. ACCOUNTANTS' REPORT (Cont'd)****5.2.2 Balance Sheets**

	Note	<---As at 30 September--->			<--As at 31 March-->	
		2006 RM '000	2007 RM '000	2008 RM '000	2008 RM '000	2009 RM '000
<b>ASSETS</b>						
<b>Non-current assets</b>						
Property, plant and equipment	5.2.8	16,991	32,076	38,224	35,457	39,268
Investment property	5.2.9	90	90	90	90	90
Investment in quoted shares	5.2.10	95	165	80	94	62
Other investments	5.2.11	26	26	26	26	26
Intangible assets	5.2.12	-	12	17	12	27
Development costs	5.2.13	-	223	404	317	490
Prepaid lease payments	5.2.14	1,609	1,575	1,540	1,557	1,522
<b>Total non-current assets</b>		<b>18,811</b>	<b>34,167</b>	<b>40,381</b>	<b>37,553</b>	<b>41,485</b>
<b>Current assets</b>						
Inventories	5.2.15	11,854	19,626	26,676	23,269	26,975
Trade receivables	5.2.16	13,719	18,206	18,683	20,905	18,837
Other receivables and deposits		7,178	4,926	3,317	2,747	3,240
Other investments	5.2.11	1,049	85	42	42	43
Deposits with licensed banks	5.2.17	795	824	908	888	908
Tax recoverable		-	-	-	-	373
Cash and bank balances		6,753	3,599	1,792	2,516	1,597
<b>Total current assets</b>		<b>41,348</b>	<b>47,266</b>	<b>51,418</b>	<b>50,367</b>	<b>51,973</b>
<b>Total assets</b>		<b>60,159</b>	<b>81,433</b>	<b>91,799</b>	<b>87,920</b>	<b>93,458</b>
<b>EQUITY AND LIABILITIES</b>						
<b>Capital and reserves</b>						
Share capital		12,280	12,280	12,280	12,280	35,000
Share premium		1,182	1,182	1,182	1,182	-
Revaluation reserves		1,387	1,387	1,387	1,387	1,387
Exchange reserves		293	293	293	293	293
Unappropriated profit		36,624	42,420	50,311	46,206	30,993
<b>Shareholders' equity</b>		<b>51,766</b>	<b>57,562</b>	<b>65,453</b>	<b>61,348</b>	<b>67,673</b>
Minority interest		20	-	-	-	-
<b>Total equity</b>		<b>51,786</b>	<b>57,562</b>	<b>65,453</b>	<b>61,348</b>	<b>67,673</b>

**13. ACCOUNTANTS' REPORT (Cont'd)****5.2.2 Balance Sheets (cont'd)**

	Note	<---As at 30 September--->			<--As at 31 March-->	
		2006 RM '000	2007 RM '000	2008 RM '000	2008 RM '000	2009 RM '000
<b>Non-current liabilities</b>						
Finance lease and hire purchase payables	5.2.18	59	12	-	2	-
Term loans	5.2.19	-	7,393	7,949	7,218	7,812
Deferred taxation	5.2.20	229	215	257	336	541
<b>Total non-current liabilities</b>		<b>288</b>	<b>7,620</b>	<b>8,206</b>	<b>7,556</b>	<b>8,353</b>
<b>Current liabilities</b>						
Trade payables	5.2.21	2,392	4,227	4,189	3,565	2,859
Other payables and accruals		3,628	3,789	4,662	3,123	3,179
Finance lease and hire purchase payables	5.2.18	413	43	50	28	1
Bills payable	5.2.22	1,090	5,934	5,620	9,078	6,704
Term loans	5.2.19	-	1,231	1,271	1,231	1,231
Provision for taxation		562	276	44	395	70
Bank overdraft	5.2.22	-	751	2,304	1,596	3,388
<b>Total current liabilities</b>		<b>8,085</b>	<b>16,251</b>	<b>18,140</b>	<b>19,016</b>	<b>17,432</b>
<b>Total liabilities</b>		<b>8,373</b>	<b>23,871</b>	<b>26,346</b>	<b>26,572</b>	<b>25,785</b>
<b>Total equity and liabilities</b>		<b>60,159</b>	<b>81,433</b>	<b>91,799</b>	<b>87,920</b>	<b>93,458</b>
Number of ordinary shares of RM1 in issue ('000)		12,280	12,280	12,280	12,280	-
Number of ordinary shares of RM0.50 in issue ('000)		-	-	-	-	70,000
Net assets (RM'000)		51,786	57,562	65,453	61,348	67,673
Net assets per share (RM)		4.22	4.69	5.33	5.00	0.97
Net tangible assets (RM'000)		51,786	57,327	65,032	61,019	67,156
Net tangible assets per share (RM)		4.22	4.67	5.30	4.97	0.96
Gearing ratio (times)		0.03	0.27	0.26	0.31	0.28
Current ratio (times)		5.11	2.91	2.83	2.65	2.98
Trade receivables' turnover period (days)		64	74	67	74	87
Trade payables' turnover period (days)		22	23	21	20	23
Inventories' turnover period (days)		87	108	115	113	174

**13. ACCOUNTANTS' REPORT (Cont'd)****5.2.2 Balance Sheets (cont'd)**

The audited consolidated balance sheets of the HALEX Group as at 30 September 2006 included only the results of 40% equity interest in Halex Trading, which the remaining 60% equity interest of Halex Trading was subsequently acquired in 1 July 2006. Furthermore, the audited consolidated balance sheets of the HALEX Group as at 30 September 2006 and 2007 included the results of Halex Maju, which was disposed off by Halex (M) on 1 November 2006. The financial position of Halex Trading as at 30 September 2006 and Halex Maju as at 30 September 2006 and 2007 are as follows:

**Halex Trading**

	As at 30 September 2006 (RM'000)
<u>Assets</u>	
Non-current assets	1
Current assets	255
Total assets	<u>256</u>
<u>Equity and liabilities</u>	
Equity	<u>240</u>
Liabilities	
Current liabilities	16
Non-current liabilities	-
Total liabilities	<u>16</u>
Total equity and liabilities	<u>256</u>

**Halex Maju**

	As at 30 September 2006 (RM'000)	As at 30 September 2007 (RM'000)
<u>Assets</u>		
Non-current assets	-	-
Current assets	27	26
Total assets	<u>27</u>	<u>26</u>
<u>Equity and liabilities</u>		
Equity	<u>27</u>	<u>24</u>
Liabilities		
Current liabilities	^	2
Non-current liabilities	-	-
Total liabilities	<u>^</u>	<u>2</u>
Total equity and liabilities	<u>27</u>	<u>26</u>

^ Less than RM1,000

**13. ACCOUNTANTS' REPORT (Cont'd)****5.2.3 Statements of Changes in Equity**

	Share Capital	Revaluation Reserves	Share Premium	Exchange Reserves	Unappro- priated Profit	Total	Minority Interest	Total equity
Balance at 1 October 2005	4,260	1,387	475	272	29,867	36,261	20	36,281
Exchange differences arising from translation of foreign group companies' accounts	-	-	-	21	-	21	-	21
Issue of shares at par	6,933	-	-	-	-	6,933	-	6,933
Issue of shares at premium of RM0.50	1,054	-	527	-	-	1,581	-	1,581
Issue of shares at premium of RM5.44	33	-	180	-	-	213	-	213
Dividends paid - 10% less tax	-	-	-	-	(852)	(852)	-	(852)
Net profit for the year	-	-	-	-	7,609	7,609	-	7,609
Balance at 30 September 2006	12,280	1,387	1,182	293	36,624	51,766	20	51,786
Minority interest	-	-	-	-	-	-	(20)	(20)
Net profit for the year	-	-	-	-	8,679	8,679	-	8,679
Dividends paid - 24.2% less tax	-	-	-	-	(2,883)	(2,883)	-	(2,883)
Exchange differences arising from translation of foreign group companies' accounts	-	-	-	^	-	^	-	^
Balance at 30 September 2007	12,280	1,387	1,182	293	42,420	57,562	-	57,562
Net profit for the year	-	-	-	-	8,609	8,609	-	8,609
Dividends paid - 5.84%	-	-	-	-	(718)	(718)	-	(718)
Balance at 30 September 2008	12,280	1,387	1,182	293	50,311	65,453	-	65,453
Issuance of share capital	22,720	-	(1,182)	-	(21,538)	-	-	-
Net profit for the period	-	-	-	-	2,220	2,220	-	2,220
Balance at 31 March 2009	35,000	1,387	-	293	30,993	67,673	-	67,673

Note :-

^ Less than RM1,000

**13. ACCOUNTANTS' REPORT (Cont'd)****5.2.4 Cash Flow Statements**

	<----FYE 30 September----->			6 months	
				<---FPE 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Profit before taxation	9,548	10,722	10,524	5,626	3,011
Adjustments for :					
Allowance for diminution in value	-	-	5	-	20
Allowance for doubtful debts written back	(207)	-	(143)	(77)	(2)
Allowance for doubtful debts	-	10	14	-	2
Allowance for diminution in value written back	(20)	(38)	-	(9)	-
Amortisation	49	35	35	17	17
Bad debts written off/(recovered)	101	-	185	98	(2)
Depreciation	1,274	1,302	1,390	646	686
Loss on disposal of investment in quoted shares	-	-	18	18	-
Gain on disposal of investment in subsidiary	-	(9)	-	-	-
Loss/(Gain) on disposal of property, plant and equipment	37	4	(6)	(14)	(12)
Negative goodwill on consolidation	(104)	-	-	-	-
Property, plant and equipment written off	30	29	42	19	-
Dividend received	(3)	(8)	(3)	(1)	(3)
Interest expense	205	241	442	231	218
Interest income	(73)	(66)	(42)	(10)	(1)
Operating profit before working capital changes	10,837	12,222	12,461	6,544	3,934
Inventories	(1,130)	(7,772)	(7,050)	(3,643)	(298)
Receivables	(9,474)	(2,272)	1,078	(540)	(79)
Payables	(1,123)	6,839	521	1,817	(1,729)
Associated company	120	-	-	-	-
Cash (used in)/generated from operations	(770)	9,017	7,010	4,178	1,828
Tax paid	(1,207)	(2,342)	(2,207)	(985)	(856)
Tax refund	-	-	101	101	2
Interest paid	(205)	(241)	(442)	(231)	(218)
Net cash (used in)/from operating activities	(2,182)	6,434	4,462	3,063	756
<b>CASH FLOW FOR INVESTING ACTIVITIES</b>					
Interest received	73	66	42	10	1
Dividend received	3	8	3	1	3
Proceeds from disposal of property, plant and equipment	753	3	27	14	13
Proceeds from disposal of associated company	20	-	-	-	-
Proceeds from disposal of subsidiary	-	15	-	-	-
Purchase of property, plant and equipment	(1,018)	(16,423)	(7,525)	(4,045)	(1,731)
Development costs	-	(223)	(182)	(94)	(85)
Acquisition of intangible assets	-	(12)	(5)	-	(10)
Acquisition of subsidiary	(28)	-	-	-	-
Placement of deposit with licensed banks	(26)	(28)	(83)	(64)	-
Withdrawal of term deposits	2,004	-	-	-	-
Acquisition of quoted shares	(3)	(32)	-	-	-
Proceeds from disposal of quoted shares	-	-	61	61	-
Net cash from/(used in) investing activities	1,778	(16,626)	(7,662)	(4,117)	(1,809)

**13. ACCOUNTANTS' REPORT (Cont'd)****5.2.4 Cash Flow Statements (cont'd)**

	<-----FYE 30 September----->			<---6 months FPE 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Proceeds from issuance of shares	8,726	-	-	-	-
Drawdown of term loan	-	8,921	1,537	-	452
Repayment of bank borrowings	(655)	(297)	(941)	(175)	(628)
Repayment of finance lease and hire purchase payables	(866)	(417)	(81)	(25)	(49)
Dividend paid	(852)	(2,883)	(717)	(717)	-
Exchange reserves	21	^	-	-	-
Net cash from/(used in) financing activities	6,374	5,324	(202)	(917)	(225)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	5,970	(4,868)	(3,402)	(1,971)	(1,278)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD</b>	1,860	7,830	2,962	2,962	(440)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD</b>	7,830	2,962	(440)	991	(1,718)
<b>CASH AND CASH EQUIVALENTS COMPRISE :</b>					
Other investments	1,049	85	42	42	43
Deposits with licensed banks - not pledged	5.2.17 28	29	30	29	30
Cash and bank balances	6,753	3,599	1,792	2,516	1,597
Bank overdraft	-	(751)	(2,304)	(1,596)	(3,388)
	7,830	2,962	(440)	991	(1,718)

^ Less than RM1,000



**13. ACCOUNTANTS' REPORT (Cont'd)****5.2.5 Revenue**

Revenue represents gross invoiced values less trade discounts and returns.

**5.2.6 Profit before taxation**

This has been determined after charging/(crediting) the following items:-

	<---FYE 30 September--->			<--- FPE 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
Allowance for diminution in value	-	-	5	-	20
Allowance for doubtful debts	-	34	14	4	2
Amortisation	49	35	35	17	17
Audit fees - current year	54	58	48	58	36
- overprovision in prior year	(1)	-	-	-	-
Bad debts written off	101	-	185	98	-
Bank overdraft interest	5	18	70	32	40
BA discounting charges	20	107	186	102	37
Depreciation	1,273	1,292	1,374	638	671
Directors' remuneration					
- directors' fees	138	138	132	69	64
- salaries and other emoluments	1,596	1,431	1,603	729	726
Finance lease and hire purchase interest	98	16	3	2	^
LC and trust receipt charges	58	100	183	94	141
Loss on disposal of property, plant and equipment	37	4	9	-	1
Loss on disposal of investment in quoted shares	-	-	21	21	-
Loss on foreign exchange					
- Realised	68	151	156	207	10
- Unrealised	11	-	-	^	-
Negative goodwill on consolidation	(104)	-	-	-	-
Property, plant and equipment written off	30	29	42	19	-
Rental	234	233	121	59	59
Term loan interest	23	-	-	-	-
Allowance for diminution in value written back	(20)	(38)	-	(9)	-
Allowance for doubtful debts written back	(207)	(24)	(157)	(81)	(2)
Bad debts recovered	-	(2)	(1)	(1)	(2)
Gain on disposal of property, plant and equipment	-	-	(15)	(14)	(12)
Gain on disposal of quoted shares	-	(4)	(2)	(2)	-
Gain on disposal of subsidiary company	-	(9)	-	-	-
Gain on foreign exchange - realised	(43)	-	(6)	(3)	(180)
Gross dividends received from quoted investments	(3)	(8)	(3)	(1)	(3)
Interest on fixed deposits	(73)	(66)	(42)	(10)	(1)
Insurance claim received	(5)	(41)	(39)	(18)	(3)
Insurance commission received	-	-	(7)	-	(1)
Other income	(8)	(200)	-	-	-

Note :-

^ Less than RM1,000

**13. ACCOUNTANTS' REPORT (Cont'd)****5.2.7 Taxation**

The provision for taxation for the financial years/periods are computed at the prevailing tax rates.

	<-----FYE 30 September----->			6 months	
				<---FPE 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
Provision for current year/period	2,039	2,102	1,860	990	507
(Over)/Underprovision in prior years	(79)	(45)	13	13	^
Deferred tax expense (Note 5.2.23)	(21)	(14)	42	120	284
	<u>1,939</u>	<u>2,043</u>	<u>1,915</u>	<u>1,123</u>	<u>791</u>

A reconciliation of income tax expenses applicable to profit before taxation at the statutory income tax rate to income tax expenses at the effective income tax rate of the Company is as follows:

	<-----FYE 30 September----->			6 months	
				<---FPE 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
Profit before taxation	<u>9,548</u>	<u>10,722</u>	<u>10,524</u>	<u>5,626</u>	<u>3,011</u>
Taxation at the Malaysian statutory tax rate of 25% in 2009 (2008 - 26%, 2007 - 27%, 2006 - 28%)	2,673	2,895	2,737	1,463	753
Effect of different tax rates on small and medium scale industries	(300)	50	(105)	(86)	-
Expenses not deductible for tax purpose	373	91	179	179	131
Income not subjected to tax	(146)	(224)	(8)	(31)	^
Utilisation of previously unrecognised tax losses and unabsorbed capital allowance	(595)	2	-	-	-
Utilisation of reinvestment allowance	-	(412)	(745)	(268)	(95)
Effect on double tax deduction	-	(253)	(158)	(115)	(146)
Overprovision of deferred taxation in prior years	-	(78)	38	-	148
(Over)/Underprovision of income tax in prior years	(79)	(28)	14	13	^
Others	13	-	(37)	(32)	^
Tax expense for the year	<u>1,939</u>	<u>2,043</u>	<u>1,915</u>	<u>1,123</u>	<u>791</u>

Note :-

^ Less than RM1,000

### 13. ACCOUNTANTS' REPORT (Cont'd)

#### 5.2.8 Property, plant and equipment

	Freehold land RM'000	Buildings and structures RM'000	Building under construction RM'000	Plant and machinery RM'000	Tools, Equipment, Furniture and fittings RM'000	Motor vehicle RM'000	Total RM'000
Net book value at 1 October 2005	1,780	8,143	-	5,829	1,436	862	18,050
Addition	-	52	-	194	667	152	1,065
Disposal/written off	-	-	-	-	(31)	(789)	(820)
Arising from acquisition of subsidiary	-	-	-	-	2	-	2
Depreciation charge	-	(235)	-	(631)	(350)	(90)	(1,306)
Net book value at 30 September 2006	1,780	7,960	-	5,392	1,724	135	16,991
Addition	7,250	221	8,161	376	346	69	16,423
Disposal/written off	-	(1)	-	(1)	(33)	-	(35)
Depreciation charge	-	(233)	-	(644)	(351)	(75)	(1,303)
Net book value at 30 September 2007	9,030	7,947	8,161	5,123	1,686	129	32,076
Addition	-	555	4,674	1,590	702	81	7,602
Disposal/written off	-	-	-	(27)	(27)	(9)	(63)
Transfers	-	1,522	(1,522)	-	-	-	-
Depreciation charge	-	(263)	(18)	(702)	(348)	(60)	(1,391)
Net book value at 30 September 2008	9,030	9,761	11,295	5,984	2,013	141	38,224
Addition	-	245	1,245	52	189	-	1,731
Disposal/written off	-	-	-	-	(1)	-	(1)
Transfers	-	-	-	-	-	-	-
Depreciation charge	-	(148)	-	(374)	(141)	(23)	(686)
Net book value at 31 March 2009	9,030	9,858	12,540	5,662	2,060	118	39,268

	Freehold land RM'000	Buildings and structures RM'000	Building under construction RM'000	Plant and machinery RM'000	Tools, Equipment, Furniture and fittings RM'000	Motor vehicle RM'000	Total RM'000
At 30 September 2006							
At cost	1,780	7,449	-	9,632	3,835	702	23,398
Accumulated depreciation	-	(1,440)	-	(4,240)	(2,111)	(567)	(8,358)
Impairment	-	(213)	-	-	-	-	(213)
Net book value	1,780	5,796	-	5,392	1,724	135	14,827
At valuation	-	2,797	-	-	-	-	2,797
Accumulated depreciation	-	(633)	-	-	-	-	(633)
Net book value	-	2,164	-	-	-	-	2,164
Total	1,780	7,960	-	5,392	1,724	135	16,991

**13. ACCOUNTANTS' REPORT (Cont'd)****5.2.8 Property, plant and equipment (cont'd)**

	Freehold land RM'000	Buildings and structures RM'000	Building under construction RM'000	Plant and machinery RM'000	Tools, Equipment, Furniture and fittings RM'000	Motor vehicle RM'000	Total RM'000
At 30 September 2007							
At cost	9,030	7,600	8,161	10,006	4,123	700	39,620
Accumulated depreciation	-	(1,606)	-	(4,883)	(2,437)	(571)	(9,497)
Impairment	-	(213)	-	-	-	-	(213)
Net book value	9,030	5,781	8,161	5,123	1,686	129	29,910
At valuation	-	2,855	-	-	-	-	2,855
Accumulated depreciation	-	(689)	-	-	-	-	(689)
Net book value	-	2,166	-	-	-	-	2,166
<b>Total</b>	<b>9,030</b>	<b>7,947</b>	<b>8,161</b>	<b>5,123</b>	<b>1,686</b>	<b>129</b>	<b>32,076</b>
At 30 September 2008							
At cost	9,030	9,678	11,313	11,400	4,757	759	46,937
Accumulated depreciation	-	(1,813)	(18)	(5,416)	(2,744)	(618)	(10,609)
Impairment	-	(213)	-	-	-	-	(213)
Net book value	9,030	7,652	11,295	5,984	2,013	141	36,115
At valuation	-	2,855	-	-	-	-	2,855
Accumulated depreciation	-	(746)	-	-	-	-	(746)
Net book value	-	2,109	-	-	-	-	2,109
<b>Total</b>	<b>9,030</b>	<b>9,761</b>	<b>11,295</b>	<b>5,984</b>	<b>2,013</b>	<b>141</b>	<b>38,224</b>
At 31 March 2009							
At cost	9,030	9,922	12,558	11,452	4,941	710	48,613
Accumulated depreciation	-	(1,933)	(18)	(5,790)	(2,881)	(592)	(11,214)
Impairment	-	(213)	-	-	-	-	(213)
Net book value	9,030	7,776	12,540	5,662	2,060	118	37,186
At valuation	-	2,855	-	-	-	-	2,855
Accumulated depreciation	-	(773)	-	-	-	-	(773)
Net book value	-	2,082	-	-	-	-	2,082
<b>Total</b>	<b>9,030</b>	<b>9,858</b>	<b>12,540</b>	<b>5,662</b>	<b>2,060</b>	<b>118</b>	<b>39,268</b>

The Group's properties stated at valuation were revalued by independent valuers, Messrs Colliers Jordan Lee & Jaafar (JH) Sdn. Bhd. in April 1994 on the "Open Market Value" basis. Upon revaluation, the surplus was transferred to the Revaluation Reserve account.

Certain leasehold properties, factory under construction and plant and machinery have been charged for banking facilities granted to the companies in the Group (Notes 5.2.19 and 5.2.22).

Included in factory under construction is term loan interest capitalised during the years/periods under review as follows:

	<---FYE 30 September--->			<---FPE 31 March --->	
	2006 RM'000	2007 RM'000	2008 RM'000	2008 RM'000	2009 RM'000
Term loan interest capitalised	-	212	455	363	212

**13. ACCOUNTANTS' REPORT (Cont'd)****5.2.8 Property, plant and equipment (cont'd)**

Included in the above property, plant and equipment are assets acquired under finance lease and hire purchase arrangements as follows:

	<---As at 30 September--->			<---As at 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
Plant and machinery	2,700	-	-	-	-
Motor vehicle	149	203	205	92	-
	<u>2,849</u>	<u>203</u>	<u>205</u>	<u>92</u>	<u>-</u>

Included in the above property, plant and equipment of the Group are the costs of the following fully depreciated assets which are still in use:

	<---As at 30 September--->			<---As at 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
Building structures	-	-	114	-	117
Tools and equipment	111	175	203	202	1,537
Office equipment	109	206	375	206	-
Renovation	6	8	13	8	13
Furniture, fixtures and fittings	236	394	915	250	-
Plant and machinery	372	372	305	305	305
Forklifts	-	59	-	-	-
Motor Vehicles	409	471	541	541	563
Signboard	-	^	^	^	-
	<u>1,243</u>	<u>1,685</u>	<u>2,466</u>	<u>1,512</u>	<u>2,535</u>

^ Less than RM1,000

**5.2.9 Investment property**

	<---As at 30 September--->			<---As at 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
Freehold land - cost	37	37	37	37	37
Surplus on revaluation	53	53	53	53	53
	<u>90</u>	<u>90</u>	<u>90</u>	<u>90</u>	<u>90</u>

The Group's investment property was revalued by independent valuers, Messrs Colliers Jordan Lee & Jaafar (JH) Sdn. Bhd. in April 1994 on the "Open Market Value" basis. Upon revaluation, the surplus was transferred to the Revaluation Reserve account.

**5.2.10 Investment in quoted shares**

	<---As at 30 September--->			<---As at 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
Quoted shares - at cost	193	226	146	146	148
Arising from acquisition of subsidiary	1	-	-	-	-
Less: Accumulated impairment losses	(99)	(61)	(66)	(52)	(86)
	<u>95</u>	<u>165</u>	<u>80</u>	<u>94</u>	<u>62</u>
At market value	<u>97</u>	<u>170</u>	<u>80</u>	<u>98</u>	<u>62</u>

**13. ACCOUNTANTS' REPORT (Cont'd)****5.2.11 Other investments**

	<---As at 30 September--->			<---As at 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
<u>At cost</u>					
Club membership - non current assets	26	26	26	26	26
Investment in term deposit - current assets	1,049	85	42	42	43
	<u>1,075</u>	<u>111</u>	<u>68</u>	<u>68</u>	<u>69</u>
<u>At market value</u>					
Investment in term deposit	1,049	85	42	42	43

**5.2.12 Intangible assets**

	<---As at 30 September--->			<---As at 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
Trademarks	-	12	17	12	27

**5.2.13 Development costs**

	<---As at 30 September--->			<---As at 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
At beginning of year/period	-	-	223	223	404
Add: Additional during the financial year/period	-	223	181	94	86
At end of year/period	-	<u>223</u>	<u>404</u>	<u>317</u>	<u>490</u>

Included in development costs is depreciation capitalised during the years/periods under review as follows:

	<---FYE 30 September--->			<---FPE 31 March --->	
	2006	2007	2008	2008	2009
	RM'000	RM'000	RM'000	RM'000	RM'000
Depreciation	-	10	16	8	15

**5.2.14 Prepaid lease payment**

	<---As at 30 September--->			<---As at 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
<u>At valuation</u>					
Prepaid lease payments	780	780	780	780	780
Less: Accumulated amortisation	(62)	(78)	(94)	(86)	(102)
Net book value	<u>718</u>	<u>702</u>	<u>686</u>	<u>694</u>	<u>678</u>
<u>At cost</u>					
Prepaid lease payments	954	955	955	955	955
Less: Accumulated amortisation	(63)	(82)	(101)	(92)	(111)
Net book value	<u>891</u>	<u>873</u>	<u>854</u>	<u>863</u>	<u>844</u>
Total	<u>1,609</u>	<u>1,575</u>	<u>1,540</u>	<u>1,557</u>	<u>1,522</u>



**13. ACCOUNTANTS' REPORT (Cont'd)****5.2.15 Inventories**

	<---As at 30 September--->			<---As at 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
Raw materials	5,134	9,402	12,784	12,093	13,113
Work-in-progress	489	424	349	305	250
Finished goods	1,961	3,832	5,420	4,189	6,113
Tissue culture	395	262	288	353	252
Goods for resale	3,196	4,881	6,909	5,378	6,206
Consumables	679	825	926	951	1,041
	<u>11,854</u>	<u>19,626</u>	<u>26,676</u>	<u>23,269</u>	<u>26,975</u>

**5.2.16 Trade receivables**

	<---As at 30 September--->			<---As at 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
Trade receivables	13,975	18,472	18,805	21,094	18,960
Less: Allowance for doubtful debts	(256)	(266)	(122)	(189)	(123)
	<u>13,719</u>	<u>18,206</u>	<u>18,683</u>	<u>20,905</u>	<u>18,837</u>

The Group's normal credit terms range from 30 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

The trade receivables ageing analysis as at 31 March 2009 is set out below:

	0 to 30 Days	31 to 60 Days	61 to 90 Days	> 90 Days	Total
	RM '000	RM '000	RM '000	RM '000	RM '000
Balance as at 31 March 2009	<u>8,954</u>	<u>4,171</u>	<u>3,663</u>	<u>2,049</u>	<u>18,837</u>

**5.2.17 Deposits with licensed bank**

	<---As at 30 September--->			<---As at 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
Deposits with licensed banks					
- Pledged to financial institutions	767	795	878	859	878
- Not pledged	28	29	30	29	30
	<u>795</u>	<u>824</u>	<u>908</u>	<u>888</u>	<u>908</u>

The effective interest rates for deposits with licensed banks at the end of the financial years/periods are as follows:

	<---As at 30 September--->			<---As at 31 March--->	
	2006	2007	2008	2008	2009
	RM'000	RM'000	RM'000	RM'000	RM'000
Effective interest rates	<u>3.05%-3.5%</u>	<u>3.2%-3.6%</u>	<u>2.7%-3.6%</u>	<u>2.7%-3.6%</u>	<u>2.7%-3.7%</u>

**13. ACCOUNTANTS' REPORT (Cont'd)****5.2.18 Finance lease and hire purchase payables**

	<---As at 30 September--->			<---As at 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
Due within 1 year	433	46	50	29	1
Due between 2 years and 5 years	57	12	-	2	-
	490	58	50	31	1
Less: Unexpired interest	(18)	(3)	^	(1)	^
	472	55	50	30	1
Due within 1 year	413	43	50	28	1
Due between 2 years and 5 years	59	12	-	2	-
	472	55	50	30	1

^ Less than RM1,000

The finance lease and hire purchase payables bear interest at the following rates for the years/periods under review:

	<---As at 30 September--->			<---As at 31 March --->	
	2006	2007	2008	2008	2009
	RM'000	RM'000	RM'000	RM'000	RM'000
Effective interest rates	6.15%-10.84%	6.15%-10.84%	9.16%	6.15%-10.84%	4.20%

**5.2.19 Term loans**

	<---As at 30 September--->			<---As at 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
Due within 1 year	-	1,231	1,271	1,231	1,231
Due after 1 year	-	7,393	7,949	7,218	7,812
	-	8,624	9,220	8,449	9,043

The term loans are repayable by between 84 and 120 monthly instalments and interest are chargeable from 1.50% per annum above the bank's effective cost of funds.

The term loans facilities granted to the Group are secured by the following:

- i. a legal charge over certain freehold properties of the Group (Note 5.2.8);
- ii. corporate guarantees by its holding company; and
- iii. joint and several guarantee by the Directors.

**5.2.20 Deferred taxation**

	<---As at 30 September--->			<---As at 31 March--->	
	2006	2007	2008	2008	2009
	RM '000	RM '000	RM '000	RM '000	RM '000
At beginning of year/period	248	229	215	216	257
Arising from acquisition of subsidiary	2	-	-	-	-
Recognised in the income statement	(21)	(14)	42	120	284
At end of year/period	229	215	257	336	541

The deferred taxation is in respect of timing differences arising from capital allowances claimed in advance of depreciation charged on the property, plant and equipment.

**13. ACCOUNTANTS' REPORT (Cont'd)****5.2.21 Trade payables**

The normal trade credit terms granted to the Group ranges from 30 to 90 days.

The trade payables ageing analysis as at 31 March 2009 is set out below:

	0 to 30 Days RM '000	31 to 60 Days RM '000	61 to 90 Days RM '000	> 90 Days RM '000	Total RM '000
Balance as at 31 March 2009	768	825	605	661	2,859

**5.2.22 Bills payable and bank overdraft**

The bills payable bear interest between 3.26% per annum and 1% to 2% plus the banks' Base Lending Rate per annum whilst the bank overdraft bears interest at 1.25% to 2.5% above the banks' Base Lending Rate. These banking facilities are secured by the following:

- i. legal charge over the Group's property (Note 5.2.8);
- ii. pledge of fixed deposits (Note 5.2.17); and
- iii. joint and several guarantees by the Directors of the Company.

### 13. ACCOUNTANTS' REPORT (Cont'd)

#### 6.0 ACCOUNTING STANDARDS AND POLICIES

##### 6.1 Basis of Accounting

The financial statements of the Group and of the Company are prepared under the historical cost convention modified to include the revaluation of certain property, plant and equipment and investment properties and in compliance with the provisions of the Companies Act, 1965 and Financial Reporting Standards ("FRSs") issued by Malaysian Accounting Standards Board ("MASB").

The Group and the Company had adopted all of the revised FRSs issued by MASB that are relevant to its operations and which are effective for the respective financial years/periods as follows:

	Effective for financial periods beginning on or after
FRS 126 Accounting and Reporting by Retirement Benefits Plan	1 January 2003
FRS 3 Business Combinations	1 January 2006
FRS 101 Presentation of Financial Statements	1 January 2006
FRS 102 Inventories	1 January 2006
FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2006
FRS 110 Events after the Balance Sheet Date	1 January 2006
FRS 116 Property, Plant and Equipment	1 January 2006
FRS 121 The Effect of Changes in Foreign Exchange Rates	1 January 2006
FRS 127 Consolidated and Separate Financial Statements	1 January 2006
FRS 132 Financial Instruments: Disclosure and Presentation	1 January 2006
FRS 133 Earnings Per Share	1 January 2006
FRS 136 Impairment of Assets	1 January 2006
FRS 140 Intangible Assets	1 January 2006
FRS 117 Leases	1 October 2006
FRS 124 Related Party Disclosures	1 October 2006
FRS 119 Employee Benefits	1 January 2007
FRS 107 Cash Flow Statement	1 July 2007
FRS 111 Construction Contracts	1 July 2007
FRS 112 Income Taxes	1 July 2007
FRS 118 Revenue	1 July 2007
FRS 120 Accounting for Government Grants and Disclosure of Government Assistance	1 July 2007
FRS 121 The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation (amendment)	1 July 2007
FRS 134 Interim Financial Reporting	1 July 2007
FRS 137 Provisions, Contingent Liabilities and Contingent Assets	1 July 2007