

10. ACCOUNTANTS' REPORT

(Prepared for inclusion in the Prospectus)

Shamsir Jasani Grant Thornton 

Chartered Accountants

(PREPARED FOR INCLUSION IN THIS PROSPECTUS)

Date: 22 June 2004

The Board of Directors
Hi-City Bioscience Group Berhad
(formerly known as Hi-City Holdings Berhad)
52-C, Rangoon Road
10400 Penang

Dear Sirs,

**ACCOUNTANTS' REPORT
HI-CITY BIOSCIENCE GROUP BERHAD ("HI-CITY")
(FORMERLY KNOWN AS HI-CITY HOLDINGS BERHAD)
AND ITS SUBSIDIARY COMPANIES**

1. INTRODUCTION

This report has been prepared by us, an approved company auditor, for inclusion in the Prospectus to be dated 30 June 2004 in connection with the proposed flotation of the share capital of Hi-City Bioscience Group Berhad ("Hi-City")(formerly known as Hi-City Holdings Berhad) on the Second Board of the Bursa Malaysia Securities Berhad ("Bursa Malaysia") which includes the following: -

- (i) Offer for sale of 18,200,000 ordinary shares of RM0.50 each in Hi-City to Bumiputra investors to be approved by Ministry of International Trade and Industry (MITI) at RM0.70 per ordinary share ("Offer for Sale");
- (ii) Public issue of 1,100,000 new ordinary shares representing 1.4% of the enlarged share capital of 80,000,000 ordinary shares of RM0.50 each in Hi-City to the eligible Directors, employees and business associates of Hi-City at an issue price of RM0.70 per ordinary share;
- (iii) Public issue of 16,900,000 new ordinary shares representing 21.1% of the enlarged share capital of 80,000,000 ordinary shares of RM0.50 each in Hi-City to Bumiputra investors to be approved by Ministry of International Trade and Industry (MITI), private placement and general public at an issue price of RM0.70 per ordinary share; and
- (iv) Listing of and quotation for the entire issued and paid up share capital of Hi-City on the Second Board of the Bursa Malaysia Securities Berhad ("Bursa Malaysia").

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2. GENERAL INFORMATION

The following is the subsidiary companies of Hi-City:-

<u>Name of company</u>	<u>Effective ownership</u>
(a) Hi-City (Mfg.) Sdn Bhd	100%
(b) Hi-City Trading Sdn Bhd	100%
(c) Zelloni Products (M) Sdn Bhd	100%
(d) PT Professional Skin Prescription Centre Sdn Bhd	100%
(e) Clini-Goods Sdn Bhd	100%

(a) HI-CITY (MFG.) SDN BHD (HCM)

i. Background

Hi-City (Mfg.) Sdn Bhd (HCM) was incorporated in Malaysia under the Companies Act, 1965 on 22 November 1989 as a private limited company.

ii. Share capital

The changes in the company's authorised share capital since its incorporation were as follows:-

<u>Date of creation</u>	<u>No. of shares</u>	<u>Par value (RM)</u>	<u>Cumulative total (RM)</u>
22.11.1989	500,000	1.00	500,000
26.09.1995	500,000	1.00	1,000,000
06.02.1996	4,000,000	1.00	5,000,000

The changes in the company's issued and fully paid-up share capital since its incorporation were as follows:-

<u>Date of allotment</u>	<u>No. of shares</u>	<u>Par Value (RM)</u>	<u>Consideration</u>	<u>Cumulative total (RM)</u>
22.11.1989	2	1.00	Cash	2
15.08.1990	93,000	1.00	Cash	93,002
29.06.1993	300,000	1.00	Cash	393,002
02.09.1995	26,998	1.00	Cash	420,000
26.09.1995	84,000	1.00	Bonus issue	504,000
28.09.1995	150,000	1.00	Cash	654,000
06.02.1996	246,000	1.00	Cash	900,000
06.02.1996	200,000	1.00	Share exchange	1,100,000
12.06.1996	400,000	1.00	Cash	1,500,000
16.09.1998	1,000,000	1.00	Cash	2,500,000

2. GENERAL INFORMATION (CONT'D)

(a) HI-CITY (MFG.) SDN BHD (HCM) (CONT'D)

iii. Principal activities

The principal activities of the company are manufacturing, marketing and distribution of personal care products and manufacturing of health care products.

(b) HI-CITY TRADING SDN BHD (HCT)

i. Background

Hi-City Trading Sdn Bhd (HCT) was incorporated in Malaysia under the Companies Act, 1965 on 19 August 1985 as a private limited company under the name of Jelutong Farmasi Sdn Bhd. The company changed its name to Hi-City Trading Sdn Bhd on 13 November 1990.

ii. Share capital

The changes in the company's authorised share capital since its incorporation were as follows: -

Date of creation	No. of shares	Par value (RM)	Cumulative total (RM)
19.08.1985	25,000	1.00	25,000
01.02.1990	175,000	1.00	200,000

The changes in the company's issued and fully paid-up share capital since its incorporation were as follows:-

Date of allotment	No. of shares	Par value (RM)	Consideration	Cumulative total (RM)
19.08.1985	2	1.00	Cash	2
06.09.1994	1	1.00	Cash	3
25.07.1997	149,997	1.00	Cash	150,000

iii. Principal activities

The principal activities of the company are to carry on the business of trading, marketing and distribution of personal care and other products for the hospitality industry.

2. GENERAL INFORMATION (CONT'D)

(c) ZELLONI PRODUCTS (M) SDN BHD (ZP)

i. Background

Zelloni Products (M) Sdn Bhd (ZP) was incorporated in Malaysia under the Companies Act, 1965 on 28 November 2000 as a private limited company.

ii. Share capital

At the date of incorporation, the company's authorised share capital was RM100,000 divided into 100,000 ordinary shares of RM1.00 each.

The changes in the company's issued and fully paid-up share capital since its incorporation were as follows:-

Date of allotment	No. of shares	Par value (RM)	Consideration	Cumulative total (RM)
28.11.2000	4	1.00	Cash	4
04.10.2001	49,996	1.00	Cash	50,000

iii. Principal activities

The company is principally engaged in the business of marketing and distribution of professional skin care products, including make-up preparation products.

2. GENERAL INFORMATION (CONT'D)

(d) PT PROFESSIONAL SKIN PRESCRIPTION CENTRE SDN BHD (PTPSPC)

i. Background

PT Professional Skin Prescription Centre Sdn Bhd (PTPSPC) was incorporated in Malaysia under the Companies Act , 1965 on 23 November 2002 as a private limited company under the name of Tekad Klasik Sdn Bhd. The company changed its name to PT Professional Skin Prescription Centre Sdn Bhd on 13 March 2003.

ii. Share capital

At the date of incorporation, the company's authorised share capital was RM100,000 divided into 100,000 ordinary shares of RM1.00 each.

The change in the company's issued and fully paid-up share capital since its incorporation was as follows:-

Date of allotment	No. of shares	Par value (RM)	Consideration	Cumulative total (RM)
23.11.2002	2	1.00	Cash	2

iii. Principal activities

The company is principally engaged in the provision of professional skin care services and retail sales of professional skin care products, including make-up preparation products.

2. GENERAL INFORMATION (CONT'D)

(e) CLINI-GOODS SDN BHD (CG)

i. Background

Clini-Goods Sdn Bhd (CG) was incorporated in Malaysia under the Companies Act, 1965 on 29 November 2001 as a private limited company.

ii. Share capital

At the date of incorporation, the company's authorised share capital was RM100,000 divided into 100,000 ordinary shares of RM1.00 each.

The change in the company's issued and fully paid-up share capital since its incorporation was as follows:-

Date of allotment	No. of shares	Par value (RM)	Consideration	Cumulative total (RM)
29.11.2001	2	1.00	Cash	2

iii. Principal activities

The company is principally engaged in the business of manufacturing, marketing, trading and distribution of health care products.

3. FINANCIAL STATEMENTS AND AUDITORS

- i. **Hi-City (Mfg.) Sdn Bhd (HCM), Hi-City Trading Sdn Bhd (HCT), Zelloni Products (M) Sdn Bhd (ZP), PT Professional Skin Prescription Centre Sdn Bhd (PTPSPC) and Clini-Goods Sdn Bhd (CG)**

The financial statements for the relevant financial period/years under review were audited by other auditors who have been the same throughout the period under review and were reported without any qualification.

4. HISTORICAL FINANCIAL INFORMATION

(a) Summarised income statements

(i) HI-CITY Proforma Group

The proforma consolidated financial results of Hi-City Group for the past five (5) financial years ended 31 December 1999 to 31 December 2003 are provided for illustration purposes based on the audited financial statements of its subsidiary companies, assuming that the Hi-City Group has been in existence since the beginning of the financial year ended 31 December 1999.

Year ended	31/12/1999 RM	31/12/2000 RM	31/12/2001 RM	31/12/2002 RM	31/12/2003 RM
Revenue	20,181,882	21,942,193	22,365,611	25,985,554	31,608,403
Gross profit	5,745,464	6,598,564	7,545,653	8,486,662	9,230,288
Profit before depreciation, interest and taxation ^{1,2 and 3}	6,015,229	6,757,977	7,647,195	8,788,141	9,931,174
Depreciation	(1,197,432)	(1,357,102)	(1,733,250)	(1,976,538)	(2,373,749)
Interest expenses	(783,925)	(783,469)	(865,871)	(895,748)	(884,980)
Profit before taxation	4,033,872	4,617,406	5,048,074	5,915,855	6,672,445
Taxation	170,469	(806,000)	(394,814)	(860,127)	(1,048,942)
Profit after taxation	4,204,341	3,811,406	4,653,260	5,055,728	5,623,503

1. The results for HCT for the financial year/period ended 31 August 1999 and 31 December 2000 have been time apportioned in order to be co-terminous with the financial year end of Hi-City Group.
2. Hi-City Group's results have been restated through appropriate consolidation adjustments to eliminate inter-company transactions under the proposed group structure.
3. There were no exceptional items or extraordinary items in all the financial years under review.

10. ACCOUNTANTS' REPORT (Cont'd)**Shamsir Jasani Grant Thornton** **4. HISTORICAL FINANCIAL INFORMATION (CONT'D)****(a) Summarised income statements (cont'd)****(ii) HCM**

The following table sets out the summary of the financial results prepared based on the audited financial statements of HCM:-

Year ended	31/12/1999 RM	31/12/2000 RM	31/12/2001 RM	31/12/2002 RM	31/12/2003 RM
Revenue	19,724,469	21,467,918	21,577,085	24,799,293	30,135,495
Gross profit	5,529,684	6,352,571	7,077,224	7,874,608	8,185,088
Profit before depreciation, interest and taxation	5,994,580	6,710,074	7,563,227	8,737,199	9,638,443
Depreciation	(1,183,082)	(1,340,328)	(1,704,324)	(1,942,140)	(2,325,257)
Interest expenses	(783,925)	(783,469)	(865,871)	(895,748)	(882,295)
Profit before taxation	4,027,573	4,586,277	4,993,032	5,899,311	6,430,891
Taxation	170,469	(806,000)	(382,108)	(840,000)	(993,630)
Profit after taxation	4,198,042	3,780,277	4,610,924	5,059,311	5,437,261

There were no exceptional items or extraordinary items in all the financial years under review.

10. ACCOUNTANTS' REPORT (Cont'd)**Shamsir Jasani Grant Thornton** **4. HISTORICAL FINANCIAL INFORMATION (CONT'D)****(a) Summarised income statements (cont'd)****(iii) HCT**

The following table sets out the summary of the financial results prepared based on the audited financial statements of HCT: -

Year/Period ended	31/08/1999 RM	31/12/2000 RM	31/12/2001 RM	31/12/2002 RM	31/12/2003 RM
Revenue	676,013	1,663,738	1,225,880	1,326,839	1,392,064
Gross profit	200,673	327,990	355,245	368,680	522,765
Profit before depreciation, interest and taxation	7,021	63,870	81,733	67,357	117,032
Depreciation	(13,138)	(22,365)	(27,445)	(32,522)	(42,992)
Interest expenses	-	-	-	-	(2,685)
Profit/(loss) before taxation	(6,117)	41,505	54,288	34,835	71,355
Taxation	-	-	(12,112)	(9,100)	(21,857)
Profit/(loss) after taxation	(6,117)	41,505	42,176	25,735	49,498

There were no exceptional items or extraordinary items in all the financial years/period under review.

10. ACCOUNTANTS' REPORT (Cont'd)**Shamsir Jasani Grant Thornton** **4. HISTORICAL FINANCIAL INFORMATION (CONT'D)****(a) Summarised income statements (cont'd)****(iv) ZP**

The following table sets out the summary of the financial results prepared based on the audited financial statements of ZP:-

Period/Year ended	31/12/2001 RM	31/12/2002 RM	31/12/2003 RM
Revenue	223,907	334,622	535,116
Gross profit	113,184	243,374	338,048
Profit before depreciation, interest and taxation	2,235	32,087	69,556
Depreciation	(1,481)	(1,876)	(2,133)
Interest expenses	-	-	-
Profit before taxation	754	30,211	67,423
Taxation	(594)	(11,027)	(16,856)
Profit after taxation	160	19,184	50,567

There were no exceptional items or extraordinary items in all the financial period/year under review.

4. HISTORICAL FINANCIAL INFORMATION (CONT'D)

(a) Summarised income statements (cont'd)

(v) CG

The following table sets out the summary of the financial results prepared based on the audited financial statements of CG:-

Period/Year ended	31/12/2002 RM	31/12/2003 RM
Revenue	-	381,850
Gross profit	-	163,391
(Loss)/profit before depreciation, interest and taxation	(48,502)	106,382
Depreciation	-	-
Interest expenses	-	-
(Loss)/profit before taxation	(48,502)	106,382
Taxation	-	(16,000)
(Loss)/profit after taxation	(48,502)	90,382

There were no exceptional items or extraordinary items in the financial period/year under review.

4. HISTORICAL FINANCIAL INFORMATION (CONT'D)

(a) Summarised income statements (cont'd)

(vi) PTPSPC

The following table sets out the summary of the financial results prepared based on the audited financial statements of PTPSPC:-

Period ended	31/12/2003 RM
Revenue	40,046
Gross profit	20,996
Profit before depreciation, interest and taxation	3,725
Depreciation	(3,367)
Interest expenses	-
Profit before taxation	358
Taxation	(599)
Loss after taxation	(241)

There were no exceptional items or extraordinary items in the financial period under review.

4. HISTORICAL FINANCIAL INFORMATION (CONT'D)

(b) Summarised balance sheets

(i) PROFORMA HI-CITY GROUP

As the purchase consideration for the acquisition is calculated on the net tangible assets based on the adjusted audited financial statements of the subsidiary companies as at 31 December 2002, it is therefore impracticable to present the summarised balance sheets of Hi-City Group throughout the periods under review. Accordingly, summarised balance sheets of Hi-City Group has only been presented in respect of 31 December 2003 as shown in the statement of assets and liabilities of Section 5 of this Report.

10. ACCOUNTANTS' REPORT (Cont'd)**Shamsir Jasani Grant Thornton****4. HISTORICAL FINANCIAL INFORMATION (CONT'D)****(b) Summarised balance sheets (cont'd)****(ii) HCM**

As at	31/12/1999	31/12/2000	31/12/2001	31/12/2002	31/12/2003
	RM	RM	RM	RM	RM
Share capital	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Unappropriated profit	11,078,604	14,858,881	19,469,805	24,529,116	26,216,377
	13,578,604	17,358,881	21,969,805	27,029,116	28,716,377
Hire purchase creditors	20,872	83,234	196,161	333,656	465,832
Term loan	3,065,645	3,863,810	3,523,666	3,002,278	2,232,085
Deferred taxation	835,000	1,305,000	1,530,000	1,970,000	2,145,000
	17,500,121	22,610,925	27,219,632	32,335,050	33,559,294
Property, plant and equipment	15,769,277	18,620,999	20,183,658	23,207,285	25,532,738
Investment in an associate company	300,000	300,000	360,000	360,000	-
Current assets	9,636,787	13,369,886	18,087,335	21,122,460	23,477,331
Current liabilities	(8,205,943)	(9,679,960)	(11,411,361)	(12,354,695)	(15,450,775)
Net current assets	1,430,844	3,689,926	6,675,974	8,767,765	8,026,556
	17,500,121	22,610,925	27,219,632	32,335,050	33,559,294
Net tangible assets	13,578,604	17,358,881	21,969,805	27,029,116	28,716,377
Net tangible assets/share (RM)	5.43	6.94	8.79	10.81	11.49

10. ACCOUNTANTS' REPORT (Cont'd)

Shamsir Jasani Grant Thornton 

4. HISTORICAL FINANCIAL INFORMATION (CONT'D)

(b) Summarised balance sheets (cont'd)

(iii) HCT

As at	31/08/1999	31/12/2000	31/12/2001	31/12/2002	31/12/2003
	RM	RM	RM	RM	RM
Share capital	150,000	150,000	150,000	150,000	150,000
(Accumulated loss)/unappropriated profit	(107,669)	(66,164)	(23,988)	1,747	51,245
	42,331	83,836	126,012	151,747	201,245
Hire purchase creditors	-	-	-	-	7,800
	42,331	83,836	126,012	151,747	209,045
Property, plant and equipment	91,500	161,406	190,582	208,818	302,324
Current assets	630,738	1,130,590	1,532,292	1,770,359	1,523,366
Current liabilities	(679,907)	(1,208,160)	(1,596,862)	(1,827,430)	(1,616,645)
Net current liabilities	(49,169)	(77,570)	(64,570)	(57,071)	(93,279)
	42,331	83,836	126,012	151,747	209,045
Net tangible assets	42,331	83,836	126,012	151,747	201,245
Net tangible assets/share (RM)	0.28	0.56	0.84	1.01	1.34

10. ACCOUNTANTS' REPORT (Cont'd)**Shamsir Jasani Grant Thornton****4. HISTORICAL FINANCIAL INFORMATION (CONT'D)****(b) Summarised balance sheets (cont'd)****(iv) ZP**

As at	31/12/2001	31/12/2002	31/12/2003
	RM	RM	RM
Share capital	50,000	50,000	50,000
Unappropriated profit	160	19,344	69,911
	50,160	69,344	119,911
Deferred taxation	-	1,051	1,075
	50,160	70,395	120,986
Property, plant and equipment	13,333	15,405	20,828
Investment in subsidiary company	-	-	2
Current assets	103,822	122,315	270,202
Current liabilities	(66,995)	(67,325)	(170,046)
Net current assets	36,827	54,990	100,156
	50,160	70,395	120,986
Net tangible assets	50,160	69,344	119,911
Net tangible assets/share (RM)	1.00	1.39	2.40

10. ACCOUNTANTS' REPORT (Cont'd)**Shamsir Jasani Grant Thornton** **4. HISTORICAL FINANCIAL INFORMATION (CONT'D)****(b) Summarised balance sheets (cont'd)****(v) CG**

As at	31/12/2002	31/12/2003
	RM	RM
Share capital	2	2
(Accumulated loss)/Unappropriated profit	(48,502)	41,880
	(48,500)	41,882
Current assets	1,785	343,743
Current liabilities	(50,285)	(301,861)
Net current (liabilities)/assets	(48,500)	41,882
(Net liabilities)/Net tangible assets	(48,500)	41,882
(Net liabilities)/Net tangible assets/share (RM)	(24,250)	20,941

4. HISTORICAL FINANCIAL INFORMATION (CONT'D)

(b) Summarised balance sheets (cont'd)

(vi) PTPSPC

As at	31/12/2003
	RM
Share capital	2
Accumulated loss	(241)
	(239)
Deferred taxation	407
	168
Property, plant and equipment	36,930
Current assets	7,415
Current liabilities	(44,177)
Net current liabilities	(36,762)
	168
Net liabilities	(239)
Net liabilities /share (RM)	(119.5)

5. STATEMENT OF ASSETS AND LIABILITIES

The following is a statement of assets and liabilities of Proforma Hi-City Group prepared based on the audited financial statements of Hi-City Bioscience Group Berhad (formerly known as Hi-City Holdings Berhad), HCM, CG, HCT, ZP and PTPSPC as at 31 December 2003.

The Hi-City Group's statement of assets and liabilities have been prepared for illustration purposes, based on the balance sheets as at 31 December 2003 incorporating the effects of the Acquisitions, Rights Issue and Public Issue and estimated listing expenses on the assumption that these transactions are completed on 31 December 2003.

	Note	Proforma group RM
PROPERTY, PLANT AND EQUIPMENT	6.4	30,492,820
CURRENT ASSETS		
Inventories	6.5	11,696,841
Receivables	6.6	10,467,639
Deposits with licensed bank		930,481
Cash and bank balances		4,937,577
		<u>28,032,538</u>
CURRENT LIABILITIES		
Payables	6.7	2,274,303
Borrowings	6.8	10,599,054
Tax payable		104,876
		<u>12,978,233</u>
NET CURRENT ASSETS		<u>15,054,305</u>
BORROWINGS	6.8	-
DEFERRED TAXATION		<u>(2,146,482)</u>
		<u>43,400,643</u>
SHARE CAPITAL	6.9	40,000,000
SHARE PREMIUM	6.10	2,200,000
RESERVE ON CONSOLIDATION - Undistributed		1,204,607
ACCUMULATED LOSS		<u>(3,964)</u>
SHAREHOLDERS' FUND		<u>43,400,643</u>

6. NOTES TO THE STATEMENT OF ASSETS AND LIABILITIES

6.1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group have been prepared under the historical cost convention. The financial statements comply with the applicable approved accounting standards in Malaysia and the provision of the Companies Act, 1965.

6.2 FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are credit and interest rate risks. The Group's policies for managing each of these risks are summarised as below:

Credit risk

The Group's exposure to credit risk arises through its receivables. Management has an informal credit policy in place and the exposure to credit risk is monitored on an ongoing basis through review of receivables ageing. Credit evaluations are performed on all new customers.

As at balance sheet date, the maximum exposure to credit risk is represented by the carrying amount of the receivables presented in the balance sheet.

Interest rate risk

The Group's exposure to interest risk arises through their borrowings and is monitored on an ongoing basis. The borrowings are subject to interest at a percentage over the base lending rate in the market.

In respect of significant financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the period in which they reprice or mature, whichever is earlier.

<u>Financial liabilities</u>	Less than <u>1 year</u> RM	1 to 5 <u>years</u> RM	<u>Total</u> RM	Effective interest rates during the <u>financial year</u>
Term loan	733,287	2,232,085	2,965,372	8.00%
Overdraft	1,863,165	-	1,863,165	8.09%
Trade finance	10,304,105	-	10,304,105	4.77%
Hire purchase creditors	517,780	473,632	991,412	5.33%

6.2 FINANCIAL INSTRUMENTS (CONT'D)

Foreign currency risk

The Group incurs foreign currency risk on sales and purchases that are denominated in a currency other than Ringgit Malaysia. The currency giving rise to this is primarily US Dollars. The Group does not hedge this risk. However, risk to foreign currency exposure is minimised due to the peg of Ringgit Malaysia to US Dollar at RM3.80.

Liquidity risk

The Group practises prudent liquidity risk management by maintaining sufficient levels of cash or cash convertible investments and through the availability of credit facilities.

Fair values

The carrying values of the short term financial assets and financial liabilities reported in the balance sheet approximated their fair values because of the immediate or short term maturity of these financial instruments.

The carrying amount in respect of long term loans approximated fair value as the loan was granted based on the good financial standing and reputation of the Group resulting in favourable interest rates being obtained.

6.3 SIGNIFICANT ACCOUNTING POLICIES

(a) Accounting convention

The financial statements of the Group are prepared under the historical cost convention, unless otherwise indicated in the other significant accounting policies.

(b) Basis of consolidation

The consolidated financial statements incorporated the audited financial statements of Hi-City, HCM, CG, HCT, ZP and PTPSPC as at 31 December 2003.

Under the acquisition method of accounting, the results of the subsidiary companