12. OTHER INFORMATION

12.1 Material equipment

The details of material equipment owned by our Group are as follows:

Equipment and machinery	No. of units	Functions	Installed capacity*	NBV as at 30 June 2013
			(million pieces per annum)	(RM million)
Condoms dipping machines	32	31 operating condoms dipping machines for manufacturing and the remaining one (1) is used for R&D purposes	2,990	14.42
Manual ET machines	112	Manual machines use for testing of pinhole(s) on condoms	2,516	2.87
Automated ET machines	6	Automated machines use for testing of pinhole(s) on condoms	505	4.02
Foil sealing machines	129	Foil sealing for condoms	3,850	4.53
Total	**279**			**25.84**

Note:
* *Approximate amount.*

12.2 Regulatory and environmental issues

Our Group is required to comply with the following regulatory and environmental quality regulations (as disclosed in Section 1.2 of the IMR Executive Summary):

(i) FDA 510(k) pre-market clearance in the US;
(ii) CE marking in the European Union;
(iii) State Food and Drug Administration of China;
(iv) Thai FDA;
(v) Medical Device Act 2012 in Malaysia;
(vi) Environmental Quality (Clean Air) Regulations 1978;
(vii) Environmental Quality (Industrial Effluent) Regulations 2009; and
(viii) Environmental Quality (Scheduled Wastes) Regulations 2005.

We confirm that there are no environmental proceedings or investigations to which it is or might become a party to, and confirm that all relevant land rules and building regulations, other material regulatory requirements and environmental issues which may have materially affect our Group's operations and/or utilisation of assets have been complied with as at the LPD.

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12. OTHER INFORMATION *(Cont'd)*

12.3 Material plans to construct, expand or improve facilities

As at the LPD, we have immediate plans to construct, expand or improve on existing facilities in Malaysia and Thailand. The plans are summarised in the following table:

Companies within our Group	Approximate built-up area (sq. ft.)	Location of facilities	Nature of plan	Estimated expense amount	Method of financing	Estimated start and completion period	Manufacturing capacity post completion
MALAYSIA							
KISB	781,335	Lot 2767, Mukim Rimba Terjun Daerah Pontian Johor	Construction of new manufacturing facility with the installation of 20 condoms dipping lines, 100 ET machines and 80 foiling machines	RM70,000,000, whereby RM2,100,000 have already been paid and funded via internally generated funds	The construction will be funded via bank borrowings, internally generated funds and IPO proceeds	The construction is expected to start in the first (1st) quarter of 2014 and expected to be completed by the first (1st) quarter of 2015. The installation of dipping lines, 50 ET and 40 foiling machines is expected to be commissioned by 2015 and the remaining ET and foiling machines is expected to be installed by the first (1st) quarter of 2016.	KISB's condom manufacturing capacity will increase to approximately four (4) billion pieces
ISB	43,560	PT 591, Mukim dan Daerah Klang Selangor	Expansion of manufacturing facility via the acquisition of new factory with the installation of five (5) condoms dipping lines, 10 ET machines and 10 foiling machines	RM12,650,000, whereby RM8,000,000 have already been paid and funded via internally generated funds	The remaining expenses will be funded via internally generated funds and IPO proceeds	The expansion commenced in June 2012 and the installation of dipping lines, ET and foiling machines is expected to be completed by the end of 2013.	ISB's condom manufacturing capacity will increase to approximately 800 million pieces

12. OTHER INFORMATION *(Cont'd)*

Companies within our Group	Approximate built-up area (sq. ft.)	Location of facilities	Nature of plan	Estimated expense amount	Method of financing	Estimated start and completion period	Manufacturing capacity post completion
THAILAND							
ITL	68,900	Land Slot No.: E1-6, Export Processing Zone Southern Industrial Estate Village 4 Tumbol Chalung Amphur Hat Yai Songkhla	Expansion of manufacturing facility via the installation of five (5) condoms dipping lines, 25 ET machines and 20 foiling machines	RM13,000,000, whereby RM3,200,000 have already been paid via internally generated funds and bank borrowings	The expansion will be funded via IPO proceeds, internally generated funds and bank borrowings	The expansion commenced in the third (3rd) quarter of 2012 and is expected to be completed by the end of 2013 with the installation of additional five (5) condoms dipping lines, 25 ET machines and 20 foiling machines.	ITL's condom manufacturing capacity will increase to approximately 1.2 billion pieces from 0.7 billion pieces in FYE 2013

For further details on our expansion plans, please refer to Section 7.21 of this Prospectus.

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13. FINANCIAL INFORMATION

13.1 Report on the compilation of proforma consolidated financial information

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The Board of Directors
Karex Berhad
10th Floor Menara Hap Seng
No.1 & 3, Jalan P.Ramlee,
50250 Kuala Lumpur

25 September 2013

Dear Sirs

KAREX BERHAD ("Karex" or the "Company")
Report on the Compilation of Proforma Consolidated Financial Information Included in a Prospectus for the listing of and quotation for the entire issued and paid-up share capital of the Company on the Main Market of Bursa Securities

We have completed our assurance engagement to report on the compilation of proforma consolidated financial information of Karex and its subsidiaries ("Karex Group") by the Board of Directors of the Company, which we have stamped for the purpose of identification. The proforma consolidated financial information consists of the proforma consolidated statements of profit and loss and other comprehensive income for the 4 years ended 30 June 2010, 2011, 2012 and 2013, proforma consolidated statements of financial position as at 30 June 2013, and the proforma consolidated cash flow statement for the year ended 30 June 2013 and related notes as set out in the Prospectus issued by the Company. The applicable criteria on the basis of which the Board of Directors of the Company has compiled the proforma consolidated financial information are specified in the Prospectus Guidelines issued by Securities Commission Malaysia ("Prospectus Guidelines") and described in Notes 1.2, 1.3, 2.2 and 3.2 series to the proforma consolidated financial information.

The proforma consolidated financial information has been compiled by the Board of Directors of the Company to illustrate the impact of the events or transactions as set out in Notes 1.2, 2.2 and 3.2 series to the proforma consolidated financial information on Karex Group's financial position as at 30 June 2013, cash flows for the year ended 30 June 2013 and the Karex Group's financial performance for the years ended 30 June 2010, 2011, 2012 and 2013 respectively as if the events or transactions had taken place at 30 June 2013 and assuming Karex Group has been in existence throughout the years. As part of this process, information about the Karex Group's financial position, financial performance and cash flows has been extracted by Board of Directors of the Company from the respective financial statements of Karex Group for the years/period ended 31 December 2009, 30 June 2010, 2011, 2012 and 2013, on which audit reports have been published.

Board of Directors' responsibility for the Proforma Consolidated Financial Information

The Board of Directors of the Company is responsible for compiling the proforma consolidated financial information based on the basis as set out in Notes 1.2, 1.3, 2.2 and 3.2 series to the proforma consolidated financial information as required by the Prospectus Guidelines.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion as required by the Prospectus Guidelines, about whether the proforma consolidated financial information has been compiled, in all material respects, by the Board of Directors of the Company on the basis as set out in Notes 1.2, 1.3, 2.2 and 3.2 series to the proforma consolidated financial information and whether the basis is consistent with the accounting policies of Karex Group.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3420, Assurance Engagements to Report on the Compilation of Proforma Consolidated Financial Information Included in a Prospectus, issued by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Board of Directors of the Company has compiled, in all material respects, the proforma consolidated financial information on the basis set out in Notes 1.2, 1.3, 2.2 and 3.2 series to the proforma consolidated financial information and that such basis is consistent with the accounting policies of Karex Group.

For the purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions made by us or another firm of Chartered Accountants on any historical financial information used in compiling the proforma consolidated financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the proforma consolidated financial information.

The purpose of proforma consolidated financial information included in a prospectus is solely to illustrate the impact of any significant events or transactions on unadjusted financial information of Karex Group as if the events had occurred or the transactions had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions, when they occur, would have been as presented.

A reasonable assurance engagement to report on whether the proforma consolidated financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Board of Directors in the compilation of the proforma consolidated financial information provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether:

a) The related proforma adjustments give appropriate effect to those criteria; and

b) The proforma consolidated financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgment, having regard to our understanding of the nature of Karex Group, the event or transaction in respect of which the proforma consolidated financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the proforma consolidated financial information.

KPMG

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion,

- the proforma consolidated financial information has been properly compiled, in all material respects, on the basis as set out in Notes 1.2, 1.3, 2.2 and 3.2 series to the proforma consolidated financial information using the financial statements prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standard;

- such basis is consistent with both the format of the financial statements and the accounting policies of Karex Group as disclosed in Note 1.4; and

- each material adjustment made to the information used in the preparation of the proforma consolidated financial information is appropriate for the purpose of preparing the proforma consolidated financial information.

Other Matters

The proforma consolidated financial information has been prepared for inclusion in the prospectus in connection with the listing of the shares of the Company on the Main Market of Bursa Securities and should not be relied upon for any other purposes.

Yours faithfully

KPMG	**Tan Teck Eng**
Firm Number: AF 0758	Approval Number: 2986/05/14(J)
Chartered Accountants	Chartered Accountant

**Karex Berhad ("Karex" or "the Company")
and its subsidiaries ("Karex Group")**

Proforma Consolidated Financial Information

1. Proforma group, listing scheme and basis of preparation and significant accounting policies

1.1 Proforma Group

1.1.1 The proforma consolidated financial information of Karex Berhad ("Karex" or "the Company") and its subsidiaries ("Karex Group"), are prepared for illustrative purpose only. The relevant financial years of Karex Group for this report cover the financial years ended ("FYE") 30 June 2010, 30 June 2011, 30 June 2012 and 30 June 2013.

1.1.2 The proforma consolidated financial information of Karex Group has been prepared on the assumption that the Group had been in existence throughout the FYE 30 June 2010, 30 June 2011, 30 June 2012 and 30 June 2013 ("Relevant Financial Years"). The proforma consolidated financial information comprises the following:-

Note 2 - Proforma consolidated statements of profit or loss and other comprehensive income for the Relevant Financial Years.

Note 3 - Proforma consolidated statements of financial position as at 30 June 2013.

Note 4 - Proforma consolidated statement of cash flows for the FYE 30 June 2013.

1.2 Listing Scheme

In conjunction with, and as an integral part of the listing and quotation for the entire issued and paid-up share capital of Karex on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities"), Karex undertook the following exercises.

1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)

1.2.1 Acquisition of Subsidiaries

Prior to the acquisitions, the equity shares in KISB, HMSB, ISB, ITL were held by individuals and/or corporate shareholder that are owned by similar individuals. UTSB was 60% held by KISB with the remaining 40% held by similar and other individuals.

As part of the listing exercise, Karex acquired KISB, HMSB, ISB, ITL and through KISB, the remaining 40% in UTSB not already held by KISB, from the shareholders. The acquisitions were satisfied by the issuance of Karex shares as summarised below:

Name of Company	No. of ordinary shares	Interest acquired %	Purchase Consideration (RM)	No. of Karex Shares Issued
Acquired by Karex				
Karex Industries Sdn Bhd ("KISB")	2,500,000(1)	100	35,474,998	141,899,992
Hevea Medical Sdn Bhd ("HMSB")	1,000,000(1)	100	3,300,000	13,200,000
Innolatex Sdn Bhd ("ISB")	250,000(1)	100	4,750,000	19,000,000
Innolatex (Thailand) Limited ("ITL")	1,620,000(2)(3)	100	12,500,000	50,000,000
Sub-total			56,024,998	224,099,992
Acquired by KISB				
Uro Technology Sdn Bhd ("UTSB")	200,000(1)	40	1,350,000	5,400,000
Total			57,374,998	229,499,992

(1) Denotes par value at RM1.00 each
(2) Denotes par value at THB 100 each
(3) Including 1 share each nominated to be held by KISB and ISB in order to comply with the requirement under Thai Law that a private company must be held by a minimum of three (3) shareholders. Upon completion of the acquisition, ITL is directly and indirectly owned by Karex.

1.2.2 Initial Public Offering ("IPO")

The IPO comprises the Institutional Offering and Retail Offering for a total of 67,500,000 Shares (consist of 40,500,000 newly issued shares "Issue shares" and 27,000,000 shares offered for sale by the existing shareholders "Offer shares"). These IPO Shares will be issued/offered based on the terms and conditions set out in the Prospectus and will be allocated and allotted in the following manner:

1.2.2.1 Institutional Offering

The Institutional Offering of 47,250,000 Shares representing 17.5% of the enlarged issued and paid-up share capital, comprising 27,000,000 Offer Shares and 20,250,000 Issue Shares to institutional and selected investors of Malaysia, Singapore and Hong Kong at the IPO Price.

The Offer Shares are offered by the existing shareholders and represents 10.0% of the enlarged issued and paid-up share capital.

1.2.2.2 Retail Offering

Retail Offering of 20,250,000 Issue Shares, representing 7.5% of the enlarged issued and paid-up share capital, at the IPO Price and allocated in the following manner:

(i) 13,500,000 Issue Shares, representing 5.0% of the enlarged issued and paid-up share capital of the Company, are available for application by the Malaysian Public, of which 6,750,000 Issue Shares, representing 2.5% of the enlarged issued and paid-up share capital of the Company, are set aside for Bumiputera investors. Any Issue Shares not subscribed by such Bumiputera investors will be made available for application by other Malaysian investors under the Retail Offering; and

1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)

1.2.2.2 Retail Offering (Cont'd)

(ii) 6,750,000 Issue Shares, representing 2.5% of the enlarged issued and paid-up share capital of the Company, are made available for application by the eligible Directors, employees, business associates and persons who have contributed to the success of the Group.

1.2.3 Utilisation

Utilisation of gross proceeds from the sale of the Issue Shares will be utilised as follows:

	RM'000
Capital expenditure	41,750
Working capital	13,675
Repayment of bank borrowings	10,000
Estimated listing expenses	5,500
Research and development	4,000
	74,925

1.3 Basis of preparation

The proforma consolidated financial information have been prepared using the bases and accounting principles consistent with those adopted in the latest audited financial statements and after giving effect to the proforma adjustments which are considered as appropriate.

The proforma consolidated financial information have been prepared for illustrative purposes only and because of its nature, may not give a true picture of the actual financial results, financial position and cash flows of Karex Group.

1.3.1 Statement of compliance

The financial statements of the Group have been prepared in accordance with Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards and the Companies Act, 1965 in Malaysia.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but have not been adopted by the Group:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013

- MFRS 10, *Consolidated Financial Statements*
- MFRS 11, *Joint Arrangements*
- MFRS 12, *Disclosure of Interests in Other Entities*
- MFRS 13, *Fair Value Measurement*
- MFRS 119, *Employee Benefits* (2011)
- MFRS 127, *Separate Financial Statements* (2011)
- MFRS 128, *Investments in Associates and Joint Ventures* (2011)
- IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards – Government Loans*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 101, *Presentation of Financial Statements (Annual Improvements 2009- 2011 Cycle)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)*

1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)

1.3 Basis of preparation (Cont'd)

1.3.1 Statement of compliance (Cont'd)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013 **(Cont'd)**

- Amendments to MFRS 132, *Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements: Transition Guidance*
- Amendments to MFRS 11, *Joint Arrangements: Transition Guidance*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Transition Guidance*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to MFRS 10, *Consolidated Financial Statements: Investment Entities*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Investment Entities*
- Amendments to MFRS 127, *Separate Financial Statements (2011): Investment Entities*
- Amendments to MFRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015

- MFRS 9, *Financial Instruments (2009)*
- MFRS 9, *Financial Instruments (2010)*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures*

The Group plan to apply the abovementioned standards, amendments and interpretations in the respective financial year when the above standards, amendments and interpretations become effective.

The initial application of these standards, amendments and interpretations are not expected to have any material financial impacts to the current and prior periods financial statements of the Group upon their first adoption.

1.3.2 Basis of measurement

The financial statements have been prepared on the historical cost basis, except as disclosed in Note 1.4.

1.3.3 Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the functional currency of Karex, KISB, HMSB, ISB and UTSB. ITL's functional currency is THB. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

1.3.4 Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements.

1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)

1.4 Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by the Group entities in previous years.

1.4.1 Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

(ii) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

The Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(iii) Acquisitions of non-controlling interests

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

(iv) Restructuring among common shareholders

During a restructuring where the combining entities are controlled by the same parties both before and after the combination, book value accounting is applied. The assets and liabilities acquired are recognised in the consolidated financial statements at their respective carrying amounts without restatement. The difference between the cost of acquisition and the nominal value of the shares acquired together with any share premium are taken to merger reserve (or adjusted against any suitable reserve in the case of debit differences). The other components of equity of the acquired entities are added to the same components within group equity.

1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)

1.4.1 Basis of consolidation (Cont'd)

(v) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vi) Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and owners of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(vii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

1.4.2 Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Operations denominated in functional currencies other than Ringgit Malaysia

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period. The income and expenses of foreign operations are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve (FCTR) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the profit or loss on disposal.

1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)

1.4.2 Foreign currency (Cont'd)

(ii) Operations denominated in functional currencies other than Ringgit Malaysia (Cont'd)

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the FCTR within equity.

1.4.3 Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statements of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

The Group categorises financial instruments as follows:

Financial assets

(a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)

1.4.3 Financial instruments (Cont'd)

(ii) Financial instrument categories and subsequent measurement (Cont'd)

Financial assets (Cont'd)

(b) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 1.4.10(i)).

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are classified as deferred income and are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(iv) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

(a) the recognition of an asset to be received and the liability to pay for it on the trade date, and

(b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)

1.4.3 Financial instruments (Cont'd)

(v) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

1.4.4 Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between knowledgeable willing parties in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items when available and replacement cost when appropriate.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other income" and "other expenses" respectively in profit or loss.

1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)

1.4.4 Property, plant and equipment (Cont'd)

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative period are as follows:

Short term leasehold land	50 years
Buildings	50 years
Plant and machinery	10 - 20 years
Motor vehicles	6 - 10 years
Electrical installation, renovation, equipment, furniture and fittings	4 - 10 years

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period and adjusted as appropriate.

1.4.5 Leased assets

(i) Finance lease

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)

1.4.5 Leased assets (Cont'd)

(ii) Operating leases

Leases, where the Group does not assume substantially all the risks and rewards of ownership are classified as operating leases and the leased assets are not recognised in the statements of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

1.4.6 Investment properties

(i) Investment properties carried at cost

Investment properties are properties which are owned to earn rental income or for capital appreciation or for both. These include leasehold land which in substance is a finance lease held for a currently undetermined future use. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties.

Investment properties are stated at cost less any accumulated depreciation and any accumulated impairment losses, consistent with the accounting policy for property, plant and equipment as stated in Note 1.4.4(iii).

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives.

The estimated useful lives for the current and comparative period are as follows:

Long leasehold land	99 years
Buildings	50 years

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

(ii) Determination of fair value

When necessary, an external independent valuation firm, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio annually.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)

1.4.7 Intangible assets

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Expenditure on development activities, whereby the application of research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

The expenditure capitalised includes the cost of materials, direct labour and overheads costs that are directly attributable to preparing the asset for its intended use. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less any accumulated amortisation and any accumulated impairment losses.

1.4.8 Inventories

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

The cost of inventories is based on the first-in first out principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. In the case of work-in-progress and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

1.4.9 Cash and cash equivalents

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

1.4.10 Impairment

(i) Financial assets

All financial assets (except for investments in subsidiaries) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)

1.4.10 Impairment (Cont'd)

(i) Financial assets (Cont'd)

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) Other assets

The carrying amounts of other assets except for inventories are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to group of cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (groups of cash-generating units) on a pro rata basis.

An impairment loss in respect of goodwill is not reserved. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)

1.4.11 Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The Group's contribution to statutory pension funds are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(iii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is undiscounted and is calculated based on the last drawn salary for each completed year of service up to balance sheet date. No qualified actuary has been appointed by the Group in the measurement of the defined benefit obligations.

1.4.12 Revenue and other income

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discount and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(ii) Rental income

Rental income from investment property is recognized in profit or loss on a straight-line basis over the term of the lease.

(iii) Interest income

Interest income is recognised as it accrues, using the effective interest method.

1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)

1.4.13 Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

1.4.14 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statements of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable equity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unutilised reinvestment allowance, being tax incentives that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against the unutilised tax incentive can be utilised.

2. Proforma consolidated statements of profit or loss and other comprehensive income

2.1 The proforma consolidated statements of profit or loss and other comprehensive income for the past four (4) financial years ended 30 June 2010, 30 June 2011, 30 June 2012 and 30 June 2013 which have been prepared for illustrative purposes to show the results of Karex Group, are based on accounting policies adopted by the Group as disclosed in Note 1.4 and are prepared on the assumption that the current structure of the Group existed throughout the financial years under review.

	Compiled historical financial results*	← Proforma →		
		Financial years ended 30 June		
	2010	2011	2012	2013
	RM'000	RM'000	RM'000	RM'000
Revenue	157,444	181,753	188,751	231,389
Cost of goods sold	(117,315)	(156,869)	(155,886)	(171,472)
Gross profit	40,129	24,884	32,865	59,917
Other income	1,382	1,672	3,105	1,988
Distribution expenses	(7,683)	(7,083)	(9,307)	(9,698)
Administrative expenses	(7,888)	(8,680)	(9,207)	(10,068)
Other expenses	(5,168)	(1,204)	(424)	(3,645)
Result from operating activities	20,772	9,589	17,032	38,494
Finance costs	(1,118)	(1,990)	(2,646)	(2,500)
Interest income	38	104	144	150
Net finance costs	(1,080)	(1,886)	(2,502)	(2,350)
Profit before tax	19,692	7,703	14,530	36,144
Tax expense	(3,163)	(715)	(2,514)	(7,116)
Profit for the year	16,529	6,988	12,016	29,028
Other comprehensive income, net of tax	16,529	6,988	12,016	29,028
Foreign currency translation differences	1	(101)	76	275
Total comprehensive income for the year	16,530	6,887	12,092	29,303
EBITDA	26,222	15,168	22,475	44,381
Depreciation	(5,450)	(5,579)	(5,443)	(5,887)
Interest income	38	104	144	150
Finance costs	(1,118)	(1,990)	(2,646)	(2,500)
Profit before taxation	19,692	7,703	14,530	36,144
No. of Shares**	270,000	270,000	270,000	270,000
Basic/ Diluted EPS (RM/share) ***	0.06	0.03	0.04	0.11
GP margin (%)	25.5	13.7	17.4	25.9
PBT margin (%)	12.5	4.2	7.7	15.6
PAT margin (%)	10.5	3.8	6.4	12.5

* Due to non-coterminous year end of certain companies as explained in Note 2.2(ii)(a), the financial results of these companies were compiled on a prorated basis from the audited financial statements for the financial year/ period ended 31 December 2009 and 30 June 2010.

** Number of Shares after Acquisitions and IPO

*** The basis / diluted EPS is computed based on the consolidated PAT divided by number of Shares after the IPO

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2. Proforma consolidated statements of profit or loss and other comprehensive income (Cont'd)

2.2 Notes to the summarised proforma consolidated statements of profit or loss and other comprehensive income of Karex Group

i) The summarised proforma consolidated statements of profit or loss and other comprehensive income of Karex Group for the financial years ended 30 June 2010, 30 June 2011, 30 June 2012 and 30 June 2013 are prepared for illustrative purposes only and are based on the audited financial statements of the following companies for the respective years mentioned below, after making relevant adjustments deemed necessary under the circumstances as set out in (ii) below:

(a) KISB for the financial years ended 30 June 2010, 30 June 2011, 30 June 2012 and 30 June 2013;

(b) UTSB for the financial years ended 30 June 2010, 30 June 2011, 30 June 2012 and 30 June 2013;

(c) HMSB for the six months period ended 30 June 2010 and financial years ended 31 December 2009, 30 June 2011, 30 June 2012 and 30 June 2013;

(d) ISB for the six months period ended 30 June 2010 and financial years ended 31 December 2009, 30 June 2011, 30 June 2012 and 30 June 2013; and

(e) ITL for the six months period ended 30 June 2010 and financial years ended 31 December 2009, 30 June 2011, 30 June 2012 and 30 June 2013.

ii) The relevant adjustments deemed necessary under the circumstances are set out below:

(a) Non-coterminous year end

Adjustments have been made to the statements of comprehensive income of HMSB, ISB and ITL on a prorated basis as the financial year end for these companies are not coterminous with the Karex Group in the financial years ended 31 December 2009;

(b) Elimination of intercompany transactions

Adjustments have been made to eliminate intercompany transactions in all period/years under review. Such transactions include and not limited to the followings:

(i) Sales of goods charged by intercompany for the six months period ended 30 June 2010 and financial years ended 31 December 2009, 30 June 2011, 30 June 2012 and 30 June 2013;

(ii) Rental of factory charged by KISB to UTSB and ISB, for the six months period ended 30 June 2010 and financial years ended 31 December 2009, 30 June 2011, 30 June 2012 and 30 June 2013;

(iii) Management fees charged by KISB to UTSB for the financial years ended 30 June 2010, 30 June 2011, 30 June 2012 and 30 June 2013; and

(iv) Intercompany sales of fixed assets from KISB to ISB and ITL for the six months period ended 30 June 2010 and financial years ended 31 December 2009, 30 June 2011, 30 June 2012 and 30 June 2013.

2. Proforma consolidated statements of profit and loss and other comprehensive income (Cont'd)

2.2.1 The adjustments as stated in Note 2.2 (ii) above have been reflected in the respective financial years on the proforma Karex Group as follows:

Proforma adjustments

	Note	30.06.10 RM'000		30.06.11 RM'000	30.06.12 RM'000	30.06.13 RM'000
Revenue		215,693	*	224,901	229,439	284,808
- Adjustments for non-coterminous year end	2.2(ii)(a)	(26,889)		--	--	--
- Adjustments for eliminations of intercompany transactions	2.2(ii)(b)	(31,360)		(43,148)	(40,688)	(53,419)
		157,444		181,753	188,751	231,389
Profit before depreciation and interest		28,881	*	15,182	22,849	44,580
- Adjustments for non-coterminous year end	2.2(ii)(a)	(2,537)		--	--	--
- Adjustments for eliminations of intercompany transactions	2.2(ii)(b)	(122)		(14)	(374)	(199)
		26,222		15,168	22,475	44,381
Profit for the year		18,454	*	7,002	12,390	29,227
- Adjustments for non-coterminous year end	2.2(ii)(a)	(1,803)		--	--	--
- Adjustments for eliminations of intercompany transactions	2.2(ii)(b)	(122)		(14)	(374)	(199)
		16,529		6,988	12,016	29,028

* Consist of 18 months figures from 1 January 2009 till 30 June 2010 in respect of HMSB, ISB and ITL.

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3. Proforma consolidated statements of financial position

3.1 The proforma consolidated statements of financial position of Karex Group as set out below are prepared solely for illustrative purposes only to show the effects of the implementation of the listing scheme referred to in Note 1.2 had these transactions been effected on 30 June 2013.

	Company	Proforma I	Proforma II
	Audited as at 30.06.13 RM'000	After Acquisitions RM'000	After IPO and utilisation of proceeds RM'000
NON CURRENT ASSETS			
Property, plant and equipment	--	73,230	116,980
Investment properties	--	2,797	2,797
Intangible asset	--	--	2,000
Deferred tax assets	--	701	701
	--	76,728	122,478
CURRENT ASSETS			
Inventories	--	47,221	47,221
Trade and other receivables	945	57,924	57,924
Tax recoverable	--	216	216
Cash and cash equivalents	-- (1)	41,317	55,624
	945	146,678	160,985
TOTAL ASSETS	945	223,406	283,463
EQUITY AND LIABILITIES			
Share capital	-- (1)	57,375	67,500
Share premium	--	--	60,900
Reserves	(632)	51,022	50,054
TOTAL EQUITY	(632)	108,397	178,454
NON CURRENT LIABILITIES			
Loans and borrowings	--	10,965	10,965
Deferred tax liabilities	--	5,034	5,034
	--	15,999	15,999
CURRENT LIABILITIES			
Loans and borrowings	--	39,897	29,897
Trade and other payable	1,577	56,907	56,907
Provision for taxation	--	2,206	2,206
	1,577	99,010	89,010
TOTAL LIABILITIES	1,577	115,009	105,009
TOTAL EQUITY AND LIABILITIES	945	223,406	283,463
No. of ordinary shares in issue ('000)	-- (2)	229,500	270,000
Net (Liabilities("NL"))/ Assets ("NA") (RM'000)	(632)	108,397	178,454
Net tangible (liabilities ("NTL"))/ Asset ("NTA") (RM'000)	(632)	108,397	176,454
(NL)/NA per share (RM)	(79,000) (2)	0.47	0.66
(NTL)/NTA per share (RM)	(79,000) (2)	0.47	0.65

(1) Denotes RM2.00

(2) Denotes/ Based on 8 ordinary shares of RM0.25 each

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3. Proforma consolidated statements of financial position (Cont'd)

3.2 The proforma consolidated statements of financial position together with the notes thereon have been prepared based on accounting principles and bases consistent with those adopted by Karex Group for the financial year ended 30 June 2013 as disclosed in Note 1.4, and are presented in a form suitable for inclusion in the Prospectus.

3.2.1 The proforma consolidated statements of financial positions of Karex Group have been prepared for illustrative purpose only assuming Karex Group had been in existence on that date based on the individual audited financial statements of Karex Group as at 30 June 2013. They are prepared using the merger method.

Intercompany balances have been eliminated in arriving at proforma consolidated statements of financial positions.

3.2.2 The following transactions are assumed to have been effected as at 30 June 2013:

(I) Proforma I

Proforma I incorporates the following:

i) Acquisitions as set out in Note 1.2.1 of this report

The Acquisitions are accounted for using the merger method.

(II) Proforma II

Proforma II incorporates IPO and Listing as set out in Note 1.2.2 of this report and the following:

i) Estimated listing expenses of RM5,500,000 will be allocated to both the new shares and existing shares on a rational and consistent basis and set off against share premium account and charged out to the statement of comprehensive income respectively as follow:

Description	**RM'000**
Statement of comprehensive income	1,600
Share premium	3,900
Total	5,500

3. Proforma consolidated statements of financial position (Cont'd)

3.2.3 The movements of the issued and paid-up share capital, the share premium account and the reserves of Karex Group after taking into account the transactions mentioned in Note 3.2.2 above are as follows:

	Number of ordinary shares '000	Per value RM	Share capital RM'000	Share premium RM'000	Accumulated losses RM'000	Merger reserve RM'000	Total equity RM'000
As at 30 June 2013	--(1)	0.25	--(2)	--	(632)	--	(632)
Proforma I							
- Acquisitions	229,500	0.25	57,375	--	--	51,654	109,029
After Proforma I	229,500	0.25	57,375	--	(632)	51,654	108,397
Proforma II							
- IPO	40,500	0.25	10,125	64,800	--	--	74,925
- Estimated share issue expenses	--	--	--	(3,900)	(968)	--	(4,868)
After Proforma II	270,000	0.25	67,500	60,900	(1,600)	51,654	178,454

(1) Denotes 8 ordinary shares of RM0.25 each
(2) Denotes RM2.00

3.2.4 The movements in cash and cash equivalents of Karex Group after taking into account the transactions mentioned in Note 3.2.2 above are as follows:-

	RM'000
Balance as at 30 June 2013	--(1)
Proforma I	
- Acquisition	41,317
After Proforma I	41,317
Proforma II	
- IPO	74,925
- Capital expenditure	(41,750)
- Research and development	(4,000)
- Repayment of bank borrowings	(10,000)
Listing expenses	
- Estimated	(5,500)
- Paid and expensed	632
	(4,868)
After Proforma II	55,624

(1) Denotes RM2.00

4. Proforma consolidated statement of cash flows

4.1 The proforma consolidated statement of cash flows of Karex Group for the financial year ended 30 June 2013, which has been prepared for illustrative purpose only assuming that the current structure of the Group existed throughout the financial year under review.

	30 June 2013 RM'000
Cash flow from operating activities	
Profit before tax	36,144
Adjustments for:	
Depreciation	5,887
Interest expense	2,500
Gain on disposal of property, plant and equipment	(312)
Interest income	(150)
Unrealised gain on foreign exchange	(1,398)
Fair value loss on derivative instruments	957
Operating profit before changes in working capital	43,628
Changes in inventories	(1,599)
Changes in trade and other receivables	5,173
Changes in trade and other payables	(4,140)
Cash generated from operations	43,062
Tax paid	(2,865)
Net cash from operating activities	40,197
Cash flow from investing activities	
Proceeds from disposal of property, plant and equipment	690
Interest received	150
Acquisition of property, plant and equipment	(17,623)
Net cash used in investing activities	(16,783)
Net Cash flow used in financing activities	
Interest paid	(2,886)
Net proceeds from bankers' acceptance	8,059
Net proceeds from packing credit	4,403
Drawdown of term loan	6,788
Repayment of term loan	(1,795)
Repayment of finance lease liabilities	(733)
Fixed deposits pledged to licensed banks	(1,391)
Amount due to Directors	(402)
Amount due to shareholders	(1,230)
Net cash from financing activities	10,813
Net increase in cash and cash equivalents	34,227
Exchange differences on translation of the financial statement of foreign subsidiaries	3
Cash and cash equivalents at beginning of year	(899)
Cash and cash equivalents at end of year	33,331

4. Proforma consolidated statement of cash flows (Cont'd)

Notes to the statement of cash flows

(i) Cash and cash equivalents

Cash and cash equivalents included in the proforma consolidated statement of cash flows comprise the following statements of financial position amounts:

		30 June 2013 RM'000
Cash and cash equivalents		41,317
Less:	Fixed deposits pledged with licensed banks	(7,533)
	Bank overdrafts	(453)
		33,331

5. Exchange rates

The proforma consolidated financial information of the Group was translated to RM, being the presentation currency at the exchange rate of THB 100: RM 10.20 as at 30 June 2013.

The average exchange rates used in the translation of each unit of foreign currency to RM are as follows:

Financial period/years ended	Exchange Rate
31 December 2009	THB 100 : RM10.19
30 June 2010	THB 100 : RM10.14
30 June 2011	THB 100 : RM9.96
30 June 2012	THB 100 : RM9.90
30 June 2013	THB 100 : RM10.16

13.2 Management's discussion and analysis of financial conditions and results of operations

Investors should read the following discussion and analysis of our financial conditions and results of operations in conjunction with the compiled/ proforma financial information and the related notes thereon for the FYE 2010, FYE 2011, FYE 2012 and FYE 2013 as set out in Section 13.1 of this Prospectus.

This discussion and analysis contains data derived from our audited financial statements as well as forward-looking statements that involve risks and uncertainties. The results may differ significantly from those projected in the forward-looking statements. Factors that may cause future results to differ significantly from those included in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly the risk factors as set out in Section 5 of this Prospectus.

Overview of operations

We are an investment holding company. The core operation of our Group is carried out through our subsidiaries, KISB, HMSB, ISB, and ITL, which are principally involved in the manufacturing of condoms, probe covers and lubricating jelly. In addition, through UTSB, we specialise in the manufacturing of catheters. Please refer to Section 6 of this Prospectus for details of our Group.

Our products are principally sold in the commercial, tender and OBM markets.

The commercial market is where we manufacture condoms for brand owners. This includes customers such as Ansell Limited *(Lifestyle brand)*, Reckitt Benckiser PLC *(Durex brand)*, Line One Laboratories Inc *(Trustex brand)* and Global Protection Corp. *(One brand)*.

The tender market is where we tender to institutional buyers to manufacture condoms for them. Institutional buyers consist of NGOs and government agencies such as UNFPA, USAID, PSI and MSI and may also include international purchasing agents such as JSI and Crown Agents.

Lastly, we also manufacture condoms under our own brands, namely Carex and INNO. These condoms are distributed in countries such as UAE, South Africa, India, Nigeria and Bangladesh.

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13.2.1 Revenue

Overall, our revenue increased throughout the financial years under review. The key factor affecting our Group's revenue growth is our ability to retain existing customers and gain new customers. Currently, our Group has sold our products to more than 110 countries worldwide. Another important factor is the introduction of new innovative products to the market such as super thin condoms, multi-coloured condoms, round condom foils and blister packed condoms. These innovative condoms enable us to expand into different segments of the condom industry and target different groups of consumers. Our Group has been resilient to economic recessions as evidenced by our increasing revenue for the financial years under review post the global financial turmoil in 2009.

Our revenue is largely influenced by condom sales which accounts for around 90% of our total revenue. The table below shows our revenue for the financial years under review.

	FYE 2010	**FYE 2011**	**FYE 2012**	**FYE 2013**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Revenue	157,444	181,753	188,751	231,389

	Change from FYE 2010 to FYE 2011	**Change from FYE 2011 to FYE 2012**	**Change from FYE 2012 to FYE 2013**
	(%)	**(%)**	**(%)**
Revenue	15.4	3.9	22.6

13. FINANCIAL INFORMATION *(Cont'd)*

(i) Revenue by products

The table below sets forth the breakdown of our revenue by products for the financial years under review:

	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	(RM'000)	**(%)**	**(RM'000)**	**(%)**	**(RM'000)**	**(%)**	**(RM'000)**	**(%)**
Condoms	144,014	91.5	167,104	91.9	171,159	90.7	208,170	90.0
Catheters	8,097	5.1	8,267	4.6	10,067	5.3	11,927	5.1
Probe covers and lubricating jelly	5,333	3.4	6,382	3.5	7,525	4.0	11,292	4.9
Total	**157,444**	**100.0**	**181,753**	**100.0**	**188,751**	**100.0**	**231,389**	**100.0**

	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013
	(%)	**(%)**	**(%)**
Condoms	16.0	2.4	21.6
Catheters	2.1	21.8	18.5
Probe covers and lubricating jelly	19.7	17.9	50.1
Total	**15.4**	**3.9**	**22.6**

The revenue generated from our business is primarily dependent on sale of the following products:

(a) Condoms

A condom is a barrier type contraceptive device most commonly used during sexual intercourse to reduce the possibility of pregnancy and spreading of sexually transmitted diseases and HIV. The condom is our core product, contributing approximately 90% of our total revenue for each of the financial years under review. Our condom revenue has been on an upward trend, mainly due to the increase in orders from a few of our key clients in Asia and Europe as well as our continuous efforts in marketing our condoms such as attending global trade fairs and exhibitions. Our commercial market segment has contributed significantly to our condom revenue growth for the financial years under review.

For the FYE 2013 compared to the previous financial year, condom revenue increased by RM37.0 million (↑21.6%). The increase in revenue was contributed mainly by the increase in revenue from our commercial market segment of RM30.4 million and an increase of RM4.9 million from our tender market segment which consisted mainly of a shipment to Africa.

For the FYE 2012 compared to the previous financial year, condom revenue increased by RM4.1 million (↑2.4%) mainly due to the increase in revenue from our commercial market segment of RM10.5 million which was offset by the decrease in revenue from our tender market segment of RM5.8 million as there was a reduction of orders placed by JSI /USAID and Crown Agents.

For the FYE 2011 compared to the previous financial year, condom revenue increased by RM23.1 million (↑16.0%) with an increase in revenue from our commercial market segment by RM24.5 million which was offset by the decrease in revenue from our tender market segment of RM3.9 million due to a reduction of orders placed by Crown Agents. Our increase in installed capacity of approximately 400 million pieces in the FYE 2011 allowed us to manufacture more condoms to meet the market demand and, thus, generate more revenue.

Please refer to Section 7.6 of this Prospectus for more details on our manufacturing capacity and utilisation rate and Section 7.11 for revenue from our major customers.

(b) Catheters

A catheter is a flexible tube medical device commonly made from silicone rubber or natural rubber that is inserted into the bladder for irrigation. Catheters contributed approximately 5% of our total revenue for each of the financial years under review. Strong demand contributed to catheter revenue:

(i) increase of RM1.9 million (↑18.5%) for the FYE 2013 compared to the previous financial year;
(ii) increase of RM1.8 million (↑21.8%) for the FYE 2012 compared to the previous financial year; and
(iii) increase of RM0.2 million (↑2.1%) for the FYE 2011 compared to the previous financial year.

(c) Probe covers and lubricating jelly

Ultrasonic probe covers are hygienic protection for patient during ultrasonic examinations. It is made of high quality natural rubber. Our probe covers are specially designed for maximum flexibility and safety during ultrasound intra-cavity examinations.

Lubricating jelly is a complementary product to our condom manufacturing business. Lubricating jelly is used during sexual intercourse to reduce friction. Our lubricant jelly is formulated based on quality ingredients and meet high manufacturing standards to provide a long lasting and silky smooth lubrication for consumers.

The revenue contribution of both probe covers and lubricating jelly have gradually increased from 3.4% for the FYE 2010 to 4.9% for the FYE 2013. Strong demand contributed to probe cover and lubricating jelly revenue:

(i) increase of RM3.8 million (↑50.1%) for the FYE 2013 compared to the previous financial year;
(ii) increase of RM1.1 million (↑17.9%) for the FYE 2012 compared to the previous financial year; and
(iii) increase of RM1.0 million (↑19.7%) for the FYE 2011 compared to the previous financial year.

The revenue contribution of each product is fairly consistent throughout the financial years under review with condom as the main contributor. The approximately 90% revenue contribution from condoms denotes our commitment and focus on our core product. Condoms today have evolved from being a pure protection device to a lifestyle and pleasure product. We believe that with our continuous R&D as well as innovative designs and manufacture of new types of condoms and/or packaging, the sale of condoms will remain the main revenue generator for our Group. Nonetheless, we acknowledge the demand for other products that form an integral part of our product offering and will continue to support their revenue growth.

The revenue of catheters and probe covers and lubricating jelly increased gradually throughout the financial years under review due to stronger demand. However, as sale of our catheters and probe covers and lubricating jelly account for 10.0% or less of our total revenue, the impact to our Group is less significant compared to the sale of our condoms.

(ii) Revenue by companies

The table below sets forth the breakdown of our revenue by companies for the financial years under review:

	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
KISB	119,439	75.9	137,973	75.9	130,399	69.1	143,187	61.9
ISB	32,309	20.5	34,040	18.7	44,306	23.5	61,100	26.4
UTSB	8,097	5.1	8,267	4.6	10,067	5.3	11,927	5.1
ITL	26,528	16.9	40,912	22.5	42,143	22.3	64,607	27.9
HMSB	2,431	1.5	3,709	2.0	2,524	1.3	3,987	1.7
Less: Inter-company transactions	(31,360)	(19.9)	(43,148)	(23.7)	(40,688)	(21.5)	(53,419)	(23.0)
Total	**157,444**	**100.0**	**181,753**	**100.0**	**188,751**	**100.0**	**231,389**	**100.0**

	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013
	(%)	(%)	(%)
KISB	15.5	(5.5)	9.8
ISB	5.4	30.2	37.9
UTSB	2.1	21.8	18.5
ITL	54.2	3.0	53.3
HMSB	52.6	(31.9)	58.0
Less: Inter-company transactions	37.6	(5.7)	31.3
Total	**15.4**	**3.9**	**22.6**

(a) KISB

KISB produces condoms, probe covers and lubricating jelly. It is the main revenue driver of our Group, which contributed 61.9% to 75.9% of our revenue for the financial years under review. KISB possesses the bulk of our manufacturing facilities.

For the FYE 2013 compared to the previous financial year, KISB's revenue increased by RM12.8 million (↑9.8%) mainly due to an increase in revenue from our commercial market segment of RM11.0 million.

For the FYE 2012 compared to the previous financial year, KISB's revenue decreased by RM7.6 million (↓5.5%) mainly due to a decrease in revenue from our tender market segment of RM18.1 million which was offset by an increase in revenue from our commercial market segment of RM10.0 million.

For the FYE 2011 compared to the previous financial year, KISB's revenue increased by RM18.5 million (↑15.5%) mainly due to the increase in revenue from our commercial market segment of RM18.9 million offset by an decrease in revenue from our tender market segment of RM0.8 million.

(b) ISB

ISB produces condoms and contributed 18.7% to 26.4% of our revenue for the financial years under review.

For the FYE 2013 compared to the previous financial year, ISB's revenue increased by RM16.8 million (↑37.9%) mainly due to an increase in revenue from our commercial market segment of RM18.2 million offset by a decrease in revenue from our tender market segment of RM1.6 million.

For the FYE 2012 compared to the previous financial year, ISB's revenue increased by RM10.3 million (↑30.2%) mainly due to the increase in revenue from our commercial market segment of RM8.3 million.

For the FYE 2011 compared to the previous financial year, ISB's revenue increased by RM1.7million (↑5.4%) mainly due to an increase in revenue from our commercial market segment of RM2.5 million offset by a decrease in revenue from our tender market segment of RM0.8 million.

(c) UTSB

UTSB is our sole manufacturer of catheters. Its revenue is contributed solely by the sale of our catheters. UTSB contributed approximately 5% of our total revenue for the financial years under review. Strong demand for our catheters contributed to UTSB's revenue:

(i) increase of RM1.9 million (↑18.5%) for the FYE 2013 compared to the previous financial year;

(ii) increase of RM1.8 million (↑21.8%) for the FYE 2012 compared to the previous financial year; and
(iii) increase of RM0.2 million (↑2.1%) for the FYE 2011 compared to the previous financial year.

(d) ITL

ITL produces condoms and it contributed 16.9% to 27.9% of our revenue for the financial years under review.

For the FYE 2013 compared to the previous financial year, ITL's revenue increased by RM22.5 million (↑53.3%). The increase in revenue was mainly due to increase in revenue from our commercial and tender market of RM11.1 million and RM11.4 million respectively.

For the FYE 2012 compared to the previous financial year, ITL's revenue increased by RM1.2 million (↑3.0%) mainly due to a higher revenue generated from our commercial market segment of RM1.0 million.

For the FYE 2011 compared to the previous financial year, ITL's revenue increased by RM14.4 million (↑54.2%) mainly due to ITL's increase in manufacturing capacity of 121 million pieces in the FYE 2011 which allowed ITL to manufacture more condoms to meet the strong demand for our condoms.

Please refer to Section 7.6 of this Prospectus for more details on our manufacturing capacity and utilisation rate.

(e) HMSB

HMSB produces customised condoms for our customers in the commercial market segment. HMSB contributed 2.0% or less of our total revenue for the financial years under review. Demand for the customised condoms contributed to HMSB's revenue:
(i) increase of RM1.5 million (↑58.0%) , for the FYE 2013 compared to the previous financial year;
(ii) decrease of RM1.2 million (↓31.9%) for the FYE 2012 compared to the previous financial year; and
(iii) increase of RM1.3 million (↑52.6%) for the FYE 2011 compared to the previous financial year.

(f) Inter-company Transactions

The inter-company transactions mainly consist of sale of condoms between KISB, ISB, ITL, and HMSB. Inter-company transactions are necessary to allow our Subsidiaries with capacity to serve the demand of others in our Group. Our inter-company transactions:
(i) increased by RM12.7 million (↑31.3%) for the FYE 2013 compared to the previous financial year;
(ii) decreased by RM2.5 million (↓5.7%) for the FYE 2012 compared to the previous financial year; and
(iii) increased by RM11.8 million (↑37.6%) for the FYE 2011 compared to the previous financial year.

(iii) Revenue by geographical destination

The table below sets forth the breakdown of our revenue by geographical destination markets of our export for the financial years under review:

	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Asia[1]	67,040	42.6	88,500	48.7	55,019	29.1	85,177	36.8
Africa	55,958	35.5	48,705	26.8	62,410	33.1	71,234	30.8
America	17,079	10.9	24,475	13.5	41,920	22.2	42,210	18.2
Europe	17,367	11.0	20,073	11.0	29,402	15.6	32,768	14.2
Total	**157,444**	**100.0**	**181,753**	**100.0**	**188,751**	**100.0**	**231,389**	**100.0**

	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013
	(%)	(%)	(%)
Asia[1]	32.0	(37.8)	54.8
Africa	(13.0)	28.1	14.1
America	43.3	71.3	0.7
Europe	15.6	46.5	11.5
Total	**15.4**	**3.9**	**22.6**

Note:
(1) Includes Malaysia

Exports to Africa and Asia consistently contributed more than 60% of our revenue throughout the financial years under review. This is closely correlated to the population of both Africa and Asia geographical markets. Other factors that may affect the revenue breakdown by geographical markets include large orders placed by institutional buyers to be delivered to certain countries. Revenue breakdown by geographical markets for the FYE 2012 and FYE 2013 remained consistent. For the FYE 2013, there was an increase in the percentage contribution from Asia mainly due to large orders amounting to RM14.9 million received from our key clients from China and India. For FYE 2011, there was an increase in the percentage contribution from Asia mainly due to a large order received of RM13.4 million to be delivered to Vietnam and Myanmar which did not recur in FYE 2012.

On the other hand, America and Europe are mature markets and exhibit an increasing trend as our export to these markets are predominantly for the commercial market segment. For more discussion on our principal markets, please refer to Section 7.9 of the Prospectus.

13.2.2 Cost of goods sold

The breakdown of our cost of goods sold is as follows:

	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Direct material cost	80,174	68.3	111,183	70.9	111,450	71.5	114,224	66.6
Direct labour cost	19,599	16.7	23,610	15.1	22,226	14.3	30,665	17.9
Utilities	6,142	5.3	8,032	5.1	8,337	5.3	11,399	6.6
Depreciation	4,833	4.1	5,058	3.2	4,942	3.2	5,267	3.1
Others	6,567	5.6	8,986	5.7	8,931	5.7	9,917	5.8
Total	**117,315**	**100.0**	**156,869**	**100.0**	**155,886**	**100.0**	**171,472**	**100.0**

	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013
	(%)	(%)	(%)
Direct material cost	38.7	0.2	2.5
Direct labour cost	20.5	(5.9)	38.0
Utilities	30.8	3.8	36.7
Depreciation	4.7	(2.3)	6.6
Others	36.8	(0.6)	11.0
Total	**33.7**	**(0.6)**	**10.0**

For the FYE 2013 compared to the previous financial year, our cost of goods sold increased by RM15.6 million (↑10.0%) primarily due to the expenses required to manufacture the increased volume of condoms and other products to meet market demand in the FYE 2013. However, the increase in expenses was offset by lower latex concentrate price in the FYE 2013 where the average latex concentrate price decreased from 760 sen/kg in the FYE 2012 to 592 sen/kg in the FYE 2013.

For the FYE 2012 compared to the previous financial year, our cost of goods sold decreased by RM1.0 million (↓0.6%) mainly due to a decrease in direct labour cost of RM1.4 million offset by an increase in direct material cost of RM0.3 million and utilities of RM0.3 million.

For the FYE 2011 compared to the previous financial year, our cost of goods sold increased by RM39.6 million (↑33.7%) mainly due to expenses incurred to manufacture the increased volume of condoms and other products to meet market demand in the FYE 2011.

(i) Direct material cost

Our direct material cost consist mainly the cost of raw material for the manufacturing of our products. The majority of our raw material costs are made up of Pre-vulcanised latex, foil, packaging materials such as inner box, outer box, leaflets and silicone oil.

Pre-vulcanised latex (also known as compounded latex) is produced from latex concentrate which is, in turn, an internationally traded commodity. For your reference, the average latex concentrate prices for the financial years under review are shown below:

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
Average latex concentrate price (sen/kg)	598	884	760	592

(Source: Infobusiness Research)

For the FYE 2013 compared to the previous financial year, our direct material cost increased by RM2.8 million (↑2.5%). This is mainly due to the higher volume of condoms manufactured to meet market demand which was offset by the decrease in average latex concentrate price from 760 sen/kg in the FYE 2012 to 592 sen/kg in the FYE 2013.

For the FYE 2012 compared to the previous financial year, our direct material cost increased marginally by RM0.3 million (↑0.2%) mainly due to usage of carried forward inventory from FYE 2011 which was offset by the reduction in average latex concentrate price from 884 sen/kg in the FYE 2011 to 760 sen/kg in the FYE 2012.

For the FYE 2011 compared to the previous financial year, our direct material cost increased by RM31.0 million (↑38.7%) mainly due to the increase in average latex concentrate price from 598 sen/kg in the FYE 2010 to 884 sen/kg in the FYE 2011 as well as due to the higher volume of condoms manufactured to meet market demand.

For more details on the fluctuation of latex concentrate price, please refer to Section 5.1(i) of this Prospectus.

(ii) Direct labour cost

Our direct labour cost consists of labour for the manufacture of our products.

For the FYE 2013 compared to the previous financial year, our direct labour cost increased by RM8.4 million (↑38.0%) mainly due to the employment of an additional 158 manufacturing workers to manufacture the volume of condoms to meet market demand.

For the FYE 2012 compared to the previous financial year, our direct labour cost decreased by RM1.4 million (↓5.9%) as a result of our efforts to reduce our dependency on manual labour with the addition of six (6) automated ET machines to our manufacturing process. Further, our direct labour cost decreased due to a decline in the number of workers available from September 2011 to April 2012, the duration of the 6P programme (process of legalising illegal foreign workers).

For the FYE 2011 compared to the previous financial year, our direct labour cost increased by RM4.0 million (↑20.5%) mainly due to higher expenses incurred for the employment of a higher number of outsourced workers to manufacture the volume of condoms to meet market demand in the FYE 2011.

(iii) Utilities

Our utilities consist of the costs of electricity and water required to run our manufacturing process. Water and electricity are not only required during the manufacturing process, but also during maintenance or change of formers for the cleaning, tooling, calibration and testing of our machines.

For the FYE 2013 compared to the previous financial year, our utilities increased by RM3.0 million (↑36.7%) mainly due to the higher volume of condoms manufactured to meet market demand.

For the FYE 2012 compared to the previous financial year, our utilities increased marginally by RM0.3 million (↑3.8%). Notwithstanding the decrease in manufactured condoms by 450.8 million pieces in the FYE 2012, our utilities expenses increased marginally compared to the previous financial year mainly to support two (2) additional condom dipping lines installed as well as more frequent changing of formers as a result of the unusual sequence of orders received in the FYE 2012.

For the FYE 2011 compared to the previous financial year, our utilities increase by RM1.9 million (↑30.8%) mainly to support two (2) additional condom dipping lines installed and higher volume of condoms manufactured to meet market demand.

(iv) Depreciation

Depreciation under cost of goods sales is the allocated cost of our tangible assets used for manufacturing such as our dipping lines, ET machines and foiling machines. Depreciation of said tangible assets:

(i) increased by RM0.3 million (↑6.6%) for the FYE 2013 compared to the previous financial year;
(ii) decreased by RM0.1 million (↓2.3%) for the FYE 2012 compared to the previous financial year; and
(iii) increased by RM0.2 million (↑4.7%) for the FYE 2011 compared to the previous financial year.

The allocated cost for depreciation is dependent on the value of our tangible assets and our depreciation policy as stated in subsection 6(d)(iii) of Section 14.

(v) Others

Costs included as 'others' are, amongst others, levy, workers welfare and upkeep of factory.

For the FYE 2013 compared to the previous financial year, 'others' increased by RM1.0 million (↑11.0%) mainly due to the increase in levy and workers welfare for the additional 158 manufacturing workers employed as well as up keep of factory for the higher volume of condoms manufactured to meet market demand in the FYE 2013.

For the FYE 2012 compared to the previous financial year, our 'others' decreased marginally by RM0.1 million (↓0.6%).

For the FYE 2011 compared to the previous financial year, 'others' increased by RM2.4 million (↑36.8%) mainly due to additional expenses required to upkeep our factory with our increase in manufacturing capacity of 426.2 million condoms and higher volume of condoms manufactured to meet market demand.

The table below sets forth the breakdown of our cost of goods sold by products for the financial years under review:

	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Condoms	108,010	92.1	145,623	92.8	142,324	91.3	156,021	91.0
Catheters	6,133	5.2	6,857	4.4	7,797	5.0	9,086	5.3
Probe covers and lubricating jelly	3,172	2.7	4,389	2.8	5,765	3.7	6,365	3.7
Total	**117,315**	**100.0**	**156,869**	**100.0**	**155,886**	**100.0**	**171,472**	**100.0**

	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013
	(%)	(%)	(%)
Condoms	34.8	(2.3)	9.6
Catheters	11.8	13.7	16.5
Probe covers and lubricating jelly	38.4	31.4	10.4
Total	**33.7**	**(0.6)**	**10.0**

The proportion of the cost of goods sold for each product segment corresponds to the proportion of the revenue contribution of each product segment in each financial year.

13.2.3 Gross profit and gross profit margin

Our gross profit is the difference between our revenue and the cost of goods sold while our gross profit margin is the ratio of our gross profits to our revenue.

Our gross profit and gross profit margin during the financial years under review have mainly been affected by fluctuations in latex concentrate price, foreign exchange rates and the selling prices of our products. Higher latex concentrate price increase our cost of goods sold while strengthening of the USD against the RM and increase in selling price of our products increase our revenue. Higher revenue and/or lower cost of goods sold improve our gross profit and gross profit margin while lower revenue and/or higher cost of goods sold reduce our gross profit and gross profit margin.

Please refer to Sections 5.1(i) and 13.2.2(i) of this Prospectus for more details on the fluctuation of latex concentrate price. Effects of the factors discussed are detailed in the sections below.

Internally, in addition to managing our manufacturing costs (such as direct material cost, direct labour cost, utilities, etc.), we endeavour to develop better purchasing, manufacturing planning and more efficient manufacturing processes by continuous R&D to improve our gross profit and gross profit margin.

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The table below sets forth the breakdown of our gross profit and gross profit margin by products for the financial years under review:

	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Gross profit								
Condoms	36,004	89.7	21,481	86.3	28,835	87.7	52,149	87.0
Catheters	1,964	4.9	1,410	5.7	2,270	6.9	2,841	4.8
Probe covers and lubricating jelly	2,161	5.4	1,993	8.0	1,760	5.4	4,927	8.2
Total	**40,129**	**100.0**	**24,884**	**100.0**	**32,865**	**100.0**	**59,917**	**100.0**

	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013
	(%)	(%)	(%)
Gross profit			
Condoms	(40.3)	34.2	80.9
Catheters	(28.2)	61.0	25.2
Probe covers and lubricating jelly	(7.8)	(11.7)	179.9
Total	**(38.0)**	**32.1**	**82.3**

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(%)	(%)	(%)	(%)
<u>Gross profit margin</u>				
Condoms	25.0	12.9	16.8	25.1
Catheters	24.3	17.1	22.5	23.8
Probe covers and lubricating jelly	40.5	31.2	23.4	43.6
Overall Group gross profit margin	**25.5**	**13.7**	**17.4**	**25.9**

	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013
	(percentage points)	(percentage points)	(percentage points)
<u>Gross profit margin</u>			
Condoms	(12.1)	3.9	8.3
Catheters	(7.2)	5.4	1.3
Probe covers and lubricating jelly	(9.3)	(7.8)	20.2
Overall Group gross profit margin	**(11.8)**	**3.7**	8.5

13. FINANCIAL INFORMATION *(Cont'd)*

(i) Condoms

Besides raw material costs and foreign exchange rates, the gross profit margin of condom in the financial years under review was affected by the product mix as well as orders placed by different customers in different market segments for that particular financial year. Our condoms sold to the commercial market segment yield a higher average gross profit margin compared to the tender market due to the inclusion of additional features such as exotic flavours, colours and packaging.

For the FYE 2013 compared to the previous financial year, our gross profit margin for condoms increased by 8.3 percentage points mainly due to a decrease in latex concentrate price and higher sales to the commercial market segment (revenue from our commercial market segment increased by RM30.4 million (↑32.3%)).

For the FYE 2012 compared to the previous financial year, our gross profit margin for condoms increased by 3.9 percentage points mainly due to the decrease in latex concentrate price and higher sales to the commercial market segment (revenue from our commercial market segment increased by RM10.5 million (↑12.6%)).

For the FYE 2011 compared to the previous financial year, our gross profit margin for condoms decreased by 12.1 percentage points mainly due to the increase in latex concentrate price and strengthening of RM against USD where the RM to USD exchange rate decreased from RM3.21 per USD to RM3.01 per USD *(source: Bank Negara Malaysia)*, representing a change of 6.2%.

(ii) Catheters

The gross profit margin of catheters remains consistent in the financial years under review except for a decrease in the FYE 2011 mainly due to the fluctuations in raw material prices in the particular financial year.

(iii) Probe covers and lubricating jelly

The gross profit margin for this category fluctuates in relation to the contribution of probe covers and lubricating jelly as both products have different gross profit margins. Generally, lubricating jelly contributes a higher gross profit margin compared to probe covers. The typical gross profit margin for our lubricating jelly is approximately 50%. Similar to our condoms, the gross profit margin of our probe covers is affected by the fluctuation in latex concentrate price.

The gross profit margin of our probe covers and lubricating jelly is set out below:

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(%)	(%)	(%)	(%)
Probe covers	27.1	17.9	18.5	26.9
Lubricating jelly	53.9	48.2	27.4	49.5

	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013
	(percentage points)	(percentage points)	(percentage points)
Probe covers	(9.2)	0.6	8.4
Lubricating jelly	(5.7)	(20.8)	22.1

For the FYE 2013 compared to the previous financial year, the combined gross profit margin increased by 20.2 percentage points mainly due to a higher proportion of lubricating jelly sales. Lubricating jelly contributed 74.0% of probe cover and lubricating jelly sales in the FYE 2013, up from 55.0% in the previous financial year.

For the FYE 2012 compared to the previous financial year, the combined gross profit margin decreased by 7.8 percentage points mainly due to the competitive pricing of our lubricating jelly which saw a reduction in the gross profit margin of our lubricating jelly of 20.8 percentage points to gain more market share. Lubricating jelly contributed 55.0% of probe cover and lubricating jelly sales for the FYE 2012, up from 44.0% in the previous financial year.

For the FYE 2011 compared to the previous financial year, the combined gross profit margin decreased by 9.3 percentage points mainly due to the higher proportion of probe covers sold. Probe covers contributed.56.0% of probe cover and lubricating jelly sales, up from 50.0% in the previous financial year.

(iv) Overall Group

Our overall gross profit margin is largely represented by and is consistent with condom's gross profit margin as condoms form the majority of our gross profits.

13.2.4 Other operating income

Our other operating income consists primarily of gain on disposal of property, plant and equipment and realised/unrealised foreign exchange gains. Foreign exchange gain arises due to the export driven business of our Group. Our realised foreign exchange gains are mainly derived from the strengthening of the USD at the point of conversion to RM or THB during the financial year under review while our unrealised foreign exchange gains are mainly due to strengthening of our USD at the end of the financial year under review.

Our other operating income is shown below:

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Other operating income	1,382	1,672	3,105	1,988

	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013
	(%)	(%)	(%)
Other operating income	21.0	85.7	(36.0)

In the FYE 2013, our other operating income amounted to RM2.0 million. Our other operating income comprise mainly of unrealised foreign exchange gain of RM1.4 million. The main contributors to the unrealised foreign exchange gain are KISB (RM0.4 million), ISB (RM0.6 million) and ITL (RM0.3 million).

In the FYE 2012, our other operating income amounted to RM3.1 million, mainly due to unrealised foreign exchange gain of RM1.8 million and realised foreign exchange gain of RM1.1 million. The main contributors to the unrealised foreign exchange gain are KISB (RM1.1 million) and ISB (RM0.7 million). The main contributors to the realised foreign exchange gain are KISB (RM0.6 million) and ISB (RM0.4 million).

In the FYE 2011, our other operating income amounted to RM1.7 million which consist mainly of realised foreign exchange gain of RM1.2 million. The main contributor to the realised foreign exchange gain is ITL (RM1.1 million).

In the FYE 2010, our other operating income amounted to RM1.4 million, mainly due to unrealised foreign exchange gain of RM0.8 million. The main contributor to the realised foreign gain is ITL (RM0.8 million).

13.2.5 Operating expenses

Our operating expenses are the expenses that we incur to perform our normal business operations. Our operating expenses comprise distribution expenses, administrative expenses and other expenses.

The table below sets forth the breakdown of our operating expenses for the financial years under review:

	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Distribution expenses	7,683	37.0	7,083	41.7	9,307	49.2	9,698	41.4
Administrative expenses	7,888	38.0	8,680	51.2	9,207	48.6	10,068	43.0
Other expenses	5,168	25.0	1,204	7.1	424	2.2	3,645	15.6
Total	**20,739**	**100.0**	**16,967**	**100.0**	**18,938**	**100.0**	**23,411**	**100.0**

	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013
	(%)	(%)	(%)
Distribution expenses	(7.8)	31.4	4.2
Administrative expenses	10.0	6.1	9.4
Other expenses	(76.7)	(64.8)	759.7
Total	**(18.2)**	**11.6**	**23.6**

(i) Distribution expenses

Our distribution expenses comprise primarily costs relating to freight and handling.

For the FYE 2013 compared to the previous financial year, our distribution expenses increased by RM0.4 million (↑4.2%) to support the increase in sales in the FYE 2013.

For the FYE 2012 compared to the previous financial year, our distribution expenses increased by RM2.2 million (↑31.4%), primarily attributable to increase in handling cost incurred for sale of condoms for certain customers under the tender market segment. For these particular orders, the said customers require the goods to be delivered to multiple destinations resulting in the increase in handling cost. The total handling cost was RM2.6 million in the FYE 2012 compared to RM1.1 million in the FYE 2011.

For the FYE 2011 compared to the previous financial year, our distribution expenses decreased by RM0.6 million (↓7.8%) which consists mainly of the decrease in handling cost of RM0.5 million in the FYE 2011 due to decrease in orders which require goods to be delivered to remote destinations.

(ii) Administrative expenses

Our administrative expenses consist of salary of our support staff (including management), professional fees (for tax agents, auditors, lawyers, etc.), depreciation of building, rent and lease of land and building, insurance expenses, travelling expenses and promotion expenses, etc.

For the FYE 2013 compared to the previous financial year, our administrative expenses increased by RM0.9 million (↑9.4%), mainly due to the part payment of our Listing expenses amounting to RM0.6 million.

For the FYE 2012 compared to the previous financial year, our administrative expenses increased by RM0.5 million (↑6.1%). This increase is due to the professional fees amounting to RM0.1 million incurred in relation to new financing facilities (multi trade line to finance our working capital) obtained by ISB and a general increase in other expenses.

For the FYE 2011 compared to the previous financial year, our administrative expenses increased by RM0.8 million (↑10.0). This increase is due to several professional fees amounting to RM0.5 million incurred in relation to new financing facilities (multi trade line to finance our working capital) obtained by KISB in the FYE 2011.

(iii) Other expenses

Our other expenses comprise expenses related to foreign exchange loss, fair value loss on forward exchange contracts, allowance for doubtful debts and impairment loss on trade receivables.

In the FYE 2013, our other expenses amounted to RM3.6 million, consisting mainly of realised foreign exchange losses of RM1.5 million (in USD) and fair value loss on forward exchange contracts held by KISB of RM0.8 million and by ISB of RM0.1 million. The realised foreign exchange loss is due to strengthening of the RM during the financial year while the fair value loss on forward exchange contract was due to strengthening of the USD at the end of the financial year. The main contributors to the realised foreign exchange loss are KISB (RM1.0 million) and ISB (RM0.5 million).

In the FYE 2012, our other expenses amounted to RM0.4 million, consisting mainly of an impairment loss on trade receivables of RM0.3 million in KISB.

In the FYE 2011, our other expenses amounted to RM1.2 million, mainly due to a realised foreign exchange loss of RM0.8 million due to strengthening of the RM during the financial year. The main contributors to the realised foreign exchange loss are KISB (RM0.4 million), UTSB (RM0.1 million) and ISB (RM0.3 million).

In the FYE 2010, our other expenses amounted to RM5.2 million, mainly due to a realised foreign exchange loss of RM2.8 million (in USD) and an unrealised foreign exchange loss of RM2.2 million (in USD). The higher loss compared to the other financial years under review was due to a sharp decrease in the value of the USD in the FYE 2010. The main contributors to the unrealised foreign exchange loss are KISB (RM2.0 million) and ISB (RM0.2 million). The main contributors to the realised foreign exchange loss are KISB (RM2.4 million), UTSB (RM0.2 million) and ISB (RM0.3 million).

Going forward, our Group will enter into foreign exchange forward contracts to hedge a majority of our net exposure. Please refer to Section 5.1(ii) of this Prospectus for our efforts to mitigate foreign currency risk.

13.2.6 Interest income

Our interest income consists of interest income in respect of our cash and cash equivalents deposited with banks and other financial institutions. The table below shows our interest income for the financial years under review:

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Interest income	38	104	144	150

	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013
	(%)	(%)	(%)
Interest income	173.7	38.5	4.2

The increases in interest income over the financial years under review were due to increase in the amount of our cash and cash equivalents deposited with licensed banks and/or increase in deposit interest rates accorded by said licensed banks.

13.2.7 Finance costs

Our finance costs comprise mainly interest charges for bank borrowings which consist of term loans, hire purchase payables, trade facilities and bank overdrafts utilised by our Group. The table below shows our finance costs for the financial years under review:

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Finance costs	1,118	1,990	2,646	2,500

	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013
	(%)	(%)	(%)
Finance costs	78.0	33.0	(5.5)

For the FYE 2013 compared to the previous financial year, our finance costs decreased by RM0.1 million (↓5.5%), mainly due to a lower average interest rate of approximately 2 percentage points in the FYE 2013.

For the FYE 2012 compared to the previous financial year, our finance costs increased by RM0.6 million (↑33.0%) due to the increase in interest expenses in relation to the higher utilisation of trade facilities including the new multi trade line obtained by ISB in the FYE 2012.

For the FYE 2011 compared to the previous financial year, our finance costs increased by RM0.9 million (↑78.0%) due to an increase in interest expenses in relation to the higher utilisation of trade facilities including the new multi trade line obtained by KISB in the FYE 2011.

13.2.8 PBT and PBT margin

The table below shows our PBT for the financial years under review:

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
PBT	19,692	7,703	14,530	36,144

	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013
	(%)	(%)	(%)
PBT	(60.9)	88.6	148.8

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(%)	(%)	(%)	(%)
PBT margin	12.5	4.2	7.7	15.6

	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013
	(percentage points)	(percentage points)	(percentage points)
PBT margin	(8.3)	3.5	7.9

For the FYE 2013 compared to the previous financial year, our PBT increased by RM21.6 million (↑148.8%) while our PBT margin increased by 7.9 percentage points. This increase was mainly due to the decrease in average latex concentrate price and higher sales to the commercial market segment as detailed in Section 13.2.3, offset by the increase in operating expenses of RM4.5 million.

For the FYE 2012 compared to the previous financial year, our PBT increased by RM6.8 million (↑88.6%) while our PBT margin increased by 3.5 percentage points. This increase is in line with our improved gross profits resulting from the decrease in average latex concentrate prices and higher sales to the commercial market segment as detailed in Section 13.2.3 and due to the increase in foreign exchange gain of RM1.4 million but offset by higher operating expenses, specifically, the increase in distribution expenses of RM2.2 million.

For the FYE 2011 compared to the previous financial year, our PBT decreased by RM12.0 million (↓60.9%) while our PBT margin decreased by 8.3 percentage points. This decrease is in line with our lower gross profits achieved, contributed by the increase in average latex concentrate prices as detailed in Section 13.2.3, offset by a decrease in foreign exchange losses (under other operating expenses) of RM4.2 million.

13.2.9 Income tax expense

Our income tax expenses comprise the year's provision for taxation, under or overprovision of taxation in previous years and deferred taxation. The statutory tax rate applicable to our Group was 25% for the financial years under review. The table below shows our income tax expense and our effective tax rates for the financial years under review:

	FYE 2010	**FYE 2011**	**FYE 2012**	**FYE 2013**
	(RM'000)	**(RM'000)**	**(RM'000)**	**(RM'000)**
Income tax expense	3,163	715	2,514	7,116

	Change from FYE 2010 to FYE 2011	**Change from FYE 2011 to FYE 2012**	**Change from FYE 2012 to FYE 2013**
	(%)	**(%)**	**(%)**
Income tax expense	(77.4)	251.6	183.1

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(%)	(%)	(%)	(%)
Tax rates				
Malaysian statutory tax rate	25	25	25	25
Effective tax rate	16	9	17	20

	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013
	(percentage points)	(percentage points)	(percentage points)
Tax rates			
Malaysian statutory tax rate	-	-	-
Effective tax rate	(7)	8	3

Our effective tax rate, being tax expenses as a percentage of our PBT, ranges from approximately 9% to 20% which is lower than the statutory tax rate of 25% for the financial years under review. Our Group enjoys a reinvestment allowance ("**RA**") tax incentive under the Schedule 7A of the Income Tax Act 1967 where a qualifying capital expenditure was incurred via the purchase of plant and machinery by KISB in the FYE 2011 and FYE 2012.

The RA is equivalent to 60% of the amount of capital expenditure incurred in relation to the qualifying project. This allowed us to deduct the RA from 70% of our statutory business income and any unutilised amount can be applied to reduce our future tax expenses. Hence, our Group is able to enjoy a lower effective tax rate as opposed to the prevailing statutory tax rate.

In addition, we were granted a tax incentive by the Board of Investment of Thailand which allows us to enjoy 13 years of tax incentives for condoms manufactured by ITL's current manufacturing facilities (100% tax exemption for the first eight (8) years since their operation (i.e. from 2006 to 2013) and 50% tax exemption for the subsequent five (5) years (i.e. from 2014 to 2018)). In addition, a similar tax incentive will be granted for the condoms to be produced by ITL's new manufacturing facilities (expected to be completed by the end of 2013) for the same duration (13 years from completion).

All our Malaysian operating companies are considered small enterprises under the Income Tax Act 1967 where the chargeable income of the first RM500,000 of each company is subject to a corporate tax rate of 20% and the balance chargeable income is subject to the statutory tax rate.

13. FINANCIAL INFORMATION *(Cont'd)*

For the FYE 2013 compared to the previous financial year, our income tax increased by RM4.6 million (↑183.1%) due to the higher PBT recorded in the FYE 2013 and higher effective tax rate. The effective tax rate is higher compared to the previous financial years due to a lower utilisation of RA during the FYE 2013.

For the FYE 2012 compared to the previous financial year, our income tax expense increased by RM1.8 million (↑251.6%) due to higher PBT recorded in the FYE 2012 as well as a higher effective tax rate. The effective tax rate in the FYE 2011 is lower due to the purchase of six (6) automated ET machines amounting to approximately RM5 million, allowing KISB to utilise the corresponding RA in the same year.

For the FYE 2011 compared to the previous financial year, our income tax expense decreased by RM2.5 million (↑77.4%) due to lower PBT recorded in the FYE 2011 as well as a lower effective tax rate in the FYE 2011. The lower effective tax rate in the FYE 2011 is due to the utilisation of RA by KISB as stated above.

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13.2.10 PAT

The table below shows our PAT for the financial years under review:

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
PAT	16,529	6,988	12,016	29,028
	Change from FYE 2010 to FYE 2011	**Change from FYE 2011 to FYE 2012**	**Change from FYE 2012 to FYE 2013**	
	(%)	(%)	(%)	
PAT	(57.7)	72.0	141.6	

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(%)	(%)	(%)	(%)
PAT margin	10.5	3.8	6.4	12.5
	Change from FYE 2010 to FYE 2011	**Change from FYE 2011 to FYE 2012**	**Change from FYE 2012 to FYE 2013**	
	(percentage points)	(percentage points)	(percentage points)	
PAT margin	(6.7)	2.6	6.1	

The increase/ decrease in our PAT and PAT margin is a direct result of the increase/decrease in our PBT after accounting for our income tax expense for the financial years under review. Our PAT and PAT margin:

(i) increased by RM17.0 million (↑141.6%) and 6.1 percentage points respectively for the FYE 2013 compared to the previous financial year;

(ii) increased by RM5.0 million (↑72.0%) and 2.6 percentage points respectively for the FYE 2012 compared to the previous financial year; and

(iii) decreased by RM9.5 million (↓57.7%) and 6.7 percentage points respectively for the FYE 2011 compared to the previous financial year.

13.2.11 Liquidity and capital resources

(i) Working capital

Our business has been financed via a combination of internal and external sources of funds. The internal sources of funds comprise our shareholders' equity and cash generated from our operations. The external sources of funds comprise mainly credit terms granted by our suppliers as well as borrowings from financial institutions. Cash generated from operations is mainly from collections from customers.

Our principal utilisations of funds have been for working capital, capital expenditure as well as payment of operating and administrative expenses, and bank borrowings. As at 30 June 2013, we have cash and cash equivalents of RM41.3 million and bank borrowings of RM50.9 million. The total trade lines and loan facilities available to our Group as at 30 June 2013 amounted to RM83.1 million. The above cash and cash equivalents and bank borrowings balances do not include the expected proceeds to be received from the sale of Issue Shares. Our net current asset as at 30 June 2013 is approximately RM47.7 million.

Our Directors are of the opinion that, based on our past financial performance and future prospects, after taking into consideration the cash and cash equivalents, the expected funds to be generated from operating activities, the amounts available under our existing banking facilities and the proceeds to be raised from the sale of Issue Shares, we will have adequate working capital to meet our present and foreseeable requirements for a period of 12 months from the date of this Prospectus.

(ii) Cash flow

The summary of our cash flow based on the proforma consolidated cash flow statement (as set out in Section 13.1 of this Prospectus) is as follows:

	FYE 2013
	(RM'000)
Net cash from operating activities	40,197
Net cash used in investing activities	(16,783)
Net cash from financing activities	10,813
Net increase in cash and cash equivalents	34,227
Effects of exchange rate changes	3
Cash and cash equivalents at 1 July 2012	(899)
Cash and cash equivalents at 30 June 2013*	**33,331**

Note:

* *Components of cash and cash equivalents as at 30 June 2013:*

	FYE 2013
	(RM'000)
Cash and cash equivalents	*41,317*
Less: Fixed deposit pledged with a licensed bank	*(7,533)*
Bank overdrafts	*(453)*
	33,331

Net cash flow generated from operating activities

In the FYE 2013, our Group generated positive net cash of approximately RM40.2 million from operating activities, consisting primarily of amount received in respect of our sale of condoms, catheters, probe cover and lubricating jelly as well as adjustments for non cash items relating to depreciation, gain on disposal of property, plant and equipment, and unrealised foreign exchange loss.

In addition, changes in working capital decreased by RM0.6 million due to the increase in inventories and a decrease in trade payables offset by a decrease in trade receivables.

Net cash flow used in investing activities

In the FYE 2013, the net cash used in investing activities amounted to RM16.8 million. RM17.6 million was utilised for the purchase of equipment. The outflow above was off-set by an inflow of RM0.8 million from disposal of property, plant and equipment and interest received in the year.

Net cash flow from financing activities

Net cash received from financing activities in the FYE 2013 amounted to RM10.8 million. Cash outflow consists of RM2.9 million for payment of interest, RM1.8 million for repayment of term loan, RM1.4 million for deposit pledged for financing facilities and RM1.6 million for amount due to our Directors and shareholders. In this financial year, our Group drew down borrowings of RM19.3 million to support our additional working capital and capital expenditure needs.

(iii) Restrictions on the ability of our Subsidiaries to transfer funds

We require the consents from some of our Subsidiaries' bankers for declaration/payment of dividends from our Subsidiaries. Save as disclosed above and in Section 5.3 (v), our Group confirms there are no legal, financial, or economic restriction on the ability of our Subsidiaries to transfer funds to our Company in the form of cash dividends, loans or advances.

In the event our Subsidiaries are not able to transfer funds to our Company or if our Company is restricted from declaring/paying dividends, we may not be able to distribute dividends to our shareholders. If our Subsidiaries are not able to transfer funds to our Company and the funds are required to meet our Group's working capital requirements or if the funds are required for our Group's capital expenditure, our growth and expansion may be restricted.

(iv) Borrowings

As at 30 June 2013, our Group's total outstanding bank borrowings is approximately RM50.9 million, all of which are interest-bearing and denominated in RM and THB. The details of the borrowings are set out below:

Outstanding bank borrowings	**As at 30 June 2013**
	(RM'000)
Long term borrowings (interest-bearing):	
- Term loan and hire purchase payable	10,965
Short term borrowings (interest-bearing):	
- Bank overdraft	453
- Term loan and hire purchase payable	3,521
- Bankers' acceptance	35,923
Total borrowings	50,862
Gearing ratio (times)[(1)]	0.47
Gearing ratio after our IPO[(2)]	0.23

Notes:

(1) Computed based on total interest-bearing borrowings of RM50.9 million over our total shareholders' funds attributable to our Group as at 30 June 2013 of RM108.4 million.

(2) Computed based on total interest-bearing borrowings of RM40.9 million (after RM10.0 million repayment using proceeds from the sale of our Issue Shares) over our total shareholders' funds attributable to our Group as at 30 June 2013 of RM178.5 million upon completion of our IPO.

As at 30 June 2013, our Group's short term borrowings consist of bank overdraft, term loans, hire purchase payables, and bankers' acceptance while our Group's long term borrowings are term loans and hire purchase payables. The effective interest rates of our borrowings are as follows:

	FYE 2013
Fixed rate borrowings	
Hire purchase	1.98% - 7.03%
Bankers' acceptance	2.05% - 6.25%
Floating rate borrowings	
Bank overdrafts	7.25% - 7.38%
Term loans	5.69%-7.85%

There was no default on payments or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in respect of any borrowings throughout the FYE 2010 to the FYE 2013.

As at the LPD, our total outstanding bank borrowings is approximately RM45.0 million. As at the LPD, our Group is not in breach of any terms and conditions or covenants associated with the credit arrangement or bank loan which can materially affect our financial position and results or business operations, or the investments by holders of securities in us.

Currently, our Group does not have any interest rate hedging policy or any foreign borrowings. We will monitor the interest rate movement and will take the necessary steps to minimise interest rate risk. We will endeavour to manage our interest rate risk by maintaining a mix of fixed and floating rate borrowings where necessary. However, no assurance can be given that any future significant movement in interest rate will not have a material adverse impact on our business, operating results and financial position.

(v) Treasury policies and objectives

Our Group has been funding our operations through our internal source of funds including cash generated from our operations and external source of funds. Our external sources of funds consist of credit terms granted by our suppliers and borrowings from financial institutions. Our funding policy is to obtain the most suitable type of financing and favourable cost of funding whereas our treasury policy is to maintain sufficient working capital to finance our operations, coupled with adequate credit facilities to meet estimated commitments arising from operational expenditure and financial liabilities.

The normal credit terms granted to our Group by our suppliers ranges from 90 to 120 days due to the good relationship which we have established with our suppliers. Our borrowings from financial institutions consist of short term and long term credit facilities. Our short term borrowings are mainly hire purchase payables, bankers' acceptance, and bank overdraft, which are mainly used for trade financing and working capital. The interest rates for these short term borrowings are based on the market rates prevailing at the dates of the respective transactions.

Our long term borrowings are mainly term loans and hire purchase to finance our capital expenditure such as the acquisition of property, plant and machinery. The interest rates for these long term borrowings are usually prevailing base lending rate plus a margin agreed upon by our bankers when the respective term loans were granted.

Our Group endeavours to manage and review our debt portfolio, taking into account the investment holding period and nature of our assets and will ensure prompt repayments of interest and principal.

(vi) Financial instruments for hedging purposes

The functional and reporting currency of our Group is in RM.

In the FYE 2013, 91.2% of our total revenue was denominated in foreign currencies. These currencies include USD, GBP, Euro and SGD.

Over the financial years under review, our exposure to foreign currencies is as follows:

	Revenue	
	Amount	Proportion of Group revenue
	(RM '000)	(%)
FYE 2010	142,633	90.6
FYE 2011	167,938	92.4
FYE 2012	173,611	92.0
FYE 2013	210,999	91.2

To mitigate foreign currency risk, we maintain accounts in USD, GBP and Euro for business transacted in foreign currencies. These foreign currency accounts are later used to make payments in the respective foreign currencies incurred in our business, thus forming a natural hedge to minimise our foreign currency exchange risk exposure. Furthermore, we enter into foreign exchange forward contracts in relation to USD and GBP for hedging purposes. In addition, we constantly monitor our foreign currency exchange risk exposure and will hedge our foreign currency exchange risk exposure as and when we consider necessary.

For the financial years under review, our Group had entered into various foreign exchange forward contracts with banking institutions to sell foreign currencies at agreed prices for fixed periods of time. Our foreign exchange contracts forward were mainly converting sales receipts denominated in foreign currency to RM.

(vii) Capital expenditures

For the financial years under review, our capital expenditures were mainly acquisition of property, plant and machinery which is in line with our efforts to expand our business operations and capacity expansion. Save as disclosed in Sections 4.9, 6.5 and 12.3 of this Prospectus, we do not have any material plan on capital expenditure as at the LPD.

(viii) Material capital commitments

As at the LPD, save as disclosed in the table below, there are no material capital commitments incurred or known to be incurred by our Group that has not been provided for, which upon becoming enforceable, may have a material impact on our financial results/position.

Material capital commitments	**RM' 000**
Approved and contracted for:	
Purchase of machinery and equipment	1,920

The majority of our capital commitments as at the LPD were related to capital expenditures with respect to investments in machinery and equipment to cater for future expansion. We expect to meet our capital commitments through our cash and cash equivalents on hand, cash generated from future operations and financing activities.

(ix) Contingent liabilities

As at the LPD, there are no contingent liabilities, which in the opinion of our Board, will or may substantially affect our financial results or position upon becoming enforceable.

(x) Material litigation, claims or arbitration

As at the LPD, there are no material litigations, claims or arbitration which, upon becoming enforceable, may have a material adverse effect on our results of operations or financial condition of our Group.

(xi) Key financial ratios

The key financial ratios of our Group for the financial years under review are as follows:

	FYE 2010	**FYE 2011**	**FYE 2012**	**FYE 2013**
Trade receivables turnover days *(1)*	85	72	112	78
Trade payables turnover days *(2)*	81	76	78	65
Inventory turnover days *(3)*	110	115	107	101
Current ratio (times) *(4)*	1.13	1.16	1.28	1.48

Notes:

(1) Trade receivables as at the date of financial position over revenue for the financial year multiplied by days within the financial year.

(2) Trade payables as at the date of financial position over cost of goods sold for the financial year multiplied by days within the financial year.

(3) Inventory as at the date of financial position over cost of goods sold for the financial year multiplied by days within the financial year.

(4) Current assets over current liabilities as at the date of financial position.

Trade receivables turnover

Credit period granted to our customers are assessed and approved on a case-to-case basis but generally ranges from 90 to 120.

Our trade receivables turnover periods for the financial years under review are below 120 days. Our trade receivables turnover as at FYE 2013 was 78 days as our revenue improved in tandem with the increase in sales of condoms. The increase of trade receivables turnover days in FYE 2012 compared to FYE 2011 is due to our large order sales from commercial, tender and OBM markets amounting to RM5.8 million, RM8.5 million and RM1.2 million, respectively near the end of FYE 2012.

The ageing analysis of our Group's trade receivables as at 30 June 2013 are as follows:

	<30 days	**30 to 60 days**	**60 to 90 days**	**90 to 120 days**	**> 120 days**	**Total**
Trade receivables **(RM'000)**	13,683	10,978	8,047	4,918	12,021	49,647
% of total trade receivables	27.6	22.1	16.2	9.9	24.2	100.0
% collected as at the LPD	58.1	66.1	69.8	39.5	49.1	57.8

65.9% of our trade receivables balance is within the credit period of 90 days as at 30 June 2013.

As at the LPD, we have collected 39.5% of our trade receivables in the '90 to 120 days' segment and 49.1% in the 'above 120 days' segment. The outstanding receivables were mainly from customers who have been granted extensions of credit period. Outstanding debts amounting to RM2.8 million (representing 56.1%) in the '90 to 120 days' segment and RM2.8 million (representing 22.9%) in the 'above 120 days' segment have been arranged for transmission to our Group within 30 days from the LPD. Notwithstanding the above, our Board confirms that the remaining sum in the '90 to 120 days' segment and 'above 120 days' segment can be collected based on our long standing and good relationship with our customers.

Trade payables turnover

The normal payment credit period granted by our suppliers ranges from 90 to 120 days. Our Group believes that the timely settlement of our trade payables will benefit our Group for more favourable pricings from our suppliers. The timely settlement also enhances our good relationship with these suppliers.

Generally, over the past three financial years under review our payables turnover period is within the specified credit period. Our payables turnover period is within the credit period granted by our suppliers.

The ageing analysis of our trade payables as at 30 June 2013 are as follows:

	<30 days	30 to 60 days	60 to 90 days	90 to 120 days	> 120 days	Total
Trade payables (RM'000)	13,887	9,190	4,274	977	2,168	30,496
% of total trade payables	45.6	30.1	14.0	3.2	7.1	100.0
% settled as at the LPD	80.9	97.6	93.5	90.4	90.7	88.7

From the table above, 92.9% of our trade payables balance is within the credit period granted by our suppliers as at 30 June 2013.

Inventory turnover

Our inventory consist of finished goods, raw materials, work-in-progress and consumable goods. Our inventory management system does not include a standard inventory re-order level. Our raw materials are replenished based on forthcoming or forecasted sales orders provided by our customers (ranging from three (3) to six (6) months) as well as the raw material prices. We maintain a sustainable level of raw materials to support our manufacturing operations, to reduce lead time for manufacturing and prevent shortages of raw materials. The amount of work-in-progress and finished goods is mainly affected by the timing of the shipment to our customers. This includes the time required for our customers to complete their product testing prior to accepting the shipment delivery which usually takes up to approximately three (3) to four (4) weeks.

Our Group's inventory levels for the FYEs 2010 to 2013 are as follows:

	As at 30 June 2010	As at 30 June 2011	As at 30 June 2012	As at 30 June 2013
Inventory (RM'000)	35,211	49,395	45,622	47,221
Inventory turnover days (days)	110	115	107	101

Our inventory turnover days for the FYEs 2010 to 2012 are in the range of 107 to 115 days and reduced to 101 days in the FYE 2013.

Our inventory turnover days was higher in the FYE 2011 compared to the FYE 2010 because of higher inventory level due to the increase in latex concentrate price (June 2011 average: 923.07 sen/kg compared to June 2010 average: 709.77 sen/kg) and the additional inventory stocked to cater for the additional condom dipping lines.

Inventory turnover days reduced slightly to 107 days in the FYE 2012 because of lower latex concentrate price (June 2012 average: 664 sen/kg compared to June 2011 average: 923 sen/kg) offset by stock up of other materials and finished goods pending delivery.

Our inventory turnover days for the FYE 2013 reduced to 101 days as our total cost of goods sold increased in tandem with the increase in sales of condoms.

Current ratio

	As at 30 June 2010	As at 30 June 2011	As at 30 June 2012	As at 30 June 2013
Current assets (RM'000)	84,891	99,761	117,457	146,678
Current liabilities (RM'000)	75,172	86,196	91,569	99,010
Current ratio (times)	1.13	1.16	1.28	1.48

Our current ratio has been increasing over the financial years under review and fall within the range of 1.13 to 1.48.

Our current ratio for the FYE 2011 was marginally higher than the FYE 2010 due to an increase in our inventory, offset by an increase in trade payables, both attributable to the increase in latex concentrate price.

Our current ratio increased for the FYE 2012 compared to the FYE 2011 due to higher receivables of RM12.0 million contributed by large order sales near the end of the FYE 2012.

Our current ratio increased in the FYE 2013 compared to the FYE 2012 due to an increase in cash and cash equivalents of RM32.8 million from our earnings and loans and borrowings.

13.2.12 Trend analysis

The following discussion regarding industry trends includes forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those projected in these forward-looking statements.

As at the LPD, due to the fact that our products are for general applications that are not tied to any seasonality factors, our operations have not been and are not expected to be affected by any of the following:

(i) Known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our financial performance, position and operations other than those discussed in this section and in Sections 5, 7 of this Prospectus and the IMR Executive Summary (Section 8 of this Prospectus), especially fluctuations in the latex concentrate pricing discussed in Sections 5.1(i), 7.12, 13.2.2(i) of this Prospectus and Section 1.6.2 of the IMR Executive Summary;

(ii) Material commitment for capital expenditure save as follows:

- manufacturing equipment in the Malaysian and Thai manufacturing facilities to increase our production capacity; and
- further expansions to our manufacturing facilities in Klang and Hat Yai.

Further details of our material commitments are disclosed in Sections 4.9, 6.5, 12.3 and 13.2.11(viii) of this Prospectus;

(iii) Unusual, infrequent events or transactions or any significant economic changes that have affected the financial performance, position and operations of our Group save as follows:

- the minimum wage policy introduced by the Malaysian government; and
- shortage of foreign labours due to the implementation of the 6P programme;

For further details, please refer to Sections 5.1(v) and 7.6 of this Prospectus;

(iv) Known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our Group's liquidity and capital resources and which are reasonably likely to make our historical financial statements not indicative of the future financial performance and position, other than those discussed in this section and in Section 13.2.11 of this Prospectus.

Information on our business and prospects, sales and costs is set out in Sections 7, 13.2.1 and 13.2.2 of this Prospectus respectively. Discussion on the overview of the condom industry, its prospects and outlook are further elaborated in Section 8 of this Prospectus.

Given the favourable outlook of the condom industry as set out in Section 8 of this Prospectus, our future plans, competitive strengths and advantages as set out in Section 7.18 of this Prospectus, our Board is optimistic about the future prospects of our Group.

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13.3 Capitalisation and indebtedness

The following information should be read in conjunction with the Report on the compilation of proforma consolidated financial information and the Accountants' Report set out in Sections 13.1 and 14 of this Prospectus respectively.

The following table shows our cash and bank balances, capitalisation and indebtedness:

(I) based on our proforma financial position as at 30 June 2013; and

(II) as adjusted for the expected proceeds arising from the sale of the Issue Shares.

	(I)	(II)
	As at 30 June 2013	**After IPO**
	(RM' 000)	**(RM' 000)**
Indebtedness		
Current		
Bank overdraft	**453**	**453**
Term loans and hire purchase payable	**3,521**	**3,521**
Bankers' acceptance	**35,923**	**25,923**
Non-current		
Term loans and hire purchase payable	**10,965**	**10,965**
Total indebtedness	50,862	40,862
Shareholders' equity	108,397	178,454
Total capitalisation and indebtedness	159,259	219,316
Gearing	**0.47**	**0.23**

13.4 Order book

In general, we do not commit to long-term orders with our customers. It is a common practice in the condom industry to commence production from confirmed purchase order. As such, our "order book" is based on purchase orders of approximately 45 to 90 days. Accordingly, our "order book" of 45 to 90 days may not be indicative of our revenue for any succeeding period.

Notwithstanding the above, the absence of long-term contracts does not hamper our revenue growth as evidenced by our strong sales track record. As at the LPD, 60% of our top ten (10) customers have established strong relationship with us for more than six (6) years. Our long-term customer relationship is a testament of customers' loyalty that provides a basis for our business stability and sustainability.

Based on the results of our last four (4) financial years, we achieved a CAGR of 13.7% in our revenue.

13.5 Impact of inflation

We do not believe that inflation has a material impact on our financial performance for the financial years under review. Although we believe that we will be able to pass on any future increase in manufacturing cost to our customers, we cannot assure you that any future increase in inflation rates will not have an impact on our business and financial performance.

13.6 Government/ economic/ fiscal/ monetary policies

Risks relating to government, economic, fiscal or monetary policies, which may materially affect our operations, are set out in Section 5 of this Prospectus. Save for the risks disclosed in Section 5 of this Prospectus, there are no government, economic, fiscal or monetary policies or factors that have had a material impact on our profitability and financial position.

13.7 Breach of terms and conditions / covenants associated with credit arrangement / bank loan

Our Directors confirm that as at the LPD, our Group is 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.

13.8 Dividend policy

It is our Board's policy to recommend dividends to allow our shareholders to participate in the profits of our Group. However, our ability to declare dividends or make other distributions to our shareholders in the future years is subject to various factors such as having profits and excess funds, which are not required to be retained to fund our business.

Our Board will consider the following factors that they currently intend to apply when recommending dividends for approval by our shareholders or when declaring any interim dividends:

(i) the level of cash and level of indebtedness;

(ii) required and expected interest expense, cash flow, our profits and return on equity and retained earnings;

(iii) our expected results of operations and future level of operations;

(iv) our projected levels of capital expenditure and other investment plans; and

(v) written consent from certain financial institutions to declare dividends (as disclosed in Section 13.2.11(iii) of this Prospectus).

The payment and amount of any dividends or distributions to our shareholders will be at the discretion of our Board and will depend on factors stated above. There can be no assurance as to whether the dividend distribution will occur as intended, the amount of dividend payment or timing of such payment.

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Internet www.kpmg.com.my

The Board of Directors
Karex Berhad
10th Floor, Menara Hap Seng
No. 1 & 3, Jalan P. Ramlee
50250 Kuala Lumpur

25 September 2013

Dear Sirs

Karex Berhad
Accountants' Report

1 Introduction

This report has been compiled by Messrs KPMG, an approved company auditor, for inclusion in the Prospectus of Karex Berhad (hereinafter known as "Karex" or "Company") in connection with the listing and quotation of the entire issued and paid-up share capital of Karex on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities"), and should not be relied upon for any other purposes.

2 General information

2.1 Background

Karex is principally engaged in investment holding. The principal activities of Karex's subsidiaries are disclosed in Section 2.5 of this Accountants' Report. Karex is domiciled in Malaysia and the registered address is as follows:

10th Floor Menara Hap Seng
No. 1 & 3, Jalan P. Ramlee
50250 Kuala Lumpur

2 General information (Cont'd)

2.2 Listing Scheme

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

2.2.1 The Acquisitions

Prior to the acquisitions, the equity shares in KISB, HMSB, ISB and ITL were held by individuals and/or corporate shareholder that are owned by similar individuals. UTSB was 60% held by KISB with the remaining 40% held by similar and other individuals.

As part of the listing exercise, Karex acquired KISB, HMSB, ISB and ITL while KISB acquired the remaining 40% in UTSB from these shareholders. The acquisitions were satisfied by the issuance of Karex ordinary shares of RM0.25 each as summarised below:

Name of Company	No. of ordinary shares	Interest acquired %	Purchase Consideration (RM)	No. of Karex Shares Issued
Acquired by Karex				
Karex Industries Sdn Bhd ("KISB")	2,500,000(1)	100	35,474,998	141,899,992
Hevea Medical Sdn Bhd ("HMSB")	1,000,000(1)	100	3,300,000	13,200,000
Innolatex Sdn Bhd ("ISB")	250,000(1)	100	4,750,000	19,000,000
Innolatex (Thailand) Limited ("ITL")	1,620,000(2)	100	12,500,000	50,000,000
Sub-total			56,024,998	224,099,992
Acquired by KISB				
Uro Technology Sdn Bhd ("UTSB")	200,000(1)	40	1,350,000	5,400,000
Total			57,374,998	229,499,992

(1) Denotes par value of RM1.00 each
(2) Denotes par value of THB 100 each

2 General information (Cont'd)

2.2 Listing Scheme (Cont'd)

2.2.2 Initial Public Offering ("IPO")

The IPO comprises the Institutional Offering and Retail Offering for a total of 67,500,000 Shares (consist of 40,500,000 newly issued shares "Issue Shares" and 27,000,000 shares offered "Offer Shares" for sale by the existing shareholders). These IPO Shares will be issued/offered based on the terms and conditions set out in the Prospectus and will be allocated and allotted in the following manner:

2.2.2.1 Institutional Offering

The Institutional Offering of 47,250,000 Shares representing 17.5% of the enlarged issued and paid-up share capital, comprising 27,000,000 Offer Shares and 20,250,000 Issue Shares to institutional and selected investors of Malaysia, Singapore and Hong Kong at the IPO Price.

The Offer Shares are offered by the existing shareholders and represents 10.0% of the enlarged issued and paid-up share capital.

2.2.2.2 Retail Offering

Retail Offering of 20,250,000 Issue Shares, representing 7.5% of the enlarged issued and paid-up share capital, at the IPO Price and allocated in the following manner:

(i) 13,500,000 Issue Shares, representing 5.0% of the enlarged issued and paid-up share capital of the Company, are available for application by the Malaysian Public, of which 6,750,000 Issue Shares, representing 2.5% of the enlarged issued and paid-up share capital of the Company, are set aside for Bumiputera investors. Any Issue Shares not subscribed by such Bumiputera investors will be made available for application by other Malaysian Investors under the Retail Offering; and

(ii) 6,750,000 Issue Shares, representing 2.5% of the enlarged issued and paid-up share capital of the Company, are made available for application by the eligible Directors, employees, business associates and persons who have contributed to the success of the Group.

2.3 Listing and Quotation

Following the IPO, Karex has sought the approval of Bursa Securities for the admission of its shares into the Official List, and for the listing and quotation of Karex's entire issued and paid-up share capital on the Main Market of Bursa Securities.

2 General information (Cont'd)

2.4 Share capital

At the date of incorporation, Karex's authorised share capital was RM100,000 consisting of 200,000 ordinary shares of RM0.50 each. At that date, Karex's issued and paid-up share capital was RM2 consisting of 4 ordinary shares of RM0.50 each.

On 30 November 2012, the Company subdivided all of its ordinary shares of RM0.50 each to two (2) ordinary shares of RM0.25 each.

As at 23 September 2013, being the latest practicable date ("LPD") Karex's authorised share capital was RM500,000,000 consisting of 2,000,000,000 ordinary shares of RM0.25 each.

Detailed changes in the issued and paid up share capital of Karex since its incorporation are as follows:

Date of allotment	No of ordinary shares	Consideration	Resultant issued and paid-up share capital (RM)
27.09.2012	4(1)	Subscriber's shares	2
30.11.2012	8(2)	Subdivision of shares	2
23.09.2013	229,499,992	Exchange of shares(3)	57,375,000

(1) Denotes 4 ordinary shares of RM0.50 each
(2) Denotes 8 subdivided ordinary shares of RM0.25 each
(3) Shares issued as consideration for the acquisitions as disclosed in 2.2.1.

Karex operates as an investment holding company.

2.5 Subsidiaries

KISB

KISB was incorporated in Malaysia under the Act as a private company on 4 May 1988 under the name of Banrub Sdn Bhd and assumed its present name on 5 Feb 1994.

KISB operates the business of manufacture and sale of condoms whilst its subsidiary, UTSB is principally involved in manufacturing of sterile catheters.

The authorised share capital of KISB is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of KISB is RM2,500,000 comprising 2,500,000 ordinary shares of RM1.00 each.

Detailed changes in the issued and paid-up share capital of KISB since its incorporation are as follows:

Date of allotment	No of ordinary shares of RM1.00 each alloted	Consideration	Resultant issued and paid-up share capital (RM)
04.05.1988	2	Subscriber's shares	2
27.05.1988	149,998	Cash	150,000
21.03.1990	50,000	Cash	200,000
27.01.1997	300,000	Cash	500,000
18.03.2000	1,300,000	Cash	1,800,000
27.03.2007	700,000	Capitalisation of shareholder's loan	2,500,000

2 General information (Cont'd)

2.5 Subsidiaries (Cont'd)

UTSB - Subsidiary of KISB

UTSB was incorporated in Malaysia under the Act as a private company on 16 November 1998 under its present name.

UTSB operates the business of manufacturing of sterile catheters.

The authorised share capital of UTSB is RM500,000 comprising 500,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of UTSB is RM500,000 comprising 500,000 ordinary shares of RM1.00 each.

Detailed changes in the issued and paid-up share capital of UTSB since its incorporation are as follows:

Date of allotment	No of ordinary shares of RM1.00 each alloted	Consideration	Resultant issued and paid-up share capital (RM)
16.11.1998	2	Subscriber's shares	2
18.03.1999	99,998	Cash	100,000
13.09.2005	400,000	Bonus Issue	500,000

HMSB

HMSB was incorporated in Malaysia under the Act as a private company on 13 April 1999 under its present name.

HMSB operates the business of manufacturing of condoms, latex probe covers and latex sleeves.

The authorised share capital of HMSB is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of HMSB is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each.

Detailed changes in the issued and paid-up share capital of HMSB since its incorporation are as follows:

Date of allotment	No of ordinary shares of RM1.00 each alloted	Consideration	Resultant issued and paid-up share capital (RM)
13.04.1999	2	Subscriber's shares	2
03.08.1999	299,998	Cash	300,000
21.02.2000	700,000	Cash	1,000,000

2 General information (Cont'd)

2.5 Subsidiaries (Cont'd)

ISB

ISB was incorporated in Malaysia under the Act as a private company on 2 December 1999 under its present name.

ISB operates the business of manufacture and sale of rubber products.

The authorised share capital of ISB is RM500,000 comprising 500,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of ISB is RM250,000 comprising 250,000 ordinary shares of RM1.00 each.

Detailed changes in the issued and paid-up share capital of ISB since its incorporation are as follows:

Date of allotment	No of ordinary shares of RM1.00 each alloted	Consideration	Resultant issued and paid-up share capital (RM)
02.12.1999	2	Subscriber's shares	2
01.12.2003	249,998	Cash	250,000

ITL

ITL was incorporated in Thailand under the Civil and Commercial Code of Thailand as a private company on 7 August 2003 under its present name.

ITL operates the business of manufacturing of all types of condoms, rubber finger gloves, hand gloves and/or products from rubber.

The registered capital of ITL is THB 162,000,000 comprising 1,620,000 ordinary share of THB 100.00 each.

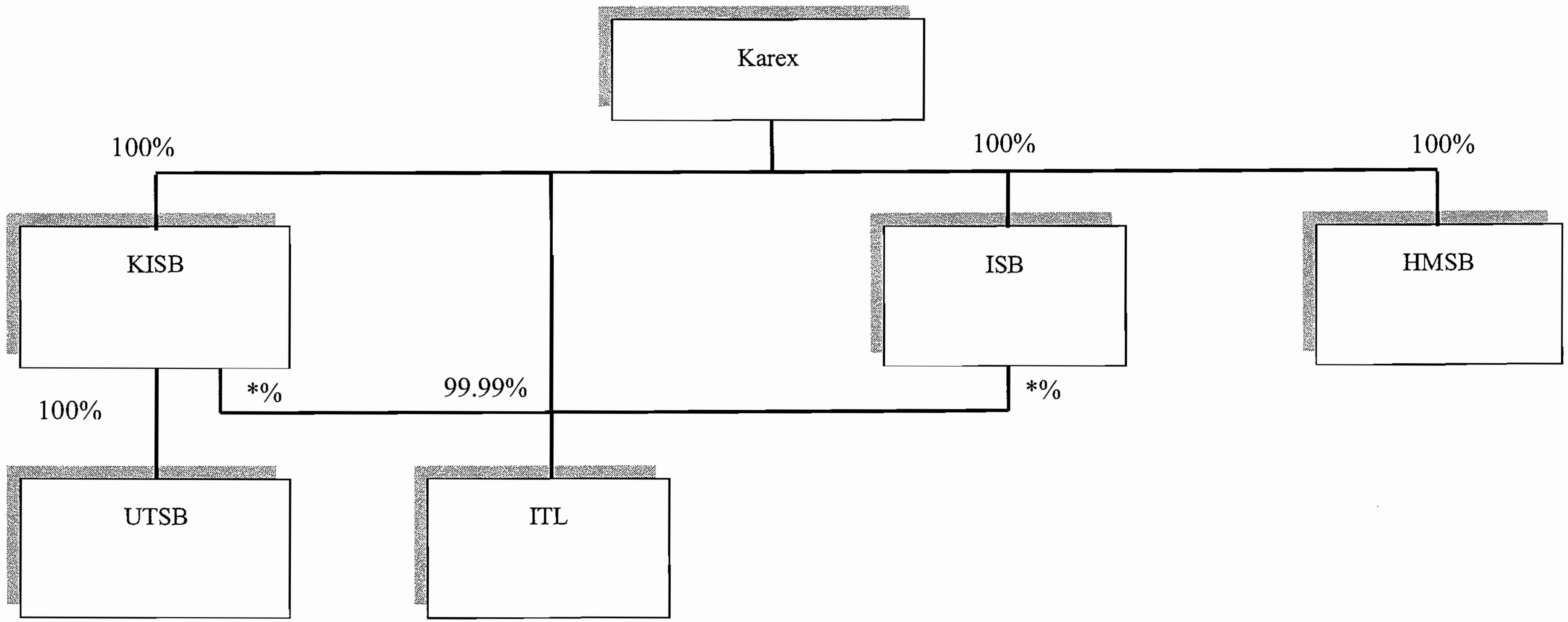
Detailed changes in the issued and paid-up share capital of ITL since its incorporation are as follows:

Date of allotment	No of ordinary shares of THB 100.00 each alloted	Consideration	Resultant issued and paid-up share capital (THB)
07.08.2003	10,000	Subscriber's shares	1,000,000
30.12.2005	440,000	Capitalisation of shareholder's loan	45,000,000
20.11.2008	750,000	Capitalisation of shareholder's loan	120,000,000
18.01.2013	420,000*	Capitalisation of shareholder's loan	130,500,000

* Partly paid at THB 25.00 each via capitalisation from amount owing to shareholder as at 30 June 2013.

3 Group structure

The Karex Group structure after the acquisitions is as follows:



Note:
* *KISB and ISB hold one (1) share each in ITL*

4 Financial statements and auditors

4.1 The financial year end of all the companies is on 30 June except for HMSB, ISB, ITL which were previously 31 December 2009, and subsequently changed to 30 June 2010. KPMG are the auditors for the following companies for the years under review as stated below:

KAREX	-	financial period ended 30 June 2013
KISB	-	financial years ended 30 June 2011 to 30 June 2013
UTSB	-	financial years ended 30 June 2011 to 30 June 2013
HMSB	-	financial years ended 30 June 2011 to 30 June 2013
ISB	-	financial years ended 30 June 2011 to 30 June 2013

Deloitte Kassim Chan are the auditors for the following companies for the years as stated below:

KISB	-	financial year ended 30 June 2010
UTSB	-	financial year ended 30 June 2010
HMSB	-	financial year/period ended 31 December 2009 to 30 June 2010
ISB	-	financial period ended 30 June 2010

Tan Che & Associates are the auditors for ISB for the financial year ended 31 December 2009.

Intadit C.P.A. Office Company Limited are the auditors for ITL for the period/years ended 31 December 2009 to 30 June 2013.

The auditors' reports of all the companies in the Karex Group for all the relevant financial years/period under review were not subject to any modification or qualification. These auditors' reports are set out in Appendix 1 of this Accountants' Report.

No audited financial statements of any companies in the Karex Group nor consolidated financial statements were prepared and issued after the financial year ended 30 June 2013.

4.2 Foreign exchange rate

In preparing this report, ITL's financial figures had been converted from THB into RM based on the following exchange rate:

	Statement of Financial Position at closing rate	Statement of profit or loss and other comprehensive income at average rate
Financial year ended 30 June 2013	THB 100 : RM10.20	THB 100 : RM10.16
Financial year ended 30 June 2012	THB 100 : RM9.91	THB 100 : RM9.90
Financial year ended 30 June 2011	THB 100 : RM9.74	THB 100 : RM9.96
Financial period ended 30 June 2010	THB 100 : RM9.99	THB 100 : RM10.04
Financial year ended 31 December 2009	THB 100 : RM10.19	THB 100 : RM10.19

The translation from THB in this report is to comply with the requirements of Prospectus Guidelines - Paragraph 13.12 where all financial statements prepared in currency other than RM must be translated into RM.

5 Dividends

No dividend has been paid or declared by Karex since the date of its incorporation. No dividends were paid or declared by the subsidiaries of Karex for the period/years under review.

6 Significant Accounting Policies & Standards

6.1 Accounting Policies and Standards

This report is prepared in accordance with applicable approved accounting standards in Malaysia and consistent with the accounting policies adopted by the Group for the financial year ended 30 June 2013, where Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards were adopted for the first time. MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards* has been applied and the relevant prior year adjustments arising from the adoption of MFRSs have been made to the respective years/periods presented.

6.2 Basis of preparation

(a) Statement of compliance

The financial statements of the Group and the Company have been prepared in accordance with Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards and the Companies Act, 1965 in Malaysia.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but have not been adopted by the Group and the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013

- MFRS 10, *Consolidated Financial Statements*
- MFRS 11, *Joint Arrangements*
- MFRS 12, *Disclosure of Interests in Other Entities*
- MFRS 13, *Fair Value Measurement*
- MFRS 119, *Employee Benefits* (2011)
- MFRS 127, *Separate Financial Statements* (2011)
- MFRS 128, *Investments in Associates and Joint Ventures* (2011)
- IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards – Government Loans*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 101, *Presentation of Financial Statements (Annual Improvements 2009- 2011 Cycle)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 132, *Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements: Transition Guidance*
- Amendments to MFRS 11, *Joint Arrangements: Transition Guidance*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Transition Guidance*

6 Significant Accounting Policies & Standards (Cont'd)

6.2 Basis of preparation (Cont'd)

(a) Statement of compliance (Cont'd)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to MFRS 10, *Consolidated Financial Statements: Investment Entities*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Investment Entities*
- Amendments to MFRS 127, *Separate Financial Statements (2011): Investment Entities*
- Amendments to MFRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015

- MFRS 9, *Financial Instruments (2009)*
- MFRS 9, *Financial Instruments (2010)*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Mandatory Effective Date of MFRS 9 and Transition Disclosures*

The Group plans to apply the abovementioned standards, amendments and interpretations in the respective financial year when the above standards, amendments and interpretations become effective.

The initial application of these standards, amendments and interpretations are not expected to have any material financial impacts to the current and prior periods financial statements of the Group upon their first adoption.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed in Section 6.3.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the functional currency of Karex, KISB, HMSB, ISB and UTSB. ITL's functional currency is THB. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements.

6 Significant Accounting Policies & Standards (Cont'd)

6.3 Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by the Group entities in previous years.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses, unless the investment is classified as held for sale or distribution. The cost of investments includes transaction costs.

(ii) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

The Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(iii) Acquisitions of non-controlling interests

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

6 Significant Accounting Policies & Standards (Cont'd)

6.3 Significant accounting policies (Cont'd)

(a) Basis of consolidation (Cont'd)

(iv) Restructuring among common shareholders

During a restructuring where the combining entities are controlled by the same parties both before and after the combination, book value accounting is applied. The assets and liabilities acquired are recognised in the consolidated financial statements at their respective carrying amounts without restatement. The difference between the cost of acquisition and the nominal value of the shares acquired together with any share premium are taken to merger reserve (or adjusted against any suitable reserve in the case of debit differences). The other components of equity of the acquired entities are added to the same components within group equity.

(v) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vi) Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interests and owners of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(vii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss.

6 Significant Accounting Policies & Standards (Cont'd)

6.3 Significant accounting policies (Cont'd)

(b) Foreign currency (Cont'd)

(ii) Operations denominated in functional currencies other than Ringgit Malaysia

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period. The income and expenses of foreign operations are translated to RM at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve (FCTR) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the FCTR related to that foreign operation is reclassified to profit or loss as part of the profit or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

In the consolidated financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the FCTR within equity.

(c) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

6 Significant Accounting Policies & Standards (Cont'd)

6.3 Significant accounting policies (Cont'd)

(c) Financial instruments (Cont'd)

(ii) Financial instrument categories and subsequent measurement

The Group categorises financial instruments as follows:

Financial assets

(a) Financial assets at fair value through profit or loss

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(b) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Section 6.3 (i)).

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

6 Significant Accounting Policies & Standards (Cont'd)

6.3 Significant accounting policies (Cont'd)

(c) Financial instruments (Cont'd)

(iii) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are classified as deferred income and are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in profit or loss upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(iv) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

(a) the recognition of an asset to be received and the liability to pay for it on the trade date, and
(b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

(v) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

6 Significant Accounting Policies & Standards (Cont'd)

6.3 Significant accounting policies (Cont'd)

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between knowledgeable willing parties in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items when available and replacement cost when appropriate.

When significant parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other income" and "other expenses" respectively in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group or the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

6 Significant Accounting Policies & Standards (Cont'd)

6.3 Significant accounting policies (Cont'd)

(d) Property, plant and equipment (Cont'd)

(iii) Depreciation (Cont'd)

The estimated useful lives for the current and comparative periods are as follows:

Short term leasehold land	50 years
Buildings	50 years
Plant and machinery	10 - 20 years
Motor vehicles	6 - 10 years
Electrical installation, renovation, equipment, furniture and fittings	4 - 10 years

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period and adjusted as appropriate.

(e) Leased assets

(i) Finance lease

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

(ii) Operating leases

Leases, where the Group does not assume substantially all the risks and rewards of ownership are classified as operating leases and the leased assets are not recognised in the statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

6 Significant Accounting Policies & Standards (Cont'd)

6.3 Significant accounting policies (Cont'd)

(f) Investment properties

(i) Investment properties carried at cost

Investment properties are properties which are owned to earn rental income or for capital appreciation or for both. These include leasehold land which in substance is a finance lease held for a currently undetermined future use. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties.

Investment properties are stated at cost less any accumulated depreciation and any accumulated impairment losses, consistent with the accounting policy for property, plant and equipment as stated in Section 6.3 (d).

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives.

The estimated useful lives for the current and comparative period are as follows:

Long leasehold land	99 years
Buildings	50 years

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in profit or loss in the period in which the item is derecognised.

(ii) Determination of fair value

When necessary, an external independent valuation firm, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio annually.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

(g) Inventories

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

The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. In the case of work-in-progress and finished goods, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

6 Significant Accounting Policies & Standards (Cont'd)

6.3 Significant accounting policies (Cont'd)

(h) Cash and cash equivalents

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

(i) Impairment

(i) Financial assets

All financial assets (except for investment in subsidiaries) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the financial asset's recoverable amount is estimated.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in profit or loss for an investment in an equity instrument is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) Other assets

The carrying amounts of other assets except for inventories and deferred tax assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to group of cash-generating units that are expected to benefit from the synergies of the combination.

6 Significant Accounting Policies & Standards (Cont'd)

6.3 Significant accounting policies (Cont'd)

(i) Impairment (Cont'd)

(ii) Other assets (Cont'd)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units) and then to reduce the carrying amounts of the other assets in the cash-generating unit (groups of cash-generating units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(j) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The Group's contribution to statutory pension funds are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(iii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is undiscounted and is calculated based on the last drawn salary for each completed year of service up to balance sheet date. No qualified actuary has been appointed by the Group in the measurement of the defined benefit obligations.

6 Significant Accounting Policies & Standards (Cont'd)

6.3 Significant accounting policies (Cont'd)

(k) Revenue and other income

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discount and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

(ii) Rental income

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

(iii) Interest income

Interest income is recognised as it accrues, using the effective interest method.

(l) Borrowing costs

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

(m) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

6 Significant Accounting Policies & Standards (Cont'd)

6.3 Significant accounting policies (Cont'd)

(m) Income tax (Cont'd)

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the following temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable equity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unutilised reinvestment allowance, being tax incentives that is not a tax base of an asset, is recognised as a deferred tax asset to the extent that it is probable that the future taxable profits will be available against the unutilised tax incentive can be utilised.

7 Audited Financial Statements

Karex Group will exist upon the completion of the Acquisitions.

Accordingly, there are no consolidated financial statements of Karex Group for the financial years ended 30 June 2010 to 30 June 2013. The summarised audited financial statements of the individual sub group/companies in the Group are shown in Section 7.1 to 7.6 below.

7.1 Karex Berhad

7.1.1 Statement of profit or loss and other comprehensive income

We set out below the statement of profit or loss and other comprehensive income of Karex Berhad for the financial period ended 30 June 2013:

	Note	27.09.2012 to 30.06.2013 RM'000
Revenue		--
Cost of goods sold		--
Gross profit		--
Administrative expenses		(632)
Results from operating activities		(632)
Finance costs		--
Loss for the period/ Total comprehensive expense for the period	**7.1.5.1**	(632)

7.1.2 Statement of financial position

	Note	Financial period ended 30.06.2013 RM'000
ASSETS		
Prepayments		945
Cash and cash equivalents		-- (1)
Total current assets		945
Total assets		945
EQUITY		
Share capital	**7.1.5.3**	-- (1)
Accumulated loss		(632)
Total equity		(632)
LIABILITIES		
Other payables/**Total current liabilities**	**7.1.5.4**	1,577
Total liabilities		1,577
Total equity and liabilities		945

(1) Denotes RM2.00

7 Audited Financial Statements (Cont'd)

7.1 Karex Berhad (Cont'd)

7.1.3 Statement of changes in equity

	Attributable to owners of Karex Berhad		
	Share capital RM'000	Accumulated loss RM'000	Total equity RM000
At date of incorporation	-- (1)	--	-- (1)
Total comprehensive expense for the period	--	(632)	(632)
At 30 June 2013	-- (1)	(632)	(632)

7.1.4 Statement of cash flows

	Note	27.09.2012 to 30.06.2013 RM'000
Cash flows from operating activities		
Loss for the period		(632)
Operating loss before changes in working capital		(632)
Changes in prepayments		(945)
Changes in other payables		1,577
Net increase in cash and cash equivalents		--
Cash and cash equivalent at the date of incorporation		-- (1)
Cash and cash equivalent at 30 June 2013	(i)	-- (1)

(i) Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

Cash in hand	-- (1)

(1) Denotes RM2.00

7 Audited Financial Statements (Cont'd)

7.1 Karex Berhad (Cont'd)

7.1.5 Notes to the financial statements

7.1.5.1 Loss for the period

	27.09.2012 to 30.06.2013 RM'000
Loss for the period is arrived at after charging	
Audit fee	5

7.1.5.2 Taxation

	27.09.2012 to 30.06.2013 RM'000
Reconciliation of tax expense	
Loss for the period	(632)
Income tax calculated using Malaysian tax rate of 25%	(158)
Non-deductible expense	158
Tax expense	--

7.1.5.3 Share capital

	30.06.2013 RM	Number of ordinary shares 30.06.2013
Ordinary shares of RM0.25		
Authorised:		
At date of incorporation (RM0.50 each)	100,000	200,000
Share split into RM0.25 each	--	200,000
Increase of shares	499,900,000	1,999,600,000
At 30 June	500,000,000	2,000,000,000
Ordinary shares of RM0.25		
Issued and fully paid:		
At date of incorporation (RM0.50 each)	2	4
Share split into RM0.25 each	--	4
At 30 June	2	8

7.1.5.4 Other payables

The other payables are to companies in which certain Directors/Director's close family member have substantial financial interest. The balances are unsecured, interest free and repayable on demand.

7 Audited Financial Statements (Cont'd)

7.1 Karex Berhad (Cont'd)

7.1.5 Notes to the financial statements (Cont'd)

7.1.5.5 Financial Instruments

7.1.5.5.1 Categories of financial instruments

All financial assets and liabilities are categorised as loans and receivables and other liabilities in accordance with the Company's accounting policies as disclosed in Note 6.3(c).

7.1.5.5.2 Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Liquidity Risk

7.1.5.5.3 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's exposure to liquidity risk arises principally from its related parties.

The Company maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

Maturity analysis

The table below summarises the maturity profile of the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

2013	Carrying amount RM'000	Contractual interest rate/ coupon %	Contractual Cash flow RM'000	Under 1 year RM'000
Non-derivative financial liabilities				
Other payables	1,577	--	1,577	1,577

7.1.5.5.4 Fair value of financial instruments

The carrying amounts of cash and cash equivalent, short term receivables and payables approximate fair values due to the relatively short term nature of these financial instruments.

7.1.5.6 Capital management

The Company's capital is represented by its total equity in the statement of financial position. The Directors monitor the adequacy of capital on an ongoing basis and rely on the continuous financial support from the related parties.

There is no external capital requirement imposed on the Company.

7 Audited Financial Statements (Cont'd)

7.1 Karex Berhad (Cont'd)

7.1.5 Notes to the financial statements (Cont'd)

7.1.5.7 Related parties

Identity of related parties

For the purpose of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly and indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as these persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. There are no key management personnel in the Company other than Directors.

The Company has related party relationship with its Directors.

7.1.5.8 Change of status

On 5 October 2012, the Company has converted from a private limited liability company to a public limited company under the name of Karex Berhad.

7.1.5.9 Comparative figures

There are no comparative figures available as this is the first set of financial statements prepared since its incorporation.

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB

7.2.1 Consolidated statements of profit or loss and other comprehensive income

We set out below the consolidated statements of profit or loss and other comprehensive income of KISB and UTSB ("Sub-Group") for the financial years ended 30 June 2010 to 30 June 2013:

	Note	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
		Financial years ended 30 June			
Revenue	7.2.5.1	127,536	146,242	140,466	155,114
Cost of goods sold		(95,126)	(128,006)	(117,384)	(116,189)
Gross profit		32,410	18,236	23,082	38,925
Distribution expenses		(5,347)	(5,339)	(7,132)	(6,178)
Administrative expenses		(6,169)	(6,466)	(6,539)	(6,626)
Other expenses		(4,656)	(515)	(383)	(2,552)
Other income		453	701	2,570	1,525
Results from operating activities		16,691	6,617	11,598	25,094
Finance costs	7.2.5.2	(935)	(1,754)	(2,328)	(1,515)
Interest income		38	104	144	150
Net finance costs		(897)	(1,650)	(2,184)	(1,365)
Profit before tax	7.2.5.3	15,794	4,967	9,414	23,729
Tax expense	7.2.5.4	(2,465)	(338)	(2,002)	(6,054)
Profit for the year/ Total comprehensive income for the year		13,329	4,629	7,412	17,675
Profit attributable to:					
Owners of the Company		13,128	4,596	7,031	17,183
Non-controlling interests		201	33	381	492
Profit for the year/ Total comprehensive income for the year		13,329	4,629	7,412	17,675
Weighted average number of share issued during the year (RM1.00 per share)		2,500,000	2,500,000	2,500,000	2,500,000
Basic/Diluted EPS (RM)		5.25	1.84	2.81	6.87

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.2 Consolidated statements of financial position

	Note	Financial years ended 30 June 2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
ASSETS					
Property, plant and equipment	7.2.5.5	38,166	48,242	49,121	49,901
Investment properties	7.2.5.6	3,007	2,937	2,867	2,797
Total non-current assets		41,173	51,179	51,988	52,698
Inventories	7.2.5.7	19,420	30,544	25,832	28,673
Trade and other receivables	7.2.5.8	44,715	37,713	53,251	52,989
Tax recoverable		174	2,267	1,999	--
Cash and cash equivalents	7.2.5.9	8,358	5,965	6,657	23,450
Total current assets		72,667	76,489	87,739	105,112
TOTAL ASSETS		113,840	127,668	139,727	157,810
EQUITY					
Share capital	7.2.5.10	2,500	2,500	2,500	2,500
Retained earnings	7.2.5.11	39,741	44,337	51,368	68,551
Total equity attributable to owners of the Company		42,241	46,837	53,868	71,051
Non-controlling interests	7.2.5.11.1	1,482	1,515	1,896	2,388
Total equity		43,723	48,352	55,764	73,439
LIABILITIES					
Loans and borrowings	7.2.5.12	2,180	7,022	6,955	5,057
Deferred tax liabilities	7.2.5.13	3,933	4,399	5,048	4,774
Total non-current liabilities		6,113	11,421	12,003	9,831
Trade and other payables, including derivatives	7.2.5.14	47,983	45,590	48,160	47,334
Loans and borrowings	7.2.5.12	15,716	22,305	23,800	25,001
Taxation		305	--	--	2,205
Total current liabilities		64,004	67,895	71,960	74,540
Total liabilities		70,117	79,316	83,963	84,371
Total equity and liabilities		113,840	127,668	139,727	157,810

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.3 Consolidated statements of changes in equity

	Attributable to owners of the Sub-Group				
		Distributable			
	Share capital RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
At 1 July 2009	2,500	26,613	29,113	1,281	30,394
Total comprehensive income for the year	--	13,128	13,128	201	13,329
At 30 June 2010/1 July 2010	2,500	39,741	42,241	1,482	43,723
Total comprehensive income for the year	--	4,596	4,596	33	4,629
At 30 June 2011/1 July 2011	2,500	44,337	46,837	1,515	48,352
Total comprehensive income for the year	--	7,031	7,031	381	7,412
At 30 June 2012/1 July 2012	2,500	51,368	53,868	1,896	55,764
Total comprehensive income for the year	--	17,183	17,183	492	17,675
At 30 June 2013	2,500	68,551	71,051	2,388	73,439

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.4 Consolidated statements of cash flows

	Note	Financial years ended 30 June 2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Cash flows from operating activities					
Profit before tax		15,794	4,967	9,414	23,729
Adjustments for:					
Depreciation and amortisation		3,376	3,475	3,559	3,641
Unrealised loss/(gain) on foreign exchange		2,020	(92)	(1,123)	(423)
Finance costs		935	1,754	2,328	1,515
Gain on disposal of:					
- property, plant and equipment		(80)	(195)	(449)	(312)
- machines built for sale		--	--	--	(507)
Interest income		(38)	(104)	(144)	(150)
Fair value loss on derivative instruments		--	--	--	843
Operating profit before working capital changes		22,007	9,805	13,585	28,336
Changes in working capital:					
Inventories		(6,339)	(11,124)	4,713	(2,841)
Trade and other receivables		(4,053)	7,075	(14,201)	247
Trade and other payables		8,144	(2,373)	2,354	(2,187)
Cash generated from operations		19,759	3,383	6,451	23,555
Tax paid		(3,031)	(2,270)	(1,085)	(2,124)
Net cash from operating activities		16,728	1,113	5,366	21,431
Cash flows from investing activities					
Acquisition of property, plant and equipment	(i)	(7,617)	(13,348)	(4,794)	(4,024)
Proceeds from disposal of:					
- property, plant and equipment		786	428	1,456	691
- machines built for sale		--	--	--	1,464
Interest received		38	104	144	150
Net cash used in investing activities		(6,793)	(12,816)	(3,194)	(1,719)
Cash flows from financing activities					
Interest paid		(935)	(1,754)	(2,328)	(1,901)
(Repayment of)/Proceeds from bankers' acceptance		(72)	6,259	(825)	4,072
Repayment of term loans		(522)	(473)	(1,075)	(1,623)
Repayment of finance lease liabilities		(1,213)	(1,631)	(980)	(702)
Drawdown of term loan		--	6,521	2,387	--
Increase in pledged deposit with licensed bank		(88)	(1,925)	(724)	(1,130)
Net cash (used in)/from financing activities		(2,830)	6,997	(3,545)	(1,284)
Net increase/(decrease) in cash and cash equivalents		7,105	(4,706)	(1,373)	18,428
Cash and cash equivalents at beginning of year		(2,711)	4,394	(312)	(1,685)
Cash and cash equivalents at end of year	(ii)	4,394	(312)	(1,685)	16,743

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.4 Consolidated statements of cash flows (Cont'd)

(i) Acquisition of property, plant and equipment

The cost of property, plant and equipment acquired by the Sub-Group by means of finance lease and cash are as follows:

	Financial years ended 30 June			
	2010 RM'000	**2011 RM'000**	**2012 RM'000**	**2013 RM'000**
Aggregate cost of property, plant and equipment acquired	11,599	13,713	5,375	4,730
Less: Acquired by means of finance lease	(3,982)	(365)	(581)	(320)
Interest capitalised	--	--	--	(386)
Acquired by cash	7,617	13,348	4,794	4,024

(ii) Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows comprise the following statements of financial position amounts:

	Financial years ended 30 June			
	2010 RM'000	**2011 RM'000**	**2012 RM'000**	**2013 RM'000**
Cash and bank balances	5,430	1,112	1,080	16,743
Deposits with licensed banks	2,928	4,853	5,577	6,707
Bank overdrafts	(1,036)	(1,424)	(2,765)	--
	7,322	4,541	3,892	23,450
Less: Fixed deposits pledged with licensed banks	(2,928)	(4,853)	(5,577)	(6,707)
	4,394	(312)	(1,685)	16,743

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements

7.2.5.1 Revenue

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Goods sold	127,536	146,242	140,466	155,114

7.2.5.2 Finance costs

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Bankers' acceptances	549	1,140	1,402	1,121
Finance lease liabilities	199	212	140	106
Bank overdrafts	143	188	243	143
Term loans	44	214	543	145
	935	1,754	2,328	1,515

7.2.5.3 Profit before tax

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Profit before tax is arrived at after charging/(crediting)				
Audit fees	53	70	70	70
Bad debts written off	80	20	20	--
Depreciation and amortisation	3,376	3,475	3,559	3,641
Inventories written down	--	2,169	--	--
Rental expenses for:				
- Hostel	185	178	181	185
- Factory	411	506	537	525
Loss/(Gain) on foreign exchange:				
- Realised	2,556	495	(684)	1,008
- Unrealised	2,020	(92)	(1,123)	(423)
(Reversal)/Provision of impairment on trade receivables	--	(29)	325	720
Gain on disposal of:				
- property, plant and equipment	(80)	(195)	(449)	(312)
- machines built for sale	--	--	--	(507)
Rental income	(276)	(276)	(276)	(276)
Personnel expenses (including key Management personnel):				
- Contributions to state plans	705	795	827	976
- Wages, salaries and others	15,747	15,657	15,020	18,283
Fair value loss on derivative instruments	--	--	--	843

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.3 Profit before tax (Cont'd)

Key management personnel compensation

The key management personnel compensation are as follows:

	Financial years ended 30 June			
	2010 RM'000	**2011 RM'000**	**2012 RM'000**	**2013 RM'000**
Directors' remuneration				
- Other emoluments	357	519	591	615
- Contributions to state plans	43	62	71	62
- Benefit-in-kind	--	41	42	35
Total short-term employee benefits	400	622	704	712
Other key management personnel:				
- Other emoluments	609	951	935	1,147
- Contributions to state plans	58	99	126	112
- Benefit-in-kind	45	69	68	68
	712	1,119	1,129	1,327
	1,112	1,741	1,833	2,039

Other key management personnel comprises persons other than the Directors of the Sub-Group, having authority and responsibility for planning, directing and controlling the activities of the entity either directly or indirectly.

7.2.5.4 Tax expense

	Financial years ended 30 June			
	2010 RM'000	**2011 RM'000**	**2012 RM'000**	**2013 RM'000**
Current tax expense				
- Current year	2,075	251	1,132	6,311
- Prior year	32	(379)	221	17
Total current tax expense	2,107	(128)	1,353	6,328
Deferred tax expense/ (income)				
- Origination and reversal of temporary differences	326	746	681	(239)
- Prior year	32	(280)	(32)	(35)
Total deferred tax expense/ (income)	358	466	649	(274)
Total tax expense	2,465	338	2,002	6,054

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.4 Tax expense (Cont'd)

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Reconciliation of tax expense				
Profit before tax	15,794	4,967	9,414	23,729
Income tax calculated using Malaysian tax rate	3,898	1,217	2,329	5,907
Non-deductible expenses	312	284	134	208
Non-business income	--	--	(23)	(5)
Utilisation of reinvestment allowance	(1,809)	(504)	(627)	--
Tax incentive	--	--	--	(38)
	2,401	997	1,813	6,072
Under/(Over) provided in prior year	64	(659)	189	(18)
Tax expense	2,465	338	2,002	6,054

The Sub-Group is a small and medium enterprise as defined in the Income Tax Act 1967 and is therefore subject to corporate tax at 20% on chargeable income up to RM500,000.

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.5 Property, plant and equipment

	Land and buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Electrical installation and renovation RM'000	Equipment, furniture and fittings RM'000	Construction -in -progress RM'000	Total RM'000
At cost							
At 1 July 2009	4,640	34,220	2,519	5,373	2,099	--	48,851
Additions	--	10,043	1,065	285	206	--	11,599
Disposals	--	(921)	(309)	--	--	--	(1,230)
At 30 June 2010/ 1 July 2010	4,640	43,342	3,275	5,658	2,305	--	59,220
Additions	8,373	4,201	46	740	353	--	13,713
Disposals	--	(256)	(194)	--	--	--	(450)
At 30 June 2011/ 1 July 2011	13,013	47,287	3,127	6,398	2,658	--	72,483
Additions	1,074	3,374	47	493	387	--	5,375
Disposals	(783)	(555)	--	--	--	--	(1,338)
At 30 June 2012 1 July 2012	13,304	50,106	3,174	6,891	3,045	--	76,520
Additions	1,061	2,059	888	446	261	15	4,730
Disposals	--	(527)	(296)	--	--	--	(823)
At 30 June 2013	14,365	51,638	3,766	7,337	3,306	15	80,427
Accumulated depreciation							
At 1 July 2009	332	10,352	1,754	4,673	1,160	--	18,271
Depreciation charge	78	2,313	349	381	186	--	3,307
Disposals	--	(352)	(172)	--	--	--	(524)
At 30 June 2010/ 1 July 2010	410	12,313	1,931	5,054	1,346	--	21,054
Depreciation charge	50	2,449	308	371	227	--	3,405
Disposals	--	(49)	(169)	--	--	--	(218)
At 30 June 2011/ 1 July 2011	460	14,713	2,070	5,425	1,573	--	24,241
Depreciation charge	25	2,484	300	419	261	--	3,489
Disposals	(57)	(274)	--	--	--	--	(331)
At 30 June 2012/ 1 July 2012	428	16,923	2,370	5,844	1,834	--	27,399
Depreciation charge	43	2,516	343	409	260	--	3,571
Disposals	--	(161)	(283)	--	--	--	(444)
At 30 June 2013	471	19,278	2,430	6,253	2,094	--	30,526
Carrying amounts							
At 30 June 2010	4,230	31,029	1,344	604	959	--	38,166
At 30 June 2011	12,553	32,574	1,057	973	1,085	--	48,242
At 30 June 2012	12,876	33,183	804	1,047	1,211	--	49,121
At 30 June 2013	13,894	32,360	1,336	1,084	1,212	15	49,901

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.5 Property, plant and equipment (Cont'd)

Land and buildings

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Freehold land	2,131	10,504	11,152	12,213
Leasehold land with unexpired lease period of:				
- Less than 50 years	360	352	344	336
Buildings	1,739	1,697	1,380	1,345
	4,230	12,553	12,876	13,894

Security

The land and buildings of the Sub-Group with a carrying amount of RM11,474,752 (2012: RM10,429,292; 2011: RM11,993,470; 2010: RM6,664,584) were charged to a licensed bank for banking facilities granted as disclosed in 7.2.5.12.

Leased plant and machinery and motor vehicle

At 30 June, the net carrying amounts of leased assets are as follows:

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Plant and machinery	4,494	2,514	2,840	2,380
Motor vehicles	1,303	945	621	1,086

Others

Included in property, plant and equipment addition is interest capitalised of RM385,979 (2012: NIL; 2011: NIL; 2010: NIL).

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.6 Investment properties

	Total RM'000
At cost	
At 1 July 2009/30 June 2010	3,496
At 1 July 2010/30 June 2011	3,496
At 1 July 2011/30 June 2012	3,496
At 1 July 2012/30 June 2013	3,496
Accumulated amortisation	
At 1 July 2009	420
Amortisation charge	69
At 30 June 2010/1 July 2010	489
Amortisation charge	70
At 30 June 2011/1 July 2011	559
Amortisation charge	70
At 30 June 2012/1 July 2012	629
Amortisation charge	70
At 30 June 2013	699
Carrying amounts	
At 30 June 2010	3,007
At 30 June 2011	2,937
At 30 June 2012	2,867
At 30 June 2013	2,797
Fair value	
At 30 June 2010	4,800
At 30 June 2011	4,800
At 30 June 2012	5,500
At 30 June 2013	5,500

Included in the carrying amounts of investment properties are:

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Long term leasehold land	690	674	658	643
Building	2,317	2,263	2,209	2,154
	3,007	2,937	2,867	2,797

Investment properties of leasehold land and building with unexpired lease period of more than 50 years are rented to a related party.

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.6 Investment properties (Cont'd)

The fair value is derived based on independent professional valuation on open market value based on comparison method and or an existing use basis.

Long term leasehold land and building of the Company with a carrying amount of RM2,796,800 (2012: RM2,866,720; 2011: RM2,936,640; 2010: RM3,006,560) is charged to a bank as security for term loan facilities granted to the Company.

The following are recognised in profit or loss in respect of investment properties:

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Rental income	276	276	276	276
Direct operating expenses - income generating investment properties	47	32	47	18

7.2.5.7 Inventories

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Raw materials	8,521	10,264	11,543	9,858
Work-in-progress	4,368	10,511	8,344	7,859
Finished goods	6,531	9,769	5,945	10,956
	19,420	30,544	25,832	28,673

7.2.5.8 Trade and other receivables

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Trade receivables	38,447	36,107	52,287	45,314
Other receivables	6,268	1,606	964	7,675
	44,715	37,713	53,251	52,989

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.8 Trade and other receivables (Cont'd)

Included in the above balances are amount due from companies in which certain Directors/Directors' close family member have substantial financial interests that are within the Karex Group as follow:

	Financial years ended 30 June			
	2010	**2011**	**2012**	**2013**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Trade receivables	11,499	10,935	17,496	14,260
Other receivables	4,767	156	--	2,872
	16,266	11,091	17,496	17,132

Included in other receivables, deposits and prepayments are machines built-in-progress for the purpose of sale/own use amounting to RM2,259,697 (2012: NIL; 2011: NIL; 2010: NIL).

7.2.5.9 Cash and cash equivalents

	Financial years ended 30 June			
	2010	**2011**	**2012**	**2013**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash and bank balances	5,430	1,112	1,080	16,743
Deposits placed with licensed banks	2,928	4,853	5,577	6,707
	8,358	5,965	6,657	23,450

The deposits with licensed banks of the Sub-Group of RM511,336 (2012: RM416,629; 2011: RM328,344; 2010: RM2,928,072) are held in trust by Directors.

Fixed deposits of the Sub-Group are pledged to the bank as security for banking facilities granted to the Sub-Group as disclosed in 7.2.5.12.

7.2.5.10 Share capital

	Financial years ended 30 June			
	2010	**2011**	**2012**	**2013**
Authorised ordinary shares of RM1.00 each				
Number of shares in '000	5,000	5,000	5,000	5,000
Amount in RM'000	5,000	5,000	5,000	5,000
Issued and fully paid ordinary shares of RM1.00 each				
Number of shares in '000	2,500	2,500	2,500	2,500
Amount in RM'000	2,500	2,500	2,500	2,500

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.11 Retained earnings

Section 108 tax credit and tax exempt account

Subject to agreement by the Inland Revenue Board, the Company has Section 108 tax credit and tax exempt account to frank the payment of dividends up to approximately RM32,291,000 (2012: RM32,074,000; 2011: RM32,074,000; 2010: RM28,042,000) out of its retained earnings at 30 June 2013.

The Finance Act, 2007 introduced a single tier company income tax system with effect from 1 January 2008. As such, the remaining Section 108 tax credit as at 30 June 2013 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

7.2.5.11.1 Non-controlling interests

This consists of the non-controlling interest's proportion of share capital and reserves of UTSB.

7.2.5.12 Loans and borrowings

	Financial years ended 30 June			
	2010	**2011**	**2012**	**2013**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-current				
Term loans	60	5,606	6,063	4,310
Finance lease liabilities	2,120	1,416	892	747
	2,180	7,022	6,955	5,057
Current				
Term loans	266	768	1,623	1,754
Bank overdrafts	1,036	1,424	2,765	--
Bankers' acceptances	12,957	19,216	18,392	22,464
Finance lease liabilities	1,457	897	1,020	783
	15,716	22,305	23,800	25,001
	17,896	29,327	30,755	30,058

The bank borrowings are generally secured by:

i) Legal charges over the landed properties of the Sub-Group;
ii) Fixed and floating charges over the Sub-Group's assets;
iii) Joint and several guarantee by the Directors and a shareholder of the Company;
iv) Pledge of fixed deposits of the Sub-Group; and
v) Subordination of shareholders' advances up to RM5,000,000.

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.12 Loans and borrowings (Cont'd)

Significant covenants

a. The Sub-Group are required to maintain gearing ratios of not more than 1.5 times or 3.5 times as defined by the respective financial institutions.

b. The Company's net tangible worth shall not be less than RM30,000,000.

c. The Sub-Group shall not without the banks' prior written consent, incur or assume additional indebtedness or guarantee any indebtedness (except in the ordinary course of business), alter the present ownership structure and extend loans and advances to the Directors of the Sub-Group and its related companies.

d. The Sub-Group shall not without the banks' prior written consent, declare and pay dividend exceeding 50% of the profit after tax of each financial year.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	At 30 June 2010			At 30 June 2011		
	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000
Less than one year	1,647	190	1,457	1,019	122	897
Between one and five years	2,304	184	2,120	1,501	85	1,416
	3,951	374	3,577	2,520	207	2,313

	At 30 June 2012			At 30 June 2013		
	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000
Less than one year	1,110	90	1,020	840	57	783
Between one and five years	929	37	892	791	44	747
	2,039	127	1,912	1,631	101	1,530

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.13 Deferred tax liabilities

Recognised deferred tax liabilities

Deferred tax assets and liabilities are attributable to the following:

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Property, plant and equipment				
- capital allowance	4,424	4,885	4,848	5,140
Inventory written down	--	(524)	--	--
Trade receivables	--	--	(81)	(260)
Others	(491)	38	281	(106)
	3,933	4,399	5,048	4,774

7.2.5.14 Trade and other payables

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Trade payables	27,006	27,627	30,637	29,101
Other payables and accrued expenses	8,726	5,904	6,385	7,885
	35,732	33,531	37,022	36,986
Derivatives financial liabilities	--	--	--	844
	35,732	33,531	37,022	37,830
Non-Trade				
Due to Directors	2,699	2,680	2,821	2,416
Due to shareholders	9,552	9,379	8,317	7,088
	12,251	12,059	11,138	9,504
	47,983	45,590	48,160	47,334

Included in the above balances are amounts due to companies in which certain Directors/Directors' close family member have substantial interests within the Karex Group as follow:

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Trade payables	14,409	7,274	10,380	11,277
Other payables and accrued expenses	342	322	222	643
	14,751	7,596	10,602	11,920

The amounts due to shareholders/Directors are mainly arose from advances and expenses paid on behalf which are unsecured, interest free and repayable on demand.

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.15 Contingent liabilities - unsecured

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Corporate guarantee given to financial institutions in respect of outstanding banking facility granted to UTSB	499	453	368	--

7.2.5.16 Capital commitments

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Property, plant and equipment				
Authorised but not contracted for	--	--	--	4,455
Contracted but not provided for	--	225	1,555	1,644

7.2.5.17 Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Sub-Group if the Sub-Group has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Sub-Group and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Sub-Group either directly or indirectly. Key management personnel includes all the Directors of the Sub-Group, and certain members of senior management of the Sub-Group.

The Sub-Group has related party relationship with its key management personnel.

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.17 Related parties (Cont'd)

Significant related party transactions

The significant related party transactions of the Sub-Group are shown below.

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Entities in which certain Directors/Directors' close family members have substantial financial interests				
Sales of goods	12,531	11,786	12,488	20,252
Purchase of goods	(15,914)	(26,136)	(13,051)	(18,472)
Rental income	276	276	276	276
Disposal of property, plant and equipment	691	102	656	640
Disposal of machines built for sale	--	--	--	1,464
Directors and their close family members				
Sales of property, plant and equipment	--	--	800	--

The net balances outstanding arising from the above transactions, if any, have been disclosed in Note 7.2.5.8 and Note 7.2.5.14 to the accountants' report. There are no impairment on trade receivables and bad debts written off in respect of these amounts. All the outstanding balances are expected to be settled in cash by the related parties.

7.2.5.18 Financial instruments

The Sub-Group adopted MFRS on 1 July 2012. The Sub-Group previously applied Financial Reporting Standards (FRS) and certain comparative figures have not been presented for 30 June 2010 by virtue of the exemption given in paragraph 44AA of FRS 7. The Sub-Group also did not present the comparative figures for 30 June 2010 upon the adoption of MFRS due to practicability.

7.2.5.18.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(a) Loans and receivables ("L&R");
(b) Other financial liabilities measured at amortised cost ("FL"); and
(c) Derivatives used for hedging.

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.18 Financial instruments (Cont'd)

7.2.5.18.1 Categories of financial instruments (Cont'd)

	Carrying amount RM'000	L&R RM'000	FL RM'000	Derivatives used for hedging RM'000
2013				
Financial assets				
Trade and other receivables	52,989	52,989	--	--
Cash and cash equivalents	23,450	23,450	--	--
	76,439	76,439	--	--
Financial liabilities				
Loan and borrowings	(30,058)	--	(30,058)	--
Trade and other payables, including derivatives	(47,334)	--	(46,490)	(844)
	(77,392)	--	(76,548)	(844)
2012				
Financial assets				
Trade and other receivables	53,251	53,251	--	--
Cash and cash equivalents	6,657	6,657	--	--
	59,908	59,908	--	--
Financial liabilities				
Loan and borrowings	(30,755)	--	(30,755)	--
Trade and other payables	(48,160)	--	(48,160)	--
	(78,915)	--	(78,915)	--
2011				
Financial assets				
Trade and other receivables	37,713	37,713	--	--
Cash and cash equivalents	5,965	5,965	--	--
	43,678	43,678	--	--
Financial liabilities				
Loan and borrowings	(29,327)	--	(29,327)	--
Trade and other payables	(45,590)	--	(45,590)	--
	(74,917)	--	(74,917)	--

7.2.5.18.2 Net gains and losses arising from financial instruments

	2011 RM'000	2012 RM'000	2013 RM'000
Net gains/(losses) on:			
Loan and receivables	68	2,126	1,343
Financial liabilities measured at amortised cost	(1,753)	(2,540)	(2,421)
Fair value through profit and loss	--	--	(844)
	(1,685)	(414)	(1,922)

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.18 Financial instruments (Cont'd)

7.2.5.18.3 Financial risk management

The Sub-Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

7.2.5.18.4 Credit risk

Credit risk is the risk of a financial loss to the Sub-Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Sub-Group's exposure to credit risk arises principally from its receivables from customers and amounts due from related party.

Receivables

Risk management objectives, policies and processes for managing the risk

The Sub-Group has no formal written credit policy. However, the Board of Directors is of the view that the exposure to credit risk is managed through the direct involvement of Executive Directors monitoring on an on-going basis is deemed sufficient.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are measured at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Sub-Group. The Sub-Group uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 60 days, which are deemed to have higher credit risk, are monitored individually.

Impairment losses

The Sub-Group maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the reporting period was:

	Gross RM'000	Individual impairment RM'000	Net RM'000
2013			
Not past due	24,512	--	24,512
Past due 0 - 30 days	6,627	--	6,627
Past due 31 - 60 days	4,789	--	4,789
Past due more than 60 days	10,431	(1,045)	9,386
	46,359	(1,045)	45,314

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.18 Financial instruments (Cont'd)

7.2.5.18.4 Credit risk (Cont'd)

	Gross RM'000	Individual impairment RM'000	Net RM'000
2012			
Not past due	31,972	--	31,972
Past due 0 - 30 days	7,778	(68)	7,710
Past due 31 - 60 days	3,945	--	3,945
Past due more than 60 days	8,917	(257)	8,660
	52,612	(325)	52,287
2011			
Not past due	12,925	--	12,925
Past due 0 - 30 days	7,814	--	7,814
Past due 31 - 60 days	4,320	--	4,320
Past due more than 60 days	11,048	--	11,048
	36,107	--	36,107

Included in the past due more than 60 days of the Sub-Group are amount receivables from related parties of RM4,867,562 (2012: RM7,763,059; 2011: RM4,679,023). In determining whether additional allowance is required to be made, the Sub-Group considers financial background of the customers and related parties, past transactions and other specific reasons causing these balances to be past due more than 60 days. The customers and related parties are regular customers that have been transacting with the Sub-Group. The Sub-Group do not consider it necessary to impair the receivable amount and is satisfied that the amount can be recovered.

The movements in the allowance for impairment losses of receivables during the financial year were:

	2011 RM'000	2012 RM'000	2013 RM'000
At 1 July	29	--	325
(Reversal)/Provision of impairment on trade receivables for the year	(29)	325	720
At 30 June	--	325	1,045

The allowance account in respect of trade receivables is used to record impairment losses. Unless the Sub-Group is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

Financial guarantees

Risk management objectives, policies and processes for managing the risk

KISB provides unsecured financial guarantees to banks in respect of banking facilities granted to UTSB. KISB monitors on an ongoing basis the results of UTSB and repayments made by UTSB.

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.18 Financial instruments (Cont'd)

7.2.5.18.4 Credit risk (Cont'd)

Financial guarantees (Cont'd)

Exposure to credit risk, credit quality and collateral

The maximum exposure to credit risk amounts to Nil (2012: RM367,948; 2011: RM453,248) representing the outstanding banking facilities of the subsidiary as at the end of the reporting period.

As at the end of the reporting period, there was no indication that any subsidiary would default on repayment.

The financial guarantees have not been recognised since the fair value on initial recognition was not material.

7.2.5.18.5 Liquidity risk

Liquidity risk is the risk that the Sub-Group will not be able to meet its financial obligations as they fall due. The Sub-Group's exposure to liquidity risk arises principally from its various payables, loans and borrowings.

The Sub-Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

Maturity analysis

The table below summarises the maturity profile of the Sub-Group's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount RM'000	Contractual interest rate/ coupon %	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000
2013						
Non-derivative financial liabilities						
Trade and other payables	46,490	--	46,490	46,490	--	--
Secured term loans	6,064	1.25 + BLR	7,018	2,154	1,762	3,102
Secured finance lease liabilities	1,530	1.98 - 3.65	1,631	840	572	219
Secured bankers' acceptances	22,464	4.24 - 5.23	22,464	22,464	--	--
	76,548		77,603	71,948	2,334	3,321
Derivative financial liabilities						
Forward exchange contracts (gross settled):						
Outflow	844	--	34,707	34,707	--	--
Inflow	--	--	(33,863)	(33,863)	--	--
	77,392		78,447	72,792	2,334	3,321

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.18 Financial instruments (Cont'd)

7.2.5.18.5 Liquidity risk (Cont'd)

	Carrying amount RM'000	Contractual interest rate/ coupon %	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000
2012						
Non-derivative financial liabilities						
Trade and other payables	48,160	--	48,160	48,160	--	--
Secured term loans	7,686	1.25 + BLR	9,168	2,154	2,154	4,860
Secured bank overdrafts	2,765	8.10	2,765	2,765	--	--
Secured finance lease liabilities	1,912	1.98 - 3.63	2,039	1,110	929	--
Secured bankers' acceptances	18,392	4.28 - 6.20	18,392	18,392	--	--
	78,915		80,524	72,581	3,083	4,860
2011						
Non-derivative financial liabilities						
Trade and other payables	45,590	--	45,590	45,590	--	--
Secured term loans	6,374	1.25 + BLR	7,378	1,618	2,154	3,606
Secured bank overdrafts	1,424	8.10	1,424	1,424	--	--
Secured finance lease liabilities	2,313	1.98 - 3.63	2,520	1,019	933	568
Secured bankers' acceptances	19,216	5.00 - 6.20	19,216	19,216	--	--
	74,917		76,128	68,867	3,087	4,174

7.2.5.18.6 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates that will affect the Sub-Group's financial position or cash flows.

Currency risk

The Sub-Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Sub-Group. The currencies giving rise to this risk are primarily US Dollar (USD), Euro Dollar (EURO) and Great Britain Pound (GBP).

Risk management objectives, policies and processes for managing the risk

The Sub-Group uses forward exchange contract to hedge its foreign currency risk from time to time. Most of the forward exchange contracts have maturities of less than one year after the end of the reporting period. Where necessary, the forward exchange contracts are rolled over at maturity.

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.18 Financial instruments (Cont'd)

7.2.5.18.6 Market risk (Cont'd)

Exposure to foreign currency risk

The Sub-Group's exposure to foreign currency (a currency which is other than the functional currency of the Company) risk, based on carrying amounts as at the end of the reporting period was:

		Dominated in	
	USD RM'000	EURO RM'000	GBP RM'000
2013			
Trade receivables	34,837	17	--
Cash and cash equivalents	899	224	22
Trade payables	(15,017)	--	--
Other payables	(2,187)	(19)	--
Forward exchange contracts	(18,911)	--	(14,952)
Net exposure	(379)	222	(14,930)
2012			
Trade receivables	40,662	507	--
Cash and cash equivalents	398	62	117
Trade payables	(5,175)	--	--
Other payables	(1,434)	--	--
Net exposure	34,451	569	117
2011			
Trade receivables	28,422	--	--
Cash and cash equivalents	155	11	5
Trade payables	(1,447)	--	--
Other payables	(382)	(20)	--
Net exposure	26,748	(9)	5

Currency risk sensitivity analysis

A 10% (2012: 10%; 2011: 10%) strengthening of the Ringgit Malaysia ("RM") against the following currencies at the end of the reporting period would have increased/(decreased) post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases.

	Denominated in USD			Denominated in EURO			Denominated in GBP		
	2011 RM'000	2012 RM'000	2013 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Profit or (loss)	(2,006)	(2,584)	28	1	(43)	(17)	--	(9)	1,120

A 10% (2012: 10%; 2011: 10%) weakening of the RM against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.18 Financial instruments (Cont'd)

7.2.5.18.6 Market risk (Cont'd)

Interest rate risk

The Sub-Group's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Sub-Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

There is no formal hedging policy with respect to interest rate exposure. Exposure to interest rate is monitored on an ongoing basis and the Sub-Group endeavours to keep the exposure at an acceptable level.

Exposure to credit risk, credit quality and collateral

The interest rate profile of the Sub-Group's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	2011 RM'000	2012 RM'000	2013 RM'000
Fixed rate instruments			
Financial assets			
Deposits with licensed banks	4,853	5,577	6,707
Financial liabilities			
Bankers' acceptances	(19,216)	(18,392)	(22,464)
Finance lease liabilities	(2,313)	(1,912)	(1,530)
	(21,529)	(20,304)	(23,994)
	(16,676)	(14,727)	(17,287)
Floating rate instruments			
Financial liabilities			
Term loans	(6,374)	(7,686)	(6,064)
Bank overdrafts	(1,424)	(2,765)	--
	(7,798)	(10,451)	(6,064)

Interest rate risk sensitivity analysis

(a) Fair value sensitivity analysis for fixed rate instruments

The Sub-Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Sub-Group does not designate derivatives as hedging instruments under a fair valued hedged accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

(b) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in interest rates at the end of the reporting period would have increased/(decreased) the Sub-Group post-tax results by RM45,477 (2012: RM78,394; 2011: RM58,488). This analysis assumes that all other variables remained constant.

7 Audited Financial Statements (Cont'd)

7.2 KISB & its subsidiary, UTSB (Cont'd)

7.2.5 Notes to the consolidated financial statements (Cont'd)

7.2.5.18 Financial instruments (Cont'd)

7.2.5.18.7 Fair value of financial instruments

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings approximate fair values due to the relatively short term nature of these financial instruments.

The carrying amounts of the finance lease liabilities approximates their fair value as there is no material change in the interest charged on similar kind of borrowings in the market.

The carrying amount of the floating rate term loans approximates its fair values as its effective interest rate changes accordingly to movements in the market interest rate.

No disclosure of fair value is made for amount due from subsidiary, as it is not practicable to determine their fair values with sufficient reliability since these balances have no fixed terms of repayment.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

	Level 2 RM'000
2013	
Financial liabilities	
Forward exchange contracts	844

7.2.5.19 Capital management

The primary objective of the Sub-Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Sub-Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Sub-Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 30 June 2013, 30 June 2012 and 30 June 2011.

The Sub-Group has credit facilities from its bankers for its capital requirements. The Directors are of the opinion that the Sub-Group will be able to fulfill its cash flow requirements when due. The Sub-Group is required to comply with loan covenant as disclosed in Section 7.2.5.12, failing which, the bank may call an event of default. The Directors monitors the compliance with loan covenants and regulatory requirements on an ongoing basis.

7 Audited Financial Statements (Cont'd)

7.3 UTSB

7.3.1 Statements of profit or loss and other comprehensive income

We set out below the statements of profit or loss and other comprehensive income of UTSB for the financial years ended 30 June 2010 to 30 June 2013:

	Note	Financial years ended 30 June 2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Revenue	7.3.5.1	8,097	8,267	10,067	11,927
Cost of goods sold		(6,194)	(6,918)	(7,857)	(9,086)
Gross profit		1,903	1,349	2,210	2,841
Distribution expenses		(257)	(321)	(210)	(310)
Administrative expenses		(788)	(827)	(781)	(880)
Other expenses		(220)	(118)	(9)	(29)
Other income		66	78	100	46
Results from operating activities		704	161	1,310	1,668
Finance costs	7.3.5.2	(45)	(47)	(40)	(15)
Interest income		2	3	3	3
Net finance costs		(43)	(44)	(37)	(12)
Profit before tax	7.3.5.3	661	117	1,273	1,656
Tax expense	7.3.5.4	(161)	(34)	(318)	(428)
Profit for the year/Total comprehensive income for the year		500	83	955	1,228
Weighted average number of share issued during the year (RM1.00 per share)		500,000	500,000	500,000	500,000
Basic/Diluted EPS (RM)		1.00	0.17	1.91	2.46

7 Audited Financial Statements (Cont'd)

7.3 UTSB (Cont'd)

7.3.2 Statements of financial position

	Note	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
		Financial years ended 30 June			
ASSETS					
Property, plant and equipment/ **Total non-current assets**	7.3.5.5	2,146	1,957	1,864	2,037
Inventories	7.3.5.6	1,379	1,639	2,148	2,392
Trade and other receivables	7.3.5.7	2,948	3,357	3,652	3,555
Tax recoverable		174	328	140	--
Cash and cash equivalents	7.3.5.8	552	251	416	1,713
Total current assets		5,053	5,575	6,356	7,660
TOTAL ASSETS		7,199	7,532	8,220	9,697
EQUITY					
Share capital	7.3.5.9	500	500	500	500
Retained earnings	7.3.5.10	3,205	3,288	4,243	5,471
Total equity		3,705	3,788	4,743	5,971
LIABILITIES					
Loans and borrowings	7.3.5.11	14	--	--	--
Deferred tax liabilities	7.3.5.12	188	159	160	153
Total non-current liabilities		202	159	160	153
Trade and other payables	7.3.5.13	2,731	3,120	2,949	3,330
Loan and borrowings	7.3.5.11	561	465	368	--
Taxation		--	--	--	243
Total current liabilities		3,292	3,585	3,317	3,573
Total liabilities		3,494	3,744	3,477	3,726
Total equity and liabilities		7,199	7,532	8,220	9,697

7.3.3 Statement of changes in equity

	Attributable to owners of UTSB		
		Distributable	
	Share capital RM'000	**Retained earnings RM'000**	**Total equity RM000**
At 1 July 2009	500	2,705	3,205
Total comprehensive income for the year	--	500	500
At 30 June 2010/1 July 2010	500	3,205	3,705
Total comprehensive income for the year	--	83	83
At 30 June 2011/1 July 2011	500	3,288	3,788
Total comprehensive income for the year	--	955	955
At 30 June 2012/1 July 2012	500	4,243	4,743
Total comprehensive income for the year	--	1,228	1,228
At 30 June 2013	500	5,471	5,971

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7 Audited Financial Statements (Cont'd)

7.3 UTSB (Cont'd)

7.3.4 Statements of cash flows

	Note	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
		Financial years ended 30 June			
Cash flows from operating activities					
Profit before tax		661	117	1,273	1,656
Adjustments for:					
Depreciation		345	302	217	226
Finance costs		45	47	40	15
Interest income		(2)	(3)	(3)	(3)
Unrealised gain on foreign exchange		--	--	--	(47)
Operating profit before changes in working capital		1,049	463	1,527	1,847
Changes in inventories		(95)	(260)	(509)	(244)
Changes in trade and other receivables		99	(410)	(295)	144
Changes in trade and other payables		46	390	(171)	381
Cash generated from operations		1,099	183	552	2,128
Tax paid		(216)	(217)	(129)	(52)
Net cash from/(used in) operating activities		883	(34)	423	2,076
Cash flows from investing activities					
Acquisition of property, plant and equipment		(98)	(113)	(124)	(399)
Interest received		2	3	3	3
Net cash used in investing activities		(96)	(110)	(121)	(396)
Cash flows from financing activities					
Interest paid		(45)	(47)	(40)	(15)
Repayment of term loan		(71)	(37)	--	--
Repayment of finance lease liabilities		(27)	(27)	(12)	--
Increase in pledged deposit with a licensed bank		(2)	(3)	(3)	(4)
Net cash used in financing activities		(145)	(114)	(55)	(19)
Net increase/(decrease) in cash and cash equivalents		642	(258)	247	1,661
Cash and cash equivalents at beginning of year		(700)	(58)	(316)	(69)
Cash and cash equivalents at end of year	(i)	(58)	(316)	(69)	1,592

7 Audited Financial Statements (Cont'd)

7.3 UTSB (Cont'd)

7.3.4 Statements of cash flows (Cont'd)

(i) Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows comprise the following statements of financial position amounts:

	Financial years ended 30 June			
	2010	**2011**	**2012**	**2013**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash and bank balances	441	137	299	1,592
Deposits placed with a licensed bank	111	114	117	121
Bank overdrafts	(499)	(453)	(368)	--
	53	(202)	48	1,713
Less: Fixed deposits pledged with a licensed bank	(111)	(114)	(117)	(121)
	(58)	(316)	(69)	1,592

7 Audited Financial Statements (Cont'd)

7.3 UTSB (Cont'd)

7.3.5 Notes to the financial statements

7.3.5.1 Revenue

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Goods sold	8,097	8,267	10,067	11,927

7.3.5.2 Finance costs

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Finance lease liabilities	3	2	--	--
Bank overdrafts	37	44	40	15
Term loans	5	1	--	--
	45	47	40	15

7.3.5.3 Profit before tax

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Profit before tax is arrived at after charging/(crediting)				
Audit fees	10	15	15	15
Bad debt written off	30	--	9	--
Depreciation	345	302	217	226
Rental of:				
- Factory	60	60	60	60
- Hostel	11	11	11	8
Inventory written down	--	75	--	--
Personnel expenses				
- Contributions to state plans	136	122	116	147
- Wages, salaries and others	2,005	2,007	2,224	3,048
Realised loss/(gain) on foreign exchange	190	119	(100)	24
(Reversal of)/Impairment loss on receivables	--	(29)	--	5
Unrealised gain on foreign exchange	--	--	--	(47)

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7 Audited Financial Statements (Cont'd)

7.3 UTSB (Cont'd)

7.3.5 Notes to the financial statements (Cont'd)

7.3.5.4 Tax expense

	Financial years ended 30 June			
	2010	**2011**	**2012**	**2013**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current tax expense				
- Current year	161	45	312	440
- Prior year	--	18	5	(5)
	161	63	317	435
Deferred tax (income)/expense				
- Origination and reversal of temporary differences	--	(5)	1	(7)
- Prior year	--	(24)	--	--
	--	(29)	1	(7)
Total income tax expense	161	34	318	428
	RM'000	**RM'000**	**RM'000**	**RM'000**
Reconciliation of tax expense				
Profit before tax	661	117	1,273	1,656
Income tax calculated using Malaysian tax rate	140	23	293	389
Non-deductible expenses	28	17	20	44
Other	(7)	--	--	--
	161	40	313	433
(Over)/Under provided in prior year	--	(6)	5	(5)
Tax expense	161	34	318	428

The Company is a small and medium enterprise as defined in the Income Tax Act 1967 and is therefore subject to corporate tax at 20% on chargeable income up to RM500,000.

7 Audited Financial Statements (Cont'd)

7.3 UTSB (Cont'd)

7.3.5 Notes to the financial statements (Cont'd)

7.3.5.5 Property, plant and equipment

	Short term leasehold land RM'000	Building RM'000	Plant and machinery RM'000	Renovation and electrical installation RM'000	Motor vehicles RM'000	Office equipment and furniture RM'000	Total RM'000
At cost							
At 1 July 2009	401	637	2,674	223	190	320	4,445
Additions	--	--	98	--	--	--	98
At 30 June 2010/ 1 July 2010	401	637	2,772	223	190	320	4,543
Additions	--	--	101	--	--	12	113
At 30 June 2011/ 1 July 2011	401	637	2,873	223	190	332	4,656
Additions	--	--	122	--	--	2	124
At 30 June 2012/ 1 July 2012	401	637	2,995	223	190	334	4,780
Additions	--	--	333	57	--	9	399
At 30 June 2013	401	637	3,328	280	190	343	5,179
Accumulated depreciation							
At 1 July 2009	32	50	1,605	122	73	170	2,052
Depreciation charge	8	13	258	19	19	28	345
At 30 June 2010/ 1 July 2010	40	63	1,863	141	92	198	2,397
Depreciation charge	8	13	216	18	19	28	302
At 30 June 2011/ 1 July 2011	48	76	2,079	159	111	226	2,699
Depreciation charge	8	13	131	18	19	28	217
At 30 June 2012/ 1 July 2012	56	89	2,210	177	130	254	2,916
Depreciation charge	8	13	140	20	19	26	226
At 30 June 2013	64	102	2,350	197	149	280	3,142
Carrying amounts							
At 30 June 2010	361	574	909	82	98	122	2,146
At 30 June 2011	353	561	794	64	79	106	1,957
At 30 June 2012	345	548	785	46	60	80	1,864
At 30 June 2013	337	535	978	83	41	63	2,037

Leased motor vehicles

At 30 June 2013, the net carrying amount of leased motor vehicles was NIL (2012: NIL; 2011: RM68,922; 2010: RM82,707).

Security

The short leasehold land of the Company with carrying amounts of 2013: RM336,871 (2012: RM344,888; 2011: RM352,905; 2010: RM360,922) is charged to a licensed bank for banking facilities granted to the Company as disclosed in Note 7.3.5.11.

7 Audited Financial Statements (Cont'd)

7.3 UTSB (Cont'd)

7.3.5 Notes to the financial statements (Cont'd)

7.3.5.6 Inventories

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Raw materials	475	816	973	1,090
Work-in-progress	506	596	720	661
Finished goods	398	227	455	641
	1,379	1,639	2,148	2,392

7.3.5.7 Trade and other receivables

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Trade receivables	1,218	2,038	1,798	1,475
Other receivables	14	30	30	241
Due from holding company - KISB	1,716	1,289	1,824	1,839
	2,948	3,357	3,652	3,555

Included in the above balances are amount due from companies in which certain Directors/Directors' close family members have substantial financial interests as follow:

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Trade receivables - Not within the Karex Group	--	533	254	370

The non-trade amount due from holding company arose mainly from advances which is unsecured, interest-free and repayable on demand.

7.3.5.8 Cash and cash equivalents

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Cash and bank balances	441	137	299	1,592
Deposits placed with a licensed bank	111	114	117	121
	552	251	416	1,713

Fixed deposits of the Company is held in trust by the Directors and also pledged to a bank as security for banking facilities granted to the Company as disclosed in Note 7.3.5.11.

7 Audited Financial Statements (Cont'd)

7.3 UTSB (Cont'd)

7.3.5 Notes to the financial statements (Cont'd)

7.3.5.9 Share capital

	Financial years ended 30 June			
	2010	2011	2012	2013
Authorised ordinary shares of RM1.00 each				
Number of shares in '000	500	500	500	500
Amount in RM'000	500	500	500	500
Issued and fully paid ordinary shares of RM1.00 each				
Number of shares in '000	500	500	500	500
Amount in RM'000	500	500	500	500

7.3.5.10 Retained earnings

Section 108 tax credit and tax exempt account

Subject to agreement by the Inland Revenue Board, the Company has Section 108 tax credit and tax exempt account to frank the payment of dividends up to approximately RM2,134,000 (2012: RM2,134,000; 2011: RM2,134,000; 2010: RM2,134,000) out of its retained earnings at 30 June 2013.

The Finance Act, 2007 introduced a single tier company income tax system with effect from 1 January 2008. As such, the remaining Section 108 tax credit as at 30 June 2013 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

7.3.5.11 Loans and borrowings

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Non-current				
Finance lease liabilities	14	--	--	--
Current				
Term loans	37	--	--	--
Bank overdrafts	499	453	368	--
Finance lease liabilities	25	12	--	--
	561	465	368	--
	575	465	368	--

Security

The bank borrowings are generally secured by legal charges over the landed property and pledge of fixed deposit of the Company, joint and several guarantee by the Directors of the Company and corporate guarantee by KISB.

7 Audited Financial Statements (Cont'd)

7.3 UTSB (Cont'd)

7.3.5 Notes to the financial statements (Cont'd)

7.3.5.11 Loans and borrowings (Cont'd)

Finance lease liabilities

Finance lease liabilities are payable as follows:

	At 30 June 2010			At 30 June 2011		
	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000
Less than one year	26	1	25	12	--	12
Between one and five years	14	--	14	--	--	--
	40	1	39	12	--	12

7.3.5.12 Deferred tax liabilities

Recognised deferred tax liabilities

Deferred tax assets and liabilities are attributable to the following:

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Property, plant and equipment				
- temporary differences	(196)	(159)	(160)	(142)
Other items	8	--	--	(11)
	(188)	(159)	(160)	(153)

7.3.5.13 Trade and other payables

	Financial years ended 30 June			
	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Trade payables	552	793	680	843
Other payables and accrued expenses	353	513	455	673
Due to shareholders of KISB	1,826	1,814	1,814	1,814
	2,731	3,120	2,949	3,330

The non-trade amount due to shareholders of KISB arose mainly from advances which is unsecured, interest-free and repayable on demand.

7 Audited Financial Statements (Cont'd)

7.3 UTSB (Cont'd)

7.3.5 Notes to the financial statements (Cont'd)

7.3.5.14 Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. There are no key management personnel in the Company other than Directors.

The Company has related party relationship with KISB and Directors.

Significant related party transactions

The significant related party transactions of the Company are shown below:

	Financial years ended 30 June			
	2010	**2011**	**2012**	**2013**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Holding company				
Staff cost recharges receivable	814	901	792	805
Staff cost recharges payable	(284)	(408)	(375)	(346)
Water expenses recharges payable	(119)	(103)	(89)	(135)
Rental expense	(60)	(60)	(60)	(60)
Management fee expense	(60)	(60)	(60)	(60)
Company in which certain Directors/Directors' close family members have substantial financial interest				
Sales of goods	1,245	1,857	1,953	3,248

7 Audited Financial Statements (Cont'd)

7.3 UTSB (Cont'd)

7.3.5 Notes to the financial statements (Cont'd)

7.3.5.15 Financial instruments

The Company adopted MFRS on 1 July 2012. The Company previously applied FRS and certain comparative figures have not been presented for 30 June 2010 by virtue of the exemption given in paragraph 44AA of FRS 7. The Company also did not present the comparative figures for 30 June 2010 upon the adoption of MFRS due to practicability.

7.3.5.15.1 Categories of financial instruments

All financial assets and liabilities are categorised as loans and receivables and other liabilities in accordance with the Company's accounting policies as disclosed in Section 6.3(c).

7.3.5.15.2 Net gains and losses arising from financial instruments

	2011 RM'000	2012 RM'000	2013 RM'000
Net gains/(losses) on:			
Loan and receivables	(116)	112	31
Financial liabilities measured at amortised cost	(46)	(39)	(15)
	(162)	73	16

7.3.5.15.3 Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

7.3.5.15.4 Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk arises principally from its receivables from customers and amounts due from KISB.

Receivables

Risk management objectives, policies and processes for managing the risk

The Company has no formal written credit policy. However, the Board of Directors is of the view that the exposure to credit risk through the direct involvement of Executive Directors monitoring on an on-going basis is deemed sufficient.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are measured at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Company. The Company uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 60 days, which are deemed to have higher credit risk, are monitored individually.

7 Audited Financial Statements (Cont'd)

7.3 UTSB (Cont'd)

7.3.5 Notes to the financial statements (Cont'd)

7.3.5.15 Financial instruments (Cont'd)

7.3.5.15.4 Credit risk (Cont'd)

Impairment losses

The Company maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the reporting period was:

	Gross RM'000	Individual impairment RM'000	Net RM'000
2013			
Not past due	1,171	--	1,171
Past due 0 - 30 days	299	--	299
Past due 31 - 60 days	5	--	5
Past due more than 60 days	5	(5)	--
	1,480	(5)	1,475
2012			
Not past due	712	--	712
Past due 0 - 30 days	945	--	945
Past due 31 - 60 days	60	--	60
Past due more than 60 days	81	--	81
	1,798	--	1,798
2011			
Not past due	748	--	748
Past due 0 - 30 days	611	--	611
Past due 31 - 60 days	398	--	398
Past due more than 60 days	281	--	281
	2,038	--	2,038

The movements in the allowance for impairment losses of receivables during the financial year were:

	2011 RM'000	2012 RM'000	2013 RM'000
At 1 July	29	--	--
Impairment loss recognised	--	--	5
Reversal of impairment on trade receivables for the year	(29)	--	--
At 30 June	--	--	5

The allowance account in respect of trade receivables is used to record impairment losses. Unless the Company is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

Inter company balances

Risk management objectives, policies and processes for managing the risk

The Company monitors the exposure to credit risk on an ongoing basis as and when required.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

7 Audited Financial Statements (Cont'd)

7.3 UTSB (Cont'd)

7.3.5 Notes to the financial statements (Cont'd)

7.3.5.15 Financial instruments (Cont'd)

7.3.5.15.4 Credit risk (Cont'd)

Impairment losses

As at the end of the reporting period, there was no indication that the amount due from KISB is not recoverable. The Company does not specifically monitor the ageing of the amount due from KISB.

7.3.5.15.5 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's exposure to liquidity risk arises principally from its various payables and borrowings.

The Company maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

Maturity analysis

The table below summarises the maturity profile of the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount RM'000	Contractual interest rate/ coupon %	Contractual cash flows RM'000	Under 1 year RM'000
2013				
Non-derivative financial liabilities				
Due to shareholder of KISB	1,814	--	1,814	1,814
Trade and other payables	1,516	--	1,516	1,516
	3,330		3,330	3,330
2012				
Non-derivative financial liabilities				
Due to shareholder of KISB	1,814	--	1,814	1,814
Trade and other payables	1,135	--	1,135	1,135
Secured bank overdrafts	368	8.10	368	368
	3,317		3,317	3,317
2011				
Non-derivative financial liabilities				
Due to shareholder of KISB	1,814	--	1,814	1,814
Trade and other payables	1,306	--	1,306	1,306
Secured bank overdrafts	453	7.80	453	453
Secured finance lease liabilities	12	2.90	12	12
	3,585		3,585	3,585

7 Audited Financial Statements (Cont'd)

7.3 UTSB (Cont'd)

7.3.5 Notes to the financial statements (Cont'd)

7.3.5.15 Financial instruments (Cont'd)

7.3.5.15.6 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates that will affect the Company's financial position or cash flows.

Currency risk

The Company is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Company. The currencies giving rise to this risk are primarily US Dollar (USD).

The Company does not hedge its financial assets and liabilities denominated in foreign currencies.

Exposure to foreign currency risk

The Company's exposure to foreign currency (a currency which is other than the functional currency of the Company) risk, based on carrying amounts as at the end of the reporting period was:

	Denominated in USD		
	2011 RM'000	**2012 RM'000**	**2013 RM'000**
Trade receivables	1,844	1,506	1,241
Cash and cash equivalents	15	68	202
Trade payables	--	(102)	--
Other payables	--	(10)	(42)
Net exposure	1,859	1,462	1,401

Currency risk sensitivity analysis

A 10% (2012: 10%; 2011: 10%) strengthening of the Ringgit Malaysia ("RM") against the following currencies at the end of the reporting period would have decreased post-tax profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

	Denominated in USD		
	2011 RM'000	**2012 RM'000**	**2013 RM'000**
Profit or (loss)	(139)	(110)	(105)

A 10% (2012: 10%; 2011: 10%) weakening of RM against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

7 Audited Financial Statements (Cont'd)

7.3 UTSB (Cont'd)

7.3.5 Notes to the financial statements (Cont'd)

7.3.5.15 Financial instruments (Cont'd)

7.3.5.15.6 Market risk (Cont'd)

Interest rate risk

The Company's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The Company's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

There is no formal hedging policy with respect to interest rate exposure. Exposure to interest rate is monitored on an ongoing basis and Company endeavours to keep the exposure at an acceptable level.

Exposure to interest rate risk

The interest rate profile of the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	2011 RM'000	2012 RM'000	2013 RM'000
Fixed rate instruments			
Financial asset			
- Deposits with a licensed bank	114	117	121
Financial liabilities			
- Finance lease liabilities	(12)	--	--
	102	117	121
Floating rate instruments			
Financial liabilities			
- Bank overdrafts	(453)	(368)	--

Interest rate risk sensitivity analysis

(a) Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives as hedging instruments under a fair valued hedged accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

(b) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in interest rates at the end of the reporting period would have increased/(decreased) the Company post-tax results by NIL (2012: RM2,760; 2011: RM3,399). This analysis assumes that all other variables remained constant.

7.3.5.15.7 Fair value of financial instruments

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings approximate fair values due to the relatively short term nature of these financial instruments.

7 Audited Financial Statements (Cont'd)

7.3 UTSB (Cont'd)

7.3.5 Notes to the financial statements (Cont'd)

7.3.5.16 Capital management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 30 June 2013, 30 June 2012 and 30 June 2011.

The Company is not subject to any externally imposed capital requirements.

7 Audited Financial Statements (Cont'd)

7.4 HMSB

7.4.1 Statements of profit or loss and other comprehensive income

We set out below the statements of profit or loss and other comprehensive income of HMSB for the financial year ended 31 December 2009, six months period ended 30 June 2010 and for the financial years ended 30 June 2011 to 30 June 2013:

		Financial years/period ended				
		01.01.09 to 31.12.09	**01.01.10 to 30.06.10**	**01.07.10 to 30.06.11**	**01.07.11 to 30.06.12**	**01.07.12 to 30.06.13**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	7.4.5.1	3,422	720	3,709	2,524	3,987
Cost of goods sold		(3,196)	(641)	(3,280)	(2,309)	(2,960)
Gross profit		226	79	429	215	1,027
Distribution expenses		--	--	--	(16)	(25)
Administrative expenses		(132)	(64)	(140)	(67)	(74)
Other expenses		(9)	(14)	(24)	(41)	(19)
Other income		--	--	--	71	8
Profit before tax	7.4.5.2	85	1	265	162	917
Tax expense	7.4.5.3	(70)	(5)	(69)	(38)	(214)
Profit/(Loss) for the year/ period/Total comprehensive income/ (expense) for the year/period		15	(4)	196	124	703
Weighted average number of share issued during the year (RM1.00 per share)		1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Basic/Diluted EPS (RM)		0.02	0.00	0.20	0.12	0.70

7 Audited Financial Statements (Cont'd)

7.4 HMSB (Cont'd)

7.4.2 Statements of financial position

		Financial years/period ended				
		31.12.09	30.06.10	30.06.11	30.06.12	30.06.13
	Note	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS						
Plant and equipment/ **Total non-current assets**	7.4.5.4	824	739	578	494	410
Inventories	7.4.5.5	860	1,152	1,233	1,344	1,142
Trade and other receivables	7.4.5.6	6,244	6,122	7,178	6,744	5,751
Tax recoverable		196	212	118	89	80
Cash and cash equivalents		605	521	791	286	790
Total current assets		7,905	8,007	9,320	8,463	7,763
TOTAL ASSETS		8,729	8,746	9,898	8,957	8,173
EQUITY						
Share capital	7.4.5.7	1,000	1,000	1,000	1,000	1,000
Retained earnings	7.4.5.8	5,234	5,230	5,426	5,550	6,253
Total equity		6,234	6,230	6,426	6,550	7,253
LIABILITIES						
Deferred tax liabilities/ **Total non-current liabilities**	7.4.5.9	105	105	66	57	92
Trade and other payables/ **Total current liabilities**	7.4.5.10	2,390	2,411	3,406	2,350	828
Total liabilities		2,495	2,516	3,472	2,407	920
Total equity and liabilities		8,729	8,746	9,898	8,957	8,173

7 Audited Financial Statements (Cont'd)

7.4 HMSB (Cont'd)

7.4.3 Statements of changes in equity

	Attributable to owners of HMSB		
		Distributable	
	Share capital RM'000	**Retained earnings RM'000**	**Total equity RM000**
At 1 January 2009	1,000	5,219	6,219
Total comprehensive income for the year	--	15	15
At 31 December 2009/1 January 2010	1,000	5,234	6,234
Total comprehensive expense for the period	--	(4)	(4)
At 30 June 2010/1 July 2010	1,000	5,230	6,230
Total comprehensive income for the year	--	196	196
At 30 June 2011/1 July 2011	1,000	5,426	6,426
Total comprehensive income for the year	--	124	124
At 30 June 2012/1 July 2012	1,000	5,550	6,550
Total comprehensive income for the year	--	703	703
At 30 June 2013	1,000	6,253	7,253

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7 Audited Financial Statements (Cont'd)

7.4 HMSB (Cont'd)

7.4.4 Statements of cash flows

	Note	Financial years/period ended 01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Cash flows from operating activities						
Profit before tax		85	1	265	162	917
Adjustment for:						
Depreciation		175	85	161	84	84
Operating profit before changes in working capital		260	86	426	246	1,001
Changes in inventories		1,034	(292)	(81)	(111)	202
Changes in trade and other receivables		72	122	(1,056)	434	993
Changes in trade and other payables		(673)	21	995	(1,056)	(1,522)
Cash generated from/ (used in) operations		693	(63)	284	(487)	674
Tax paid		(94)	(21)	(14)	(18)	(170)
Net cash from/(used in) operating activities/ Net increase/(decrease) in cash and cash equivalents		599	(84)	270	(505)	504
Cash and cash equivalents at beginning of year/period		6	605	521	791	286
Cash and cash equivalents at end of year/period (i)		605	521	791	286	790

(i) Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows comprise the following statements of financial position amounts:

	Financial years/period ended 01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Cash and bank balances	605	521	791	286	790

7 Audited Financial Statements (Cont'd)

7.4 HMSB (Cont'd)

7.4.5 Notes to the financial statements

7.4.5.1 Revenue

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Goods sold	3,422	720	3,709	2,524	3,987

7.4.5.2 Profit before tax

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Profit before tax is arrived at after charging/ (crediting)					
Audit fee	5	6	10	10	10
Depreciation	175	85	161	84	84
Rental of factory	60	30	60	60	60
Personnel expenses					
- Contribution to state plans	30	13	24	23	18
- Wages, salaries and others	333	160	268	223	171
Realised loss/(gain) on foreign exchange	9	(14)	(24)	42	19
Reversal of allowance of slow moving inventories	--	--	--	(40)	(214)

7.4.5.3 Tax expense

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Current tax expense					
- Current year	--	5	108	52	178
- Prior year	43	--	--	(5)	1
	43	5	108	47	179
Deferred tax expense/ (income)					
- Origination and reversal of temporary differences	27	--	(39)	(10)	32
- Prior year	--	--	--	1	3
	27	--	(39)	(9)	35
Total tax expense	70	5	69	38	214

7 Audited Financial Statements (Cont'd)

7.4 HMSB (Cont'd)

7.4.5 Notes to the financial statements (Cont'd)

7.4.5.3 Tax expense (Cont'd)

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	**01.01.10 to 30.06.10 RM'000**	**01.07.10 to 30.06.11 RM'000**	**01.07.11 to 30.06.12 RM'000**	**01.07.12 to 30.06.13 RM'000**
Reconciliation of tax expense					
Profit before tax	85	1	265	162	917
Income tax calculated using Malaysian tax rate	17	1	53	40	203
Non-deductible expense	10	4	16	2	7
	27	5	69	42	210
Under/(Over) provided in prior year	43	--	--	(4)	4
Tax expense	70	5	69	38	214

The Company is a small and medium enterprise as defined in the Income Tax Act 1967 and is therefore subject to corporate tax at 20% on its chargeable income up to RM500,000.

7 Audited Financial Statements (Cont'd)

7.4 HMSB (Cont'd)

7.4.5 Notes to the financial statements (Cont'd)

7.4.5.4 Plant and equipment

	Plant and machinery RM'000	Renovation and electrical installation RM'000	Office equipment, furniture and fittings RM'000	Total RM'000
At cost				
At 1 January 2009/31 December 2009	1,804	182	105	2,091
At 1 January 2010/30 June 2010	1,804	182	105	2,091
At 1 July 2010/30 June 2011	1,804	182	105	2,091
At 1 July 2011/30 June 2012	1,804	182	105	2,091
At 1 July 2012/30 June 2013	1,804	182	105	2,091
Accumulated depreciation				
At 1 January 2009	834	155	103	1,092
Depreciation charge	162	11	2	175
At 31 December 2009/1 January 2010	996	166	105	1,267
Depreciation charge	83	2	--	85
At 30 June 2010/1 July 2010	1,079	168	105	1,352
Depreciation charge	157	4	--	161
At 30 June 2011/1 July 2011	1,236	172	105	1,513
Depreciation charge	80	4	--	84
At 30 June 2012/1 July 2012	1,316	176	105	1,597
Depreciation charge	80	4	--	84
At 30 June 2013	1,396	180	105	1,681
Carrying amounts				
At 31 December 2009	808	16	--	824
At 30 June 2010	725	14	--	739
At 30 June 2011	568	10	--	578
At 30 June 2012	488	6	--	494
At 30 June 2013	408	2	--	410

7.4.5.5 Inventories

	Financial years/period ended				
	31.12.09 RM'000	30.06.10 RM'000	30.06.11 RM'000	30.06.12 RM'000	30.06.13 RM'000
Raw materials	119	162	158	157	460
Work-in-progress	450	771	994	844	625
Finished goods	291	219	81	343	57
	860	1,152	1,233	1,344	1,142

7 Audited Financial Statements (Cont'd)

7.4 HMSB (Cont'd)

7.4.5 Notes to the financial statements (Cont'd)

7.4.5.6 Trade and other receivables

	Financial years/period ended				
	31.12.09 RM'000	**30.06.10 RM'000**	**30.06.11 RM'000**	**30.06.12 RM'000**	**30.06.13 RM'000**
Trade receivables	6,239	6,111	7,173	6,731	5,741
Other receivables, deposits and prepayments	5	11	5	13	10
	6,244	6,122	7,178	6,744	5,751

Included in the above balances are amount due from companies in which certain Directors/Directors' close family member have substantial financial interests within the Karex Group as follows:

	Financial years/period ended				
	31.12.09 RM'000	**30.06.10 RM'000**	**30.06.11 RM'000**	**30.06.12 RM'000**	**30.06.13 RM'000**
Trade receivables	6,034	6,040	6,718	6,565	4,781

7.4.5.7 Share capital

	Financial years/period ended				
	31.12.09	**30.06.10**	**30.06.11**	**30.06.12**	**30.06.13**
Authorised ordinary shares of RM1.00 each					
Number of shares in '000	1,000	1,000	1,000	1,000	1,000
Amount in RM'000	1,000	1,000	1,000	1,000	1,000
Issued and fully paid ordinary shares of RM1.00 each					
Number of shares in '000	1,000	1,000	1,000	1,000	1,000
Amount in RM'000	1,000	1,000	1,000	1,000	1,000

7.4.5.8 Retained earnings

Section 108 tax credit and tax exempt account

Subject to agreement by the Inland Revenue Board, the Company has Section 108 tax credit and tax exempt account to frank the payment of dividends up to approximately RM4,523,000 (2012: RM4,523,000; 2011: RM4,523,000; 2010: RM4,523,000; 2009: RM4,523,000) out of its retained earnings at 30 June 2013.

The Finance Act, 2007 introduced a single tier company income tax system with effect from 1 January 2008. As such, the remaining Section 108 tax credit as at 30 June 2013 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

7 Audited Financial Statements (Cont'd)

7.4 HMSB (Cont'd)

7.4.5 Notes to the financial statements (Cont'd)

7.4.5.9 Deferred tax liabilities

Recognised deferred tax liabilities

Deferred tax assets and liabilities are attributable to the following:

	Financial years/period ended				
	31.12.09	**30.06.10**	**30.06.11**	**30.06.12**	**30.06.13**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Plant and equipment					
- capital allowance	(198)	(179)	(140)	(121)	(103)
Other items	93	74	74	64	11
	(105)	(105)	(66)	(57)	(92)

7.4.5.10 Trade and other payables

	Financial years/period ended				
	31.12.09	**30.06.10**	**30.06.11**	**30.06.12**	**30.06.13**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trade payables	82	105	1,075	67	493
Other payables and accrued expenses	2,042	2,036	2,061	2,013	65
Due to Directors	266	270	270	270	270
	2,390	2,411	3,406	2,350	828

Included in the above balances are amount due to companies in which certain Directors/Directors' close family member have substantial financial interests as follows:

	Financial years/period ended				
	31.12.09	**30.06.10**	**30.06.11**	**30.06.12**	**30.06.13**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trade payables					
Within the Karex Group	17	17	965	21	451
Other payables					
Not within the Karex Group	1,987	1,987	1,987	1,987	--
	2,004	2,004	2,952	2,008	451

The other payable is an amount due to a company in which certain Directors/ Directors' close family member have substantial financial interests is non-trade, unsecured, interest free and have no fixed term of repayment.

7 Audited Financial Statements (Cont'd)

7.4 HMSB (Cont'd)

7.4.5 Notes to the financial statements (Cont'd)

7.4.5.11 Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. There are no key management personnel in the Company other than Directors.

The Company has related party relationship with Carex International Limited and Directors.

The significant related party transactions for the Company are shown below.

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	**01.01.10 to 30.06.10 RM'000**	**01.07.10 to 30.06.11 RM'000**	**01.07.11 to 30.06.12 RM'000**	**01.07.12 to 30.06.13 RM'000**
Company in which certain Directors/ Directors' close family members have substantial financial interest					
Sales of goods	1,534	538	1,581	1,619	816
Purchase of goods	(590)	(59)	(1,988)	(1,712)	(1,506)
Utilities expenses payable	--	--	(102)	(101)	(88)

7 Audited Financial Statements (Cont'd)

7.4 HMSB (Cont'd)

7.4.5 Notes to the financial statements (Cont'd)

7.4.5.12 Financial instruments

The Company adopted MFRS on 1 July 2012. The Company previously applied FRS and certain comparative figures have not been presented for 30 June 2010 and 31 December 2009 by virtue of the exemption given in paragraph 44AA of FRS 7. The Company also did not present the comparative figures for 30 June 2010 and 31 December 2009 upon the adoption of MFRS due to practicability.

7.4.5.12.1 Categories of financial instruments

All financial assets and liabilities are categorised as loans and receivables and other liabilities in accordance with the Company's accounting policies as disclosed in Section 6.3(c).

7.4.5.12.2 Net gains and losses arising from financial instruments

	2011 RM'000	2012 RM'000	2013 RM'000
Net losses on:			
Loans and receivables	(24)	(42)	(11)

7.4.5.12.3 Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

7.4.5.12.4 Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk arises principally from its receivables from customers and related parties.

Receivables

Risk management objectives, policies and processes for managing the risk

The Company has no formal written credit policy. However, the Board of Directors is of the view that the exposure to credit risk through the direct involvement of Executive Directors monitoring on an on-going basis is deemed sufficient.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are measured at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Company. The Company uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 60 days, which are deemed to have higher credit risk, are monitored individually.

7 Audited Financial Statements (Cont'd)

7.4 HMSB (Cont'd)

7.4.5 Notes to the financial statements (Cont'd)

7.4.5.12 Financial instruments (Cont'd)

7.4.5.12.4 Credit risk (Cont'd)

Impairment losses

The Company maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the reporting period was:

	Gross/Net 2011 RM'000	Gross/Net 2012 RM'000	Gross/Net 2013 RM'000
Not past due	1,415	609	655
Past due 0 - 30 days	242	167	819
Past due 31 - 60 days	83	--	8
Past due more than 60 days	5,433	5,955	4,259
	7,173	6,731	5,741

Included in the past due more than 60 days is an amount receivable from a related party of RM4,259,000 (2012: RM5,955,000; 2011: RM5,432,000). In determining whether additional allowance is required to be made, the Company considers financial background of the customers, past transactions and other specific reasons causing these balances to be past due more than 60 days. The related party is a regular customer that has been transacting with the Company. The Company does not consider it necessary to impair the receivable amount and is satisfied that the amount can be recovered.

There is no impairment loss on trade receivables made by the Company at the end of the financial year.

7.4.5.12.5 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's exposure to liquidity risk arises principally from its various payables.

The Company maintains a level of cash and cash equivalents deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

Maturity analysis

The table below summarises the maturity profile of the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount RM'000	Contractual interest rate/ coupon %	Contractual cash flows RM'000	Under 1 year RM'000
2013				
Non-derivative financial liabilities				
Trade and other payables	828	--	828	828

7 Audited Financial Statements (Cont'd)

7.4 HMSB (Cont'd)

7.4.5 Notes to the financial statements (Cont'd)

7.4.5.12 Financial instruments (Cont'd)

7.4.5.12.5 Liquidity risk (Cont'd)

	Carrying amount RM'000	Contractual interest rate/ coupon %	Contractual cash flows RM'000	Under 1 year RM'000
2012				
Non-derivative financial liabilities				
Trade and other payables	2,350	--	2,350	2,350
2011				
Non-derivative financial liabilities				
Trade and other payables	3,406	--	3,406	3,406

7.4.5.12.6 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates that will affect the Company's financial position or cash flows.

Currency risk

The Company is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Company. The currency giving rise to this risk is primarily US Dollar (USD).

The Company does not hedge its financial assets and liabilities denominated in foreign currencies.

Exposure to foreign currency risk

The Company's exposure to foreign currency (a currency which is other than the functional currency of the Company) risk, based on carrying amounts as at the end of the reporting period was:

	Denominated in USD		
	2011 RM'000	2012 RM'000	2013 RM'000
Trade receivables	5,404	4,064	923
Cash and cash equivalents	26	53	14
Trade payables	(965)	--	(451)
Net exposure	4,465	4,117	486

7 Audited Financial Statements (Cont'd)

7.4 HMSB (Cont'd)

7.4.5 Notes to the financial statements (Cont'd)

7.4.5.12.6 Market risk (Cont'd)

Currency risk sensitivity analysis

A 10% (2012: 10%; 2011: 10%) strengthening of the Ringgit Malaysia ("RM") against the following currencies at the end of the reporting period would have decreased post-tax profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

	Denominated in USD		
	2011	**2012**	**2013**
	RM'000	**RM'000**	**RM'000**
Profit or (loss)	(335)	(309)	(36)

A 10% (2012: 10%; 2011: 10%) weakening of RM against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

7.4.5.12.7 Fair value of financial instruments

The carrying amounts of cash and cash equivalents, short term receivables and payables approximate fair values due to the relatively short term nature of these financial instruments.

7.4.5.13 Capital management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 30 June 2013, 30 June 2012 and 30 June 2011.

The Company is not subject to any externally imposed capital requirements.

7 Audited Financial Statements (Cont'd)

7.5 ISB

7.5.1 Statements of profit or loss and other comprehensive income

We set out below the statements of profit or loss and other comprehensive income of ISB for the financial year ended 31 December 2009, six months period ended 30 June 2010 and for the financial years ended 30 June 2011 to 30 June 2013:

		Financial years/period ended				
		01.01.09 to 31.12.09 RM'000	**01.01.10 to 30.06.10 RM'000**	**01.07.10 to 30.06.11 RM'000**	**01.07.11 to 30.06.12 RM'000**	**01.07.12 to 30.06.13 RM'000**
Revenue	7.5.5.1	33,989	15,314	34,040	44,306	61,100
Cost of goods sold		(26,385)	(13,510)	(30,636)	(40,866)	(53,292)
Gross profit		7,604	1,804	3,404	3,440	7,808
Distribution expenses		(1,091)	(494)	(834)	(1,278)	(1,921)
Administrative expenses		(841)	(656)	(1,094)	(1,388)	(1,246)
Other expenses		(460)	(266)	(666)	--	(1,072)
Other income		--	--	71	1,076	664
Results from operating activities		5,212	388	881	1,850	4,233
Finance costs	7.5.5.2	(13)	(17)	(41)	(50)	(370)
Profit before tax	7.5.5.3	5,199	371	840	1,800	3,863
Tax (expense)/ income	7.5.5.4	(1,398)	41	(221)	(458)	(702)
Profit for the year/period/ Total comprehensive income for the year/ period		3,801	412	619	1,342	3,161
Weighted average number of share issued during the year (RM1.00 per share)		250,000	250,000	250,000	250,000	250,000
Basic/Diluted EPS (RM)		15.20	1.65	2.48	5.37	12.64

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.2 Statements of financial position

	Note	31.12.09 RM'000	30.06.10 RM'000	30.06.11 RM'000	30.06.12 RM'000	30.06.13 RM'000
		Financial years/period ended				
ASSETS						
Property, plant and equipment	7.5.5.5	1,458	1,324	1,254	1,167	8,909
Deferred tax assets	7.5.5.6	--	--	2	--	--
Total non-current assets		1,458	1,324	1,256	1,167	8,909
Inventories	7.5.5.7	4,717	7,888	8,742	9,662	7,013
Trade and other receivables	7.5.5.8	5,692	9,076	9,544	24,017	21,333
Tax recoverable		--	--	165	346	137
Cash and cash equivalents	7.5.5.9	460	1,493	1,373	605	6,628
Total current assets		10,869	18,457	19,824	34,630	35,111
Total assets		12,327	19,781	21,080	35,797	44,020
EQUITY						
Share capital	7.5.5.10	250	250	250	250	250
Retained earnings	7.5.5.11	5,129	5,541	6,160	7,502	10,663
Total equity		5,379	5,791	6,410	7,752	10,913
LIABILITIES						
Loans and borrowings	7.5.5.12	24	--	66	19	3,095
Deferred tax liabilities	7.5.5.6	143	143	--	224	168
Total non-current liabilities		167	143	66	243	3,263
Loans and borrowings	7.5.5.12	110	1,062	568	1,037	5,198
Trade and other payables, including derivatives	7.5.5.13	5,455	11,660	14,036	26,765	24,646
Taxation		1,216	1,125	--	--	--
Total current liabilities		6,781	13,847	14,604	27,802	29,844
Total liabilities		6,948	13,990	14,670	28,045	33,107
Total equity and liabilities		12,327	19,781	21,080	35,797	44,020

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.3 Statements of changes in equity

	Attributable to owners of ISB		
		Distributable	
	Share capital RM'000	Retained earnings RM'000	Total equity RM000
At 1 January 2009	250	1,328	1,578
Total comprehensive income for the year	--	3,801	3,801
At 31 December 2009/1 January 2010	250	5,129	5,379
Total comprehensive income for the period	--	412	412
At 30 June 2010/1 July 2010	250	5,541	5,791
Total comprehensive income for the year	--	619	619
At 30 June 2011/1 July 2011	250	6,160	6,410
Total comprehensive income for the year	--	1,342	1,342
At 30 June 2012/1 July 2012	250	7,502	7,752
Total comprehensive income for the year	--	3,161	3,161
At 30 June 2013	250	10,663	10,913

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.4 Statements of cash flows

	Note	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
		Financial years/period ended				
Cash flows from operating activities						
Profit before tax		5,199	371	840	1,800	3,863
Adjustments for:						
Depreciation		355	172	355	244	352
Fair value loss on derivative instruments		--	--	--	--	113
Unrealised loss/(gain) on foreign exchange		104	101	90	(651)	(647)
Finance costs		13	17	41	50	370
Operating profit before changes in working capital		5,671	661	1,326	1,443	4,051
Changes in inventories		147	(3,170)	(855)	(920)	2,649
Changes in trade and other receivables		1,872	(3,701)	(556)	(13,450)	3,628
Changes in trade and other payables		(7,380)	6,280	2,376	12,357	(2,528)
Cash generated from/ (used in) operations		310	70	2,291	(570)	7,800
Tax paid		(67)	(125)	(1,657)	(413)	(549)
Net cash from/(used in) operating activities		243	(55)	634	(983)	7,251
Cash flows from investing activity						
Acquisition of property, plant and equipment/ **Net cash used in investing activity**	(i)	(116)	(38)	(152)	(157)	(8,007)
Cash flows from financing activities						
Interest paid		(13)	(17)	(41)	(50)	(370)
Proceeds from/(Repayment of) bankers' acceptances		--	889	(425)	434	3,987
Repayment of finance lease liabilities		(103)	(54)	(104)	(43)	(85)
Increase in pledged deposit with a licensed bank		--	--	--	--	(196)
Drawdown from term loan		--	--	--	--	3,500
Repayment of term loans		--	--	(98)	(102)	(160)
Net cash (used in)/from financing activities		(116)	818	(668)	239	6,676
Net increase/(decrease) in cash and cash equivalents		11	725	(186)	(901)	5,920
Cash and cash equivalents at beginning of year/period		449	460	1,185	999	98
Cash and cash equivalents at end of year/period	(ii)	460	1,185	999	98	6,018

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.4 Statements of cash flows (Cont'd)

(i) Acquisition of plant and equipment

The cost of plant and equipment acquired by the Company by means of finance lease and cash are as follows:

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Aggregate cost of plant and equipment acquired	116	38	285	157	8,094
Less: Acquired by means of finance lease	--	--	(133)	--	(87)
Acquired by cash	116	38	152	157	8,007

(ii) Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows comprise the following statements of financial position amounts:

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Cash and bank balances	460	1,278	1,060	190	6,018
Deposits (excluding deposits pledged)	--	215	313	415	610
Bank overdrafts	--	(93)	(61)	(92)	--
	460	1,400	1,312	513	6,628
Less: Fixed deposits pledged to a licensed bank	--	(215)	(313)	(415)	(610)
	460	1,185	999	98	6,018

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.5 Notes to the financial statements

7.5.5.1 Revenue

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Goods sold	33,989	15,314	34,040	44,306	61,100

7.5.5.2 Finance costs

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Bank overdrafts	--	1	6	3	11
Bankers' acceptances	--	13	28	41	192
Finance lease liabilities	13	3	7	6	7
Term loan interest	--	--	--	--	160
	13	17	41	50	370

7.5.5.3 Profit before tax

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Profit before tax is arrived at after charging/(crediting)					
Audit fees	22	25	20	20	20
Allowance for slow moving inventories	--	--	210	--	79
Bad debts written off	180	--	--	--	--
Impairment loss on trade receivables	--	--	--	--	393
Depreciation	355	172	355	244	352
Loss/(Gain) on foreign exchange:					
- Realised	175	165	326	(414)	487
- Unrealised	104	101	90	(651)	(647)
Rental of:					
- Factory	228	138	276	306	290
- Warehouse	73	36	109	108	6
- Hostel	17	12	38	40	49
Personnel expenses					
- Contribution to state plans	178	114	231	229	282
- Wages, salaries and others	3,235	2,032	4,331	4,163	5,982
Fair value loss on derivative instruments	--	--	--	--	113

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.5 Notes to the financial statements (Cont'd)

7.5.5.4 Tax expense/(income)

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Current tax expense					
- Current year	1,400	97	366	298	555
- Prior year	--	(138)	--	(66)	203
	1,400	(41)	366	232	758
Deferred tax (income)/ expense					
- Origination and reversal of temporary differences	83	--	(163)	182	130
- Prior year	(85)	--	18	44	(186)
	(2)	--	(145)	226	(56)
Total tax expense/(income)	1,398	(41)	221	458	702

	RM'000	RM'000	RM'000	RM'000	RM'000
Reconciliation of tax expense					
Profit before tax	5,199	371	840	1,800	3,863
Income tax calculated using Malaysian tax rate	1,275	74	185	450	941
Non-deductible expense	266	32	22	30	12
Tax incentives	--	--	--	--	(268)
Others	(58)	(9)	(4)	--	--
	1,483	97	203	480	685
(Over)/Under provided in prior year	(85)	(138)	18	(22)	17
Tax expense/(income)	1,398	(41)	221	458	702

The Company is a small and medium enterprise as defined in the Income Tax Act 1967 and is therefore subject to corporate tax at 20% on its chargeable income up to RM500,000.

KPMG

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7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.5 Notes to the financial statements (Cont'd)

7.5.5.5 Property, plant and equipment

	Land and buildings RM'000	Plant and machinery RM'000	Renovation and electrical installation RM'000	Motor vehicles RM'000	Factory, office equipment and fittings RM'000	Construction -in -progress RM'000	Total RM'000
At cost							
At 1 January 2009	--	2,460	243	63	642	--	3,408
Additions	--	--	9	30	77	--	116
At 31 December 2009/ 1 January 2010	--	2,460	252	93	719	--	3,524
Additions	--	--	--	--	38	--	38
At 30 June 2010/ 1 July 2010	--	2,460	252	93	757	--	3,562
Additions	--	167	9	--	109	--	285
At 30 June 2011/ 1 July 2011	--	2,627	261	93	866	--	3,847
Additions	--	12	54	--	91	--	157
At 30 June 2012/ 1 July 2012	--	2,639	315	93	957	--	4,004
Additions	4,439	217	43	50	305	3,040	8,094
At 30 June 2013	4,439	2,856	358	143	1,262	3,040	12,098
Accumulated depreciation							
At 1 January 2009	--	1,327	132	14	238	--	1,711
Depreciation charge	--	246	27	9	73	--	355
At 31 December 2009/ 1 January 2010	--	1,573	159	23	311	--	2,066
Depreciation charge	--	117	12	5	38	--	172
At 30 June 2010/ 1 July 2010	--	1,690	171	28	349	--	2,238
Depreciation charge	--	234	26	9	86	--	355
At 30 June 2011/ 1 July 2011	--	1,924	197	37	435	--	2,593
Depreciation charge	--	108	36	9	91	--	244
At 30 June 2012/ 1 July 2012	--	2,032	233	46	526	--	2,837
Depreciation charge	86	108	39	19	100	--	352
At 30 June 2013	86	2,140	272	65	626	--	3,189
Carrying amounts							
At 31 December 2009	--	887	93	70	408	--	1,458
At 30 June 2010	--	770	81	65	408	--	1,324
At 30 June 2011	--	703	64	56	431	--	1,254
At 30 June 2012	--	607	82	47	431	--	1,167
At 30 June 2013	4,353	716	86	78	636	3,040	8,909

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.5 Notes to the financial statements (Cont'd)

7.5.5.5 Property, plant and equipment (Cont'd)

	31.12.09 RM'000	30.06.10 RM'000	30.06.11 RM'000	30.06.12 RM'000	30.06.13 RM'000
Carrying amounts of land and buildings					
Long term leasehold land	--	--	--	--	1,721
Buildings	--	--	--	--	2,632
	--	--	--	--	4,353

The land and building with a carrying amount of RM4,353,285 (2012: NIL; 2011: NIL; 2010: NIL; 2009: NIL) were charged to a licensed bank for banking facilities granted as disclosed in 7.5.5.12.

Leased plant and machinery

At 30 June 2013, the net carrying amount of leased plant and machinery was RM635,380 (2012: RM358,030; 2011: RM380,070; 2010: RM275,250; 2009: RM294,900).

7.5.5.6 Deferred tax assets/(liabilities)

Recognised deferred tax assets/(liabilities)

Deferred tax assets and liabilities are attributable to the following:

	Financial years/period ended				
	31.12.09 RM'000	30.06.10 RM'000	30.06.11 RM'000	30.06.12 RM'000	30.06.13 RM'000
Property, plant and equipment - capital allowance	(143)	(168)	(105)	(113)	(154)
Inventories written down	--	--	84	53	22
Unrealised loss/(gain) on foreign exchange	--	25	23	(164)	(162)
Trade receivables	--	--	--	--	98
Others	--	--	--	--	28
	(143)	(143)	2	(224)	(168)

7.5.5.7 Inventories

	Financial years/period ended				
	31.12.09 RM'000	30.06.10 RM'000	30.06.11 RM'000	30.06.12 RM'000	30.06.13 RM'000
Raw materials	1,881	2,687	3,229	3,086	2,544
Work-in-progress	1,834	1,985	2,628	2,435	1,528
Finished goods	1,002	3,216	2,885	4,141	2,941
	4,717	7,888	8,742	9,662	7,013

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.5 Notes to the financial statements (Cont'd)

7.5.5.8 Trade and other receivables

	Financial years/period ended				
	31.12.09 RM'000	30.06.10 RM'000	30.06.11 RM'000	30.06.12 RM'000	30.06.13 RM'000
Trade receivables	5,427	8,678	9,202	22,906	20,319
Other receivables	265	398	342	1,111	1,014
	5,692	9,076	9,544	24,017	21,333

Included in the above balances are amount due from companies in which certain Directors/Directors' close family members have substantial financial interests as follow:

	Financial years/period ended				
	31.12.09 RM'000	30.06.10 RM'000	30.06.11 RM'000	30.06.12 RM'000	30.06.13 RM'000
Trade receivables					
Within the Karex Group	800	2,237	1,874	5,342	8,931
Not within the Karex Group	--	--	--	79	--
	800	2,237	1,874	5,421	8,931

7.5.5.9 Cash and cash equivalents

	Financial years/period ended				
	31.12.09 RM'000	30.06.10 RM'000	30.06.11 RM'000	30.06.12 RM'000	30.06.13 RM'000
Cash and bank balances	460	1,278	1,060	190	6,018
Deposits placed with a licensed bank	--	215	313	415	610
	460	1,493	1,373	605	6,628

Fixed deposit of the Company is pledged to the bank as security for banking facilities granted to the Company as disclosed in Note 7.5.5.12.

7.5.5.10 Share capital

	Financial years/period ended				
	31.12.09	30.06.10	30.06.11	30.06.12	30.06.13
Authorised ordinary shares of RM1.00 each					
Number of shares in '000	500	500	500	500	500
Amount in RM'000	500	500	500	500	500
Issued and fully paid ordinary shares of RM1.00 each					
Number of shares in '000	250	250	250	250	250
Amount in RM'000	250	250	250	250	250

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.5 Notes to the financial statements (Cont'd)

7.5.5.11 Retained earnings

Section 108 tax credit and tax exempt account

Subject to agreement by the Inland Revenue Board, the Company has Section 108 tax credit and tax exempt account to frank the payment of dividends up to approximately RM382,000 (2012: RM382,000; 2011: RM382,000; 2010: RM382,000; 2009: RM382,000) out of its retained earnings at 30 June 2013.

The Finance Act, 2007 introduced a single tier company income tax system with effect from 1 January 2008. As such, the remaining Section 108 tax credit as at 30 June 2013 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

7.5.5.12 Loans and borrowings

	Financial years/period ended				
	31.12.09 RM'000	30.06.10 RM'000	30.06.11 RM'000	30.06.12 RM'000	30.06.13 RM'000
Non-current					
Finance lease liabilities	24	--	66	19	4
Term loan	--	--	--	--	3,091
	24	--	66	19	3,095
Current					
Bank overdrafts	--	93	61	92	--
Bankers' acceptances	--	889	464	898	4,885
Finance lease liabilities	110	80	43	47	64
Term loan	--	--	--	--	249
	110	1,062	568	1,037	5,198
Total	134	1,062	634	1,056	8,293

The secured bank borrowings are generally secured by:

i) First party legal charges over the land and buildings of the Company;
ii) Pledge of fixed deposit of the Company;
iii) Joint and several guarantee by the Directors of the Company; and
iv) Letter of guarantee from Government of Malaysia.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	At 31 December 2009			At 30 June 2010		
	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000
Less than one year	115	5	110	82	2	80
Between one and five years	25	1	24	--	--	--
	140	6	134	82	2	80

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.5 Notes to the financial statements (Cont'd)

7.5.5.12 Loans and borrowings (Cont'd)

	At 30 June 2011			At 30 June 2012		
	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000
Less than one year	49	6	43	50	3	47
Between one and five years	70	4	66	20	1	19
	119	10	109	70	4	66

	At 30 June 2013		
	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000
Less than one year	67	3	64
Between one and five years	4	--	4
	71	3	68

7.5.5.13 Trade and other payables

	Financial years/period ended				
	31.12.09 RM'000	30.06.10 RM'000	30.06.11 RM'000	30.06.12 RM'000	30.06.13 RM'000
Trade payables	4,959	10,417	13,256	25,152	21,244
Other payables and accrued expenses	486	1,233	780	1,613	3,289
Due to Directors	10	10	--	--	--
	5,455	11,660	14,036	26,765	24,533
Derivatives financial liabilities	--	--	--	--	113
	5,455	11,660	14,036	26,765	24,646

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.5 Notes to the financial statements (Cont'd)

7.5.5.13 Trade and other payables (Cont'd)

Included in the above balances are amounts due to companies in which certain Directors/Directors' close family members have substantial financial interests that are within the Karex Group as follow:

	Financial years/period ended				
	31.12.09	**30.06.10**	**30.06.11**	**30.06.12**	**30.06.13**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trade payables	2,482	6,061	8,001	19,003	17,730
Other payables and accrued expenses	--	--	--	--	1,467
	2,482	6,061	8,001	19,003	19,197

Included in other payables and accrued expenses is an amount of RM87,328 (2012: RM651,530; 2011: RM97,620; 2010: RM427,897; 2009: NIL) in respect of advance payment received from customers.

7.5.5.14 Capital commitment

	Financial years/period ended				
	31.12.09	**30.06.10**	**30.06.11**	**30.06.12**	**30.06.13**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Property, plant and equipment					
Authorised but not contracted for	--	--	--	--	1,400
Contracted but not provided for	--	--	--	3,500	449

7.5.5.15 Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. There are no key management personnel in the Company other than Directors.

The Company has related party relationship with shareholders and Directors.

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.5 Notes to the financial statements (Cont'd)

7.5.5.15 Related parties (Cont'd)

Significant related party transactions

The significant related party transactions of the Company are shown below.

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Entities in which certain Directors/Directors' close family members have substantial financial interest					
Sales of goods	861	1,966	2,255	3,991	8,284
Purchases of goods	(10,538)	(6,002)	(9,465)	(19,138)	(25,157)
Rental expense	(228)	(138)	(276)	(276)	(276)
Purchase of plant and equipment	--	--	(23)	--	(1,464)

7.5.5.16 Financial instruments

The Company adopted MFRS on 1 July 2012. The Company previously applied FRS and certain comparative figures have not been presented for 30 June 2010 and 31 December 2009 by virtue of the exemption given in paragraph 44AA of FRS 7. The Company also did not present the comparative figures for 30 June 2010 and 31 December 2009 upon the adoption of MFRS due to practicability.

7.5.5.16.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(a) Loans and receivables ("L&R");
(b) Other financial liabilities measured at amortised cost ("FL"); and
(c) Derivatives used for hedging.

	Carrying amount RM'000	L&R RM'000	FL RM'000	Derivatives used for hedging RM'000
2013				
Financial assets				
Trade and other receivables	21,333	21,333	--	--
Cash and cash equivalents	6,628	6,628	--	--
	27,961	27,961	--	--
Financial liabilities				
Loan and borrowings	(8,293)	--	(8,293)	--
Trade and other payables, including derivatives	(24,646)	--	(24,533)	(113)
	(32,939)	--	(32,826)	(113)

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.5 Notes to the financial statements (Cont'd)

7.5.5.16 Financial instruments (Cont'd)

7.5.5.16.1 Categories of financial instruments (Cont'd)

	Carrying amount RM'000	L&R RM'000	FL RM'000	Derivatives used for hedging RM'000
2012				
Financial assets				
Trade and other receivables	24,017	24,017	--	--
Cash and cash equivalents	605	605	--	--
	24,622	24,622	--	--
Financial liabilities				
Loan and borrowings	(1,056)	--	(1,056)	--
Trade and other payables	(26,765)	--	(26,765)	--
	(27,821)	--	(27,821)	--
2011				
Financial assets				
Trade and other receivables	9,544	9,544	--	--
Cash and cash equivalents	1,373	1,373	--	--
	10,917	10,917	--	--
Financial liabilities				
Loan and borrowings	(634)	--	(634)	--
Trade and other payables	(14,036)	--	(14,036)	--
	(14,670)	--	(14,670)	--

7.5.5.16.2 Net gains and losses arising from financial instruments

	2011 RM'000	2012 RM'000	2013 RM'000
Net gains/(losses) on:			
- Loan and receivables	(408)	1,336	196
- Financial liabilities measured at amortised cost	(41)	(130)	(784)
- Fair value through profit and loss	--	--	(113)
	(449)	1,206	(701)

7.5.5.16.3 Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.5 Notes to the financial statements (Cont'd)

7.5.5.16 Financial instruments (Cont'd)

7.5.5.16.4 Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk arises principally from its receivables from customers and amounts due from related parties.

Receivables

Risk management objectives, policies and processes for managing the risk

The Company has no formal written credit policy. However, the Board of Directors is of the view that the exposure to credit risk through the direct involvement of Executive Directors monitoring on an on-going basis is deemed sufficient.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are measured at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Company. The Company uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 60 days, which are deemed to have higher credit risk, are monitored individually.

Impairment losses

The Company maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the reporting period was:

	Gross RM'000	Individual impairment RM'000	Net RM'000
2013			
Not past due	7,164	--	7,164
Past due 0 - 30 days	2,176	--	2,176
Past due 31 - 60 days	346	--	346
Past due more than 60 days	11,026	(393)	10,633
	20,712	(393)	20,319
2012			
Not past due	12,801	--	12,801
Past due 0 - 30 days	3,542	--	3,542
Past due 31 - 60 days	1,918	--	1,918
Past due more than 60 days	4,645	--	4,645
	22,906	--	22,906

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.5 Notes to the financial statements (Cont'd)

7.5.5.16 Financial instruments (Cont'd)

7.5.5.16.4 Credit risk (Cont'd)

	Gross RM'000	Individual impairment RM'000	Net RM'000
2011			
Not past due	7,398	--	7,398
Past due 0 - 30 days	994	--	994
Past due 31 - 60 days	124	--	124
Past due more than 60 days	686	--	686
	9,202	--	9,202

Included in the past due more than 60 days is an amount receivable from related parties of RM7,617,820 (2012: RM3,308,000; 2011: RM546,000). In determining whether additional allowance is required to be made, the Company considers financial background of the customers and related parties, past transactions and other specific reasons causing these balances to be past due more than 60 days. The customers and related parties are regular customers that have been transacting with the Company. The Company does not consider it necessary to impair the receivable amount and is satisfied that the amount can be recovered.

The movements in the allowance for impairment losses of receivables during the financial year were:

	2013 RM'000	2012 RM'000
At 1 July	--	--
Impairment loss recognised	393	--
At 30 June	393	--

7.5.5.16.5 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's exposure to liquidity risk arises principally from its various payables and borrowings.

The Company maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.5 Notes to the financial statements (Cont'd)

7.5.5.16 Financial instruments (Cont'd)

7.5.5.16.5 Liquidity risk (Cont'd)

Maturity analysis

The table below summarises the maturity profile of the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount RM'000	Contractual interest rate/ coupon %	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000
2013						
Non-derivative financial liabilities						
Secured term loan	3,340	5.69	4,664	415	402	3,847
Secured bankers' acceptances	4,885	2.05 - 4.70	4,885	4,885	--	--
Secured finance lease liabilities	68	3.15 - 3.60	71	67	4	--
Trade and other payables	24,533	--	24,533	24,533	--	--
	32,826		34,153	29,900	406	3,847
Derivative financial liabilities						
Forward exchange contracts (gross settled):						
Outflow	113		5,479	5,479	--	--
Inflow	--		(5,366)	(5,366)	--	--
	32,939		34,266	30,013	406	3,847
2012						
Non-derivative financial liabilities						
Secured bank overdrafts	92	7.60	92	92	--	--
Secured bankers' acceptances	898	3.44 - 3.53	898	898	--	--
Secured finance lease liabilities	66	3.60	70	50	20	--
Trade and other payables	26,765	--	26,765	26,765	--	--
	27,821		27,825	27,805	20	--
2011						
Non-derivative financial liabilities						
Secured bank overdrafts	61	7.60	61	61	--	--
Secured bankers' acceptances	464	3.16 - 3.24	464	464	--	--
Secured finance lease liabilities	109	3.00 - 3.60	119	49	49	21
Trade and other payables	14,036	--	14,036	14,036	--	--
	14,670		14,680	14,610	49	21

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.5 Notes to the financial statements (Cont'd)

7.5.5.16 Financial instruments (Cont'd)

7.5.5.16.6 Market risk

Market risk is the risk that changes in market prices, such as interest rates that will affect the Company's financial position or cash flows.

Currency risk

The Company is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Company. The currencies giving rise to this risk are primarily US Dollar (USD).

Risk management objectives, policies and processes for managing the risk

The Company uses forward exchange contracts to hedge its foreign currency risk from time to time. Most of the forward exchange contracts have maturities of less than one year after the end of the reporting period. Where necessary, the forward exchange contracts are rolled over at maturity.

Exposure to foreign currency risk

The Company's exposure to foreign currency (a currency which is other than the functional currency of the Company) risk, based on carrying amounts as at the end of the reporting period was:

	Denominated in USD		
	2011 RM'000	**2012 RM'000**	**2013 RM'000**
Trade receivables	9,502	21,029	13,266
Cash and cash equivalents	629	101	4,677
Trade payables	(1,327)	(8,970)	(738)
Other payables	--	(143)	(235)
Forward exchange contracts	--	--	(5,366)
Net exposure	8,804	12,017	11,604

Currency risk sensitivity analysis

A 10% (2012: 10%; 2011: 10%) strengthening of the Ringgit Malaysia ("RM") against the following currencies at the end of the reporting period would have decreased post-tax profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

	Denominated in USD		
	2011 RM'000	**2012 RM'000**	**2013 RM'000**
Profit or (loss)	(660)	(901)	(870)

A 10% (2012: 10%; 2011: 10%) weakening of RM against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.5 Notes to the financial statements (Cont'd)

7.5.5.16 Financial instruments (Cont'd)

7.5.5.16.6 Market risk (Cont'd)

Interest rate risk

The Company's fixed rate borrowings are exposed to a risk of change in their fair valued due to changes in interest rates. The Company's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

There is no formal hedging policy with respect to interest rate exposure. Exposure to interest rate risk is monitored on an ongoing basis and the Company endeavour to keep the exposure to an acceptable level.

Exposure to interest rate risk

The interest rate profile of the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	2011 RM'000	2012 RM'000	2013 RM'000
Fixed rate instruments			
Financial assets			
Deposit with licensed bank	313	415	610
Financial liabilities			
Banker's acceptance	(464)	(898)	(4,885)
Finance lease liabilities	(109)	(66)	(68)
	(573)	(964)	(4,953)
	(260)	(549)	(4,343)
Floating rate instruments			
Financial liabilities			
Bank overdrafts	(61)	(92)	--
Term loan	--	--	(3,340)
	(61)	(92)	(3,340)

Interest rate risk sensitivity analysis

(a) Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives as hedging instruments under a fair valued hedged accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

(b) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in interest rates at the end of the reporting period would have increased/(decreased) the Company post-tax results by RM25,050 (2012: RM693; 2011: RM459). This analysis assumes that all other variables remained constant.

7 Audited Financial Statements (Cont'd)

7.5 ISB (Cont'd)

7.5.5 Notes to the financial statements (Cont'd)

7.5.5.16 Financial instruments (Cont'd)

7.5.5.16.7 Fair value of financial instruments

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings approximate fair values due to the relatively short term nature of these financial instruments.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 2 RM'000
2013	
Financial liabilities	
Forward exchange contracts	113

7.5.5.17 Capital management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 30 June 2013, 30 June 2012 and 30 June 2011.

The Company is not subject to any externally imposed capital requirements.

7 Audited Financial Statements (Cont'd)

7.6 ITL

7.6.1 Statements of profit or loss and other comprehensive income

We set out below the statements of profit or loss and other comprehensive income of ITL for the financial year ended 31 December 2009, six months period ended 30 June 2010 and for the financial years ended 30 June 2011 to 30 June 2013:

		Financial years/period ended				
	Note	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Revenue	7.6.5.1	16,369	18,343	40,912	42,143	64,607
Cost of goods sold		(16,019)	(16,992)	(38,372)	(36,292)	(52,726)
Gross profit		350	1,351	2,540	5,851	11,881
Distribution expenses		(646)	(526)	(910)	(881)	(1,574)
Administrative expenses		(761)	(458)	(980)	(1,213)	(1,550)
Other income		1,057	799	1,188	38	393
Results from operating activities		--	1,166	1,838	3,795	9,150
Finance costs	7.6.5.2	(213)	(53)	(195)	(268)	(615)
Interest income		1	--	1	--	--
Net finance costs		(212)	(53)	(194)	(268)	(615)
(Loss)/Profit before tax	7.6.5.3	(212)	1,113	1,644	3,527	8,535
Tax expense	7.6.5.4	--	--	(87)	(16)	(214)
(Loss)/Profit for the year/period		(212)	1,113	1,557	3,511	8,321
Other comprehensive income, net of tax		(212)	1,113	1,557	3,511	8,321
Foreign currency translation differences		(11)	6	(101)	76	275
Total comprehensive (expense)/income for the year/period		(223)	1,119	1,456	3,587	8,596
Weighted average number of share issued during the year (THB 100 per share)		1,200,000	1,200,000	1,200,000	1,200,000	1,393,315
Basic/Diluted EPS (RM)		(0.18)	0.93	1.30	2.93	5.97

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.2 Statements of financial position

	Note	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
		Financial years/period ended				
ASSETS						
Property, plant and equipment	7.6.5.5	12,001	11,760	10,284	10,114	14,009
Deferred tax assets	7.6.5.6	964	988	890	890	701
Total non-current assets		12,965	12,748	11,174	11,004	14,710
Inventories	7.6.5.7	5,413	6,753	8,876	8,785	10,393
Trade and other receivables	7.6.5.8	4,289	13,818	6,102	18,945	22,283
Cash and cash equivalents	7.6.5.9	904	821	1,159	968	10,450
Total current assets		10,606	21,392	16,137	28,698	43,126
Total assets		23,571	34,140	27,311	39,702	57,836
EQUITY						
Share capital	7.6.5.10	12,342	12,342	12,342	12,342	13,398
Reserves	7.6.5.11	(10,731)	(9,612)	(8,156)	(4,569)	4,027
Total equity attributable to owner of the Company		1,611	2,730	4,186	7,773	17,425
LIABILITIES						
Loans and borrowings/ **Total non-current liabilities**	7.6.5.12	281	167	3	27	2,813
Loans and borrowings	7.6.5.12	1,731	2,674	4,423	4,601	9,698
Trade and other payables	7.6.5.13	19,948	28,569	18,699	27,301	27,900
Total current liabilities		21,679	31,243	23,122	31,902	37,598
Total liabilities		21,960	31,410	23,125	31,929	40,411
Total equity and liabilities		23,571	34,140	27,311	39,702	57,836

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.3 Statements of changes in equity

	Note	Attributable to owners of ITL			
		Non-distributable		(Accumulated losses)/ *Distributable*	
		Share capital RM'000	Translation reserve RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2009 (before adjustments)		12,342	--	(11,426)	916
Cumulative effects of changes in accounting policies		--	--	918	918
At 1 January 2009 (after adjustments)		12,342	--	(10,508)	1,834
Total comprehensive expense for the year		--	(11)	(212)	(223)
At 30 December2009/1 January 2010		12,342	(11)	(10,720)	1,611
Total comprehensive income for the period		--	6	1,113	1,119
At 30 June 2010/1 July 2010		12,342	(5)	(9,607)	2,730
Total comprehensive income for the year		--	(101)	1,557	1,456
At 30 June 2011/1 July 2011		12,342	(106)	(8,050)	4,186
Total comprehensive income for the year		--	76	3,511	3,587
At 30 June 2012/1 July 2012		12,342	(30)	(4,539)	7,773
Issue of ordinary shares	7.6.5.10	1,056	--	--	1,056
Total comprehensive income for the year		--	275	8,321	8,596
At 30 June 2013		13,398	245	3,782	17,425

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7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.4 Statements of cash flows

	Note	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
		Financial years/period ended				
Cash flows from operating activities						
(Loss)/Profit before tax		(212)	1,113	1,644	3,527	8,535
Adjustments for:						
Depreciation		1,394	854	1,588	1,556	1,809
Unrealised (gain)/loss on foreign exchange		(433)	(429)	(326)	206	(319)
Finance costs		213	53	195	268	615
Property, plant and machinery written off		--	5	--	--	--
Gain on disposal of property, plant and equipment		--	--	(61)	--	--
Interest income		(1)	--	(1)	--	--
Operating profit before working capital changes		961	1,596	3,039	5,557	10,640
Changes in inventories		19	(1,340)	(2,123)	91	(1,609)
Changes in trade and other receivables		3,168	(9,100)	8,021	(13,049)	(2,787)
Changes in trade and other payables		3,780	8,622	(9,875)	8,601	1,385
Cash generated from/ (used in) operations		7,928	(222)	(938)	1,200	7,629
Tax paid		--	--	--	(15)	(25)
Net cash from/(used in) operating activities		7,928	(222)	(938)	1,185	7,604
Cash flows from investing activities						
Acquisition of property, plant and equipment	(i)	(2,826)	(852)	(377)	(1,146)	(5,134)
Proceeds from disposal of property, plant and equipment		--	--	65	--	--
Interest received		1	--	1	--	--
Net cash used in investing activities		(2,825)	(852)	(311)	(1,146)	(5,134)
Cash flows from financing activities						
Interest paid		(213)	(53)	(195)	(268)	(615)
Proceeds from/(Repayment of) packing credit		(3,134)	1,227	1,557	225	4,405
Drawn down of term loan		--	--	--	--	3,275
Repayment of term loan		(1,143)	(459)	(207)	(147)	--
Repayment of finance lease liabilities		(25)	(8)	(14)	(34)	(91)
Decrease/(Increase) in pledged deposit with licensed bank		1	(38)	3	4	(66)
Net cash (used in)/from financing activities		(4,514)	669	1,144	(220)	6,908

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.4 Statements of cash flows (Cont'd)

	Note	Financial years/period ended 01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Net increase/(decrease) in cash and cash equivalents		589	(405)	(105)	(181)	9,378
Cash and cash equivalents at beginning of year/ period		98	783	594	686	402
Exchange differences on translation of financial statement		96	216	197	(103)	3
Cash and cash equivalents at end of year/period	(ii)	783	594	686	402	9,783

(i) Acquisition of property, plant and equipment

The cost of property, plant and equipment acquired by the Company by means of finance lease and cash are as follows:

	Financial years/period ended 01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Aggregate cost of property, plant and equipment acquired	2,826	852	377	1,206	5,393
Acquired by means of finance lease	--	--	--	(60)	(259)
Acquired by cash	2,826	852	377	1,146	5,134

(ii) Cash and cash equivalents

Cash and cash equivalents included in the statements of cash flows comprise the following statements of financial position amounts:

	Financial years/period ended 01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Cash and bank balances	783	663	1,004	818	10,234
Deposits placed with licensed banks	121	158	155	150	216
Bank overdrafts	--	(69)	(318)	(416)	(451)
	904	752	841	552	9,999
Less: Deposits pledged to licensed banks	(121)	(158)	(155)	(150)	(216)
	783	594	686	402	9,783

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.1 Revenue

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Goods sold	16,369	18,343	40,912	42,143	64,607

7.6.5.2 Finance costs

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Bank overdrafts	28	9	17	19	19
Packing credit	112	27	162	233	344
Term loans	73	17	16	15	245
Finance lease liabilities	--	--	--	1	7
	213	53	195	268	615

7.6.5.3 (Loss)/Profit before tax

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
(Loss)/Profit before tax is arrived at after charging/(crediting)					
Audit fees	9	8	14	38	40
Depreciation	1,394	854	1,588	1,556	1,809
Gain on disposal of property, plant and equipment	--	--	(61)	--	--
Property, plant and equipment written off	--	5	--	--	--
Rental of land	65	32	64	65	250
(Reversal)/Allowance of slow moving inventories	(580)	--	109	--	10
(Gain)/Loss on foreign exchange:					
- Realised	(9)	(141)	(760)	(173)	8
- Unrealised	(433)	(429)	(326)	206	(319)
Personnel expenses					
- Wages, salaries and others	3,157	3,100	3,084	6,369	10,386

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.3 (Loss)/Profit before tax (Cont'd)

Key management personnel compensation

The key management personnel compensation are shown below.

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	**01.01.10 to 30.06.10 RM'000**	**01.07.10 to 30.06.11 RM'000**	**01.07.11 to 30.06.12 RM'000**	**01.07.12 to 30.06.13 RM'000**
Directors' remuneration					
- Other emoluments	61	30	60	59	61
- Benefit-in-kind	10	5	9	10	--
Total short-term employee benefits	71	35	69	69	61
Other key management personnel:					
- Other emoluments	--	--	131	137	--
- Benefit-in-kind	--	--	35	35	--
	--	--	166	172	--
	71	35	235	241	61

Other key management personnel comprises persons other than the Directors of Group entities, having authority and responsibility for planning, directing and controlling the activities of the entity either directly or indirectly.

7.6.5.4 Tax expense

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	**01.01.10 to 30.06.10 RM'000**	**01.07.10 to 30.06.11 RM'000**	**01.07.11 to 30.06.12 RM'000**	**01.07.12 to 30.06.13 RM'000**
Current tax expense					
- Current year	--	--	88	18	208
Deferred tax (income)/ expense					
- Origination and reversal of temporary differences	--	--	(1)	(2)	6
Total tax expense	--	--	87	16	214

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.4 Tax expense (Cont'd)

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Reconciliation of tax expense					
Profit before tax	(212)	1,113	1,644	3,527	8,535
Income tax calculated using Thailand tax rate of 30%	(64)	334	493	1,058	2,561
Non-deductible expenses	64	--	36	5	3
Tax incentives	--	(334)	(441)	(1,045)	(2,356)
Other items	--	--	(1)	(2)	6
Tax expense	--	--	87	16	214

Promotional privileges

By virtue of the provisions of the Industrial Investment Promotion Act, B.E. 2520, the Company has been granted certain promotional privileges on its manufacture of condom. The promotional privileges include, among other things, the followings:

(a) Exemption from payment of duty on imported machinery as to the approval of the Board of Investment.

(b) Exemption from payment of income tax for a period of eight years from the start of promoted business.

(c) Reduction fifty percent of income tax for a period of five years after the termination of the period mention in No. b.

(d) Allowance to double the cost of transportation, electricity and water supply expenses for tax purposes for a period of ten years from the start of promoted business.

(e) Allowance to take twenty five percent of investment in building or installation of facilities as expenses for tax purpose in addition to normal depreciation.

(f) Exemption from payment of duty on imported raw materials and supplies for manufacture of exporting products for a period of five years commencing from the first imported date.

As a promoted business, the Company must comply with the conditions provided for in the promotional certificate.

7 Audited Financial Statements (cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.5 Property, plant and equipment (Cont'd)

	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Electrical installation and renovation RM'000	Equipment, furniture and fittings RM'000	Capital work -in -progress RM'000	Total RM'000
At cost							
At 1 January 2009	3,667	13,020	299	322	247	480	18,035
Additions	80	2,057	--	--	67	622	2,826
Transfer	34	--	--	--	42	(76)	--
Exchange differences	(37)	(134)	(3)	(3)	(3)	(5)	(185)
At 31 December 2009/ 1 January 2010	3,744	14,943	296	319	353	1,021	20,676
Additions	22	711	97	--	22	--	852
Transfer	--	949	--	--	--	(949)	--
Disposals	--	--	(18)	--	--	--	(18)
Exchange differences	(74)	(302)	(6)	(6)	(6)	(15)	(409)
At 30 June 2010/1 July 2010	3,692	16,301	369	313	369	57	21,101
Additions	66	180	30	--	50	51	377
Transfer	4	68	--	--	3	(75)	--
Disposals	--	--	(127)	--	--	--	(127)
Exchange differences	(92)	(406)	(7)	(8)	(10)	--	(523)
At 30 June 2011/1 July 2011	3,670	16,143	265	305	412	33	20,828
Additions	10	990	60	--	18	128	1,206
Transfer	7	21	--	--	13	(41)	--
Exchange differences	64	283	5	5	7	1	365
At 30 June 2012/1 July 2012	3,751	17,437	330	310	450	121	22,399
Additions	14	1,086	347	18	380	3,548	5,393
Disposal	--	--	(2)	--	--	--	(2)
Transfer	1,000	109	--	509	--	(1,618)	--
Exchange differences	114	515	11	12	15	11	678
At 30 June 2013	4,879	19,147	686	849	845	2,062	28,468

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.5 Property, plant and equipment (Cont'd)

	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Electrical installation and renovation RM'000	Equipment, furniture and fittings RM'000	Capital work -in -progress RM'000	Total RM'000
Accumulated depreciation							
At 1 January 2009	509	6,500	158	57	132	--	7,356
Depreciation charge	198	1,064	59	19	54	--	1,394
Exchange differences	(5)	(67)	(1)	(1)	(1)	--	(75)
At 31 December 2009/ 1 January 2010	702	7,497	216	75	185	--	8,675
Depreciation charge	106	672	27	14	35	--	854
Disposals	--	--	(13)	--	--	--	(13)
Exchange differences	(15)	(151)	(4)	(2)	(3)	--	(175)
At 30 June 2010/1 July 2010	793	8,018	226	87	217	--	9,341
Depreciation charge	221	1,262	41	10	54	--	1,588
Disposals	--	--	(123)	--	--	--	(123)
Exchange differences	(24)	(225)	(4)	(2)	(7)	--	(262)
At 30 June 2011/1 July 2011	990	9,055	140	95	264	--	10,544
Depreciation charge	226	1,222	41	15	52	--	1,556
Exchange differences	18	159	2	2	4	--	185
At 30 June 2012/1 July 2012	1,234	10,436	183	112	320	--	12,285
Depreciation charge	254	1,364	63	34	94	--	1,809
Disposal	--	--	(2)	--	--	--	(2)
Exchange differences	37	311	6	3	10	--	367
At 30 June 2013	1,525	12,111	250	149	424	--	14,459

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.5 Property, plant and equipment (Cont'd)

	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	Electrical installation and renovation RM'000	Equipment, furniture and fittings RM'000	Capital work -in -progress RM'000	Total RM'000
Carrying amounts							
At 31 December 2009	3,042	7,446	80	244	168	1,021	12,001
At 30 June 2010	2,899	8,283	143	226	152	57	11,760
At 30 June 2011	2,680	7,088	125	210	148	33	10,284
At 30 June 2012	2,517	7,001	147	198	130	121	10,114
At 30 June 2013	3,354	7,036	436	700	421	2,062	14,009

The building, plant and machinery of the Company are charged to a licensed bank for banking facilities granted as disclosed in Note 7.6.5.12.

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.5 Property, plant and equipment (Cont'd)

Assets under finance lease

Included in property, plant and equipment of the Company are acquired under finance lease with carrying amount as follows:

	Financial years/period ended				
	31.12.09 RM'000	30.06.10 RM'000	30.06.11 RM'000	30.06.12 RM'000	30.06.13 RM'000
Motor vehicles	49	41	28	72	303

7.6.5.6 Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	Financial years/period ended				
	31.12.09 RM'000	30.06.10 RM'000	30.06.11 RM'000	30.06.12 RM'000	30.06.13 RM'000
Unabsorbed business losses	(918)	(941)	(874)	(877)	(691)
Employee benefits obligation	(46)	(47)	(16)	(13)	(10)
	(964)	(988)	(890)	(890)	(701)

7.6.5.7 Inventories

	Financial years/period ended				
	31.12.09 RM'000	30.06.10 RM'000	30.06.11 RM'000	30.06.12 RM'000	30.06.13 RM'000
Raw materials	979	545	710	561	582
Work-in-progress	405	781	783	1,000	959
Finished goods	353	3,573	5,880	5,130	6,476
Chemicals and factory supplies	3,676	1,854	1,503	2,094	2,376
	5,413	6,753	8,876	8,785	10,393

7.6.5.8 Trade and other receivables

	Financial years/period ended				
	31.12.09 RM'000	30.06.10 RM'000	30.06.11 RM'000	30.06.12 RM'000	30.06.13 RM'000
Trade receivables	4,151	13,653	5,956	18,580	21,094
Other receivables and prepayments	138	165	146	365	1,189
	4,289	13,818	6,102	18,945	22,283

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.8 Trade and other receivables (Cont'd)

Included in the above balances are amount due from companies in which certain Directors/Directors' close family members have substantial financial interests as follow:

	Financial years/period ended				
	31.12.09	**30.06.10**	**30.06.11**	**30.06.12**	**30.06.13**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trade receivables					
- Within the Karex Group	--	11,035	2,861	12,937	14,847
- Not within the Karex Group	1,465	--	--	--	--
	1,465	11,035	2,861	12,937	14,847

7.6.5.9 Cash and cash equivalents

	Financial years/period ended				
	31.12.09	**30.06.10**	**30.06.11**	**30.06.12**	**30.06.13**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Deposits placed with licensed banks	121	158	155	150	216
Cash and bank balances	783	663	1,004	818	10,234
	904	821	1,159	968	10,450

Fixed deposit of the Company is pledged to the bank as security for banking facilities granted to the Company as disclosed in Note 7.6.5.12.

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.10 Share capital

	31.12.09	30.06.10	30.06.11	30.06.12	30.06.13
Authorised ordinary shares of THB 100 each					
Number of shares in '000					
Opening Balance	1,200	1,200	1,200	1,200	1,200
Increase of shares	--	--	--	--	420
Closing Balance	1,200	1,200	1,200	1,200	1,620
Amount in RM'000					
Opening Balance	12,342	12,342	12,342	12,342	12,342
Increase of shares	--	--	--	--	4,267
Closing Balance	12,342	12,342	12,342	12,342	16,609
Issued and fully paid ordinary shares of THB 100 each					
Number of shares in '000					
Opening Balance	1,200	1,200	1,200	1,200	1,200
Increase of shares	--	--	--	--	420
Closing Balance	1,200	1,200	1,200	1,200	1,620
Amount in RM'000					
Opening Balance	12,342	12,342	12,342	12,342	12,342
Increase of shares*	--	--	--	--	1,056
Closing Balance	12,342	12,342	12,342	12,342	13,398

* partly paid up at THB25 each.

7.6.5.11 Reserves

7.6.5.11.1 Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of ITL from THB into RM.

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.12 Loans and borrowings

	Financial years/period ended				
	31.12.09 RM'000	30.06.10 RM'000	30.06.11 RM'000	30.06.12 RM'000	30.06.13 RM'000
Non-current					
Term loans	257	151	--	--	2,663
Finance lease liabilities	24	16	3	27	150
	281	167	3	27	2,813
Current					
Term loans	556	203	147	--	612
Bank overdrafts	--	69	318	416	451
Packing credit	1,161	2,389	3,945	4,171	8,576
Finance lease liabilities	14	13	13	14	59
	1,731	2,674	4,423	4,601	9,698
	2,012	2,841	4,426	4,628	12,511

The borrowings are collateralised by lease agreement, banking and machinery of the Company.

Finance lease liabilities

Finance lease liabilities of are payable as follows:

	At 31 December 2009			At 30 June 2010		
	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000
Less than one year	14	--	14	13	--	13
Between one and five years	25	1	24	17	1	16
	39	1	38	30	1	29

	At 30 June 2011			At 30 June 2012		
	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000	Future minimum lease payments RM'000	Interest RM'000	Present value of minimum lease payments RM'000
Less than one year	13	--	13	16	2	14
Between one and five years	3	--	3	29	2	27
	16	--	16	45	4	41

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.12 Loans and borrowings (Cont'd)

	At 30 June 2013		
	Future minimum lease payments RM'000	**Interest RM'000**	**Present value of minimum lease payments RM'000**
Less than one year	69	(10)	59
Between one and five years	161	(11)	150
	230	(21)	209

7.6.5.13 Trade and other payables

	Financial years/period ended				
	31.12.09 RM'000	**30.06.10 RM'000**	**30.06.11 RM'000**	**30.06.12 RM'000**	**30.06.13 RM'000**
Trade					
Trade payables	19,712	27,747	18,140	24,845	25,657
Non-trade					
Other payables and accrued expenses	120	708	452	2,347	2,131
Loan from Directors or related persons	116	114	107	109	112
	19,948	28,569	18,699	27,301	27,900

Included in the above balances are amount due from companies in which certain Directors/Directors' close family member have substantial financial interests as follow:

	Financial years/period ended				
	31.12.09 RM'000	**30.06.10 RM'000**	**30.06.11 RM'000**	**30.06.12 RM'000**	**30.06.13 RM'000**
Trade payables					
- Within the Karex Group	7,778	17,032	6,775	13,437	12,950
- Not within the Karex Group	5,108	4,759	4,400	4,657	3,593
	12,886	21,791	11,175	18,094	16,543

Included in other payables are advance received from customers amounting to RM1,444,051 (2012:RM 1,796,255; 2011: RM105,378; 2010: RM311,361; 2009: NIL).

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.14 Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. There are no key management personnel in the Company other than Directors.

The Company has related party relationship with its holding company and Directors.

Significant related party transactions

The significant related party transactions of the Company are shown below.

	Financial years/period ended				
	01.01.09 to 31.12.09 RM'000	01.01.10 to 30.06.10 RM'000	01.07.10 to 30.06.11 RM'000	01.07.11 to 30.06.12 RM'000	01.07.12 to 30.06.13 RM'000
Company in which certain Directors/Directors' close family members have substantial financial interests					
Sales of goods	7,181	13,525	27,973	24,301	31,713
Other income	--	--	922	1,362	1,723
Purchase of goods	(3,766)	(5,397)	(3,511)	(4,104)	(7,060)
Purchase of plant and equipment	(581)	(580)	(177)	(277)	(1,500)
Other purchases	--	--	(3,368)	(2,948)	(5,298)

7.6.5.15 Financial instruments

In line with the other companies presented in this report, the Company did not present the comparative figures for 30 June 2010 and 31 December 2009.

7.6.5.15.1 Categories of financial instruments

All financial assets and liabilities are categorised as loans and receivables and other liabilities in accordance with the Company's accounting policies as disclosed in Section 6.3(c).

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.15 Financial instruments (Cont'd)

7.6.5.15.2 Net gains and losses arising from financial instruments

	2011 RM'000	2012 RM'000	2013 RM'000
Net (losses)/gains on:			
Loan and receivables	(1,086)	33	(597)
Financial liabilities measured at amortised cost	195	268	885
	(891)	301	288

7.6.5.15.3 Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

7.6.5.15.4 Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk arises principally from its receivables from customers and amounts due from related parties.

Receivables

Risk management objectives, policies and processes for managing the risk

The Company has no formal written credit policy. However, the Board of Directors is of the view that the exposure to credit risk through the direct involvement of Executive Directors monitoring on an on-going basis is deemed sufficient.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are measured at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Company. The Company uses ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 60 days, which are deemed to have higher credit risk, are monitored individually.

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.15 Financial instruments (Cont'd)

7.6.5.15.4 Credit risk (Cont'd)

Receivables (Cont'd)

Impairment losses

The Company maintains an ageing analysis in respect of trade receivables only. The ageing of trade receivables as at the end of the reporting period was:

		Gross/Net	
	2011 RM'000	**2012 RM'000**	**2013 RM'000**
Not past due	3,445	8,134	12,640
Past due 0 - 30 days	1,155	4,154	4,356
Past due 31 - 60 days	167	3,896	3,168
Past due more than 60 days	1,189	2,396	930
	5,956	18,580	21,094

Included in the past due more than 60 days is an amount receivable from related parties of RM629,238 (2012: RM1,341,000; 2011: RM1,519). In determining whether additional allowance is required to be made, the Company considers financial background of the customers and related parties, past transactions and other specific reasons causing these balances to be past due more than 60 days. The customers and related parties are regular customers that have been transacting with the Company. The Company does not consider it necessary to impair the receivable amount and is satisfied that the amount can be recovered.

There is no impairment loss on trade receivables made by the Company at the end of the financial year.

7.6.5.15.5 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as and when they fall due. The Company's exposure to liquidity risk arises principally from its various payables, loans and borrowings.

The Company monitors and maintains a level of cash and cash equivalents and bank facilities deemed adequate by management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due.

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.15 Financial instruments (Cont'd)

7.6.5.15.5 Liquidity risk (Cont'd)

Maturity analysis

The table below summarises the maturity profile of the Company's financial liabilities as at the end of the reporting period based on undiscounted contractual payments:

	Carrying amount RM'000	Contractual interest rate/ coupon %	Contractual cash flows RM'000	Under 1 year RM'000	1 - 2 years RM'000	2 - 5 years RM'000
2013						
Non-derivative financial liabilities						
Packing credit	8,576	5.00 - 6.25	8,576	8,576	--	--
Finance lease liabilities	209	5.02 - 7.03	224	67	67	90
Bank overdrafts	451	7.25 - 7.35	451	451	--	--
Trade and other payables	27,900	--	27,900	27,900	--	--
Term loans	3,275	MLR-1	3,627	792	1,710	1,125
	40,411		40,778	37,786	1,777	1,215
2012						
Non-derivative financial liabilities						
Packing credit	4,171	5.38 - 6.25	4,171	4,171	--	--
Finance lease liabilities	41	2.58 - 2.68	45	16	13	16
Bank overdrafts	416	7.13 - 7.50	416	416	--	--
Trade and other payables	27,301	--	27,301	27,301	--	--
	31,929		31,933	31,904	13	16
2011						
Non-derivative financial liabilities						
Term loans	147	5.88 - 6.88	147	147	--	--
Packing credit	3,945	5.88 - 6.88	3,945	3,945	--	--
Finance lease liabilities	16	2.58	16	13	3	--
Bank overdrafts	318	6.13 - 7.13	318	318	--	--
Trade and other payables	18,699	--	18,699	18,699	--	--
	23,125		23,125	23,122	3	--

7.6.5.15.6 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates that will affect the Company's financial position or cash flows.

Currency risk

The Company is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily US Dollar (USD) and Euro dollar (EURO).

The Company does not hedge its financial assets and liabilities denominated in foreign currencies.

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.15 Financial instruments (Cont'd)

7.6.5.15.6 Market risk (Cont'd)

Currency risk (Cont'd)

Exposure to foreign currency risk

The Group's exposure to foreign currency (a currency which is other than the functional currency of the Group entities) risk, based on carrying amounts as at the end of the reporting period was:

	Denominated in EURO			Denominated in USD		
	2011 RM'000	2012 RM'000	2013 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Trade receivables	--	45	117	4,503	17,185	20,587
Cash and cash equivalents	--	--	--	834	795	3,470
Trade payables	--	--	--	(17,012)	(23,066)	(24,100)
Other payables	--	--	--	(105)	(1,761)	--
Net exposure	--	45	117	(11,780)	(6,847)	(43)

Currency risk sensitivity analysis

A 10% (2012: 10%; 2011: 10%) strengthening of the THB against the following currencies at the end of the reporting period would have decreased post-tax profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

	Denominated in EURO			Denominated in USD		
	2011 RM'000	2012 RM'000	2013 RM'000	2011 RM'000	2012 RM'000	2013 RM'000
Profit or (loss)	--	(3)	(9)	884	514	3

A 10% (2012: 10%; 2011: 10%) weakening of THB against the above currencies at the end of the reporting period would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

Interest rate risk

The Company's fixed rate borrowings are exposed to a risk of change in their fair valued due to changes in interest rates. The Company's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

Risk management objectives, policies and processes for managing the risk

There is no formal hedging policy with respect to interest rate exposure. Exposure to interest rate risk is monitored on an ongoing basis and the Company endeavour to keep the exposure to an acceptable level.

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.15 Financial instruments (Cont'd)

7.6.5.15.6 Market risk (Cont'd)

Interest rate risk (Cont'd)

Exposure to interest rate risk

The interest rate profile of the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	2011 RM'000	2012 RM'000	2013 RM'000
Fixed rate instruments			
Financial assets			
Deposit with licensed banks	155	150	216
Financial liabilities			
Finance lease liabilities	(16)	(41)	(209)
Packing credit	(3,945)	(4,171)	(8,576)
	(3,961)	(4,212)	(8,785)
	(3,806)	(4,062)	(8,569)
Floating rate instruments			
Financial liabilities			
Bank overdrafts	(318)	(416)	(451)
Term loans	(147)	--	(3,275)
	(465)	(416)	(3,726)

Interest rate risk sensitivity analysis

(a) Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives as hedging instruments under a fair valued hedged accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.15 Financial instruments (Cont'd)

7.6.5.15.6 Market risk (Cont'd)

Interest rate risk (Cont'd)

(b) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in interest rates at the end of the reporting period would have increased/(decreased) post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss	
	100 bp increase RM'000	100 bp decrease RM'000
2013		
Floating rate instruments	(28)	28
2012		
Floating rate instruments	(3)	3
2011		
Floating rate instruments	(3)	3

7.6.5.15.7 Fair value of financial instrument

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings approximate fair values due to the relatively short term nature of these financial instruments.

The carrying amounts of the finance lease liabilities approximates their fair value as there is no material change in the interest charged on similar kind of borrowings in the market.

7.6.5.16 Capital management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 30 June 2013, 30 June 2012 and 30 June 2011.

The Company is not subject to any externally imposed capital requirements.

7 Audited Financial Statements (Cont'd)

7.6 ITL (Cont'd)

7.6.5 Notes to the financial statements (Cont'd)

7.6.5.17 Changes in accounting policies

Karex Group's accounting policies set out is Section 6.3 have been applied in preparing the financial statements for the year ended 30 June 2013.

The changes in accounting policies arising from the adoption of Karex Group's accounting policies are summarised below:

Income taxes

In the previous year, unutilised tax losses were recognised as a reduction of tax expense as and when it was utilised. To be consistent in accounting policies as part of the Group, any unutilised portion of the tax losses are now recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the unutilised tax losses can be utilised.

Employee benefit obligation

In the previous year, compensation expense to retired employees was recognised as and when payments were made. To be consistent in accounting policies as part of the Group, the Company now estimates and recognises the obligation of employee retirement benefits for which the Company shall pay in accordance with the labour law of Thailand by using the current salary of employees and the probability that employees will work until retirement ages.

The change in the accounting policies have been applied retrospectively as though the unutilised tax losses and employee benefit expense were consistently recognised and the effects are disclosed in Section 7.6.5.18.

7.6.5.18 Comparative figures

The following comparative figures have been reclassified as a result of changes in accounting policies as stated in Section 7.6.5.17.

	31.12.09		30.06.10	
	As restated RM'000	As previously stated RM'000	As restated RM'000	As previously stated RM'000
Statement of financial position				
Deferred tax assets	964	--	988	--
Trade and other payables	19,948	19,902	28,569	28,522
Statement of changes in equity				
Accumulated losses at the beginning of the period	(10,508)	(11,426)	(10,720)	(11,638)

KPMG

8 Events subsequent to the balance sheet dates

There were no significant events between the date of the last financial statements used in the preparation of the report and the date of this report which will affect materially the contents of this report.

Yours faithfully,

KPMG
Firm Number: AF 0758
Chartered Accountants

Tan Teck Eng
Approval Number: 2986/05/14 (J)
Chartered Accountant

Johor Bahru, Johor

KPMG (Firm No. AF 0758)
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Independent Auditors' Report to the members of Karex Berhad (Formerly known as Karex Sdn. Bhd.)

(Company No. 1018579-U)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Karex Berhad (formerly known as Karex Sdn. Bhd.), which comprise the statement of financial position as at 30 June 2013, and the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 8 to 20.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.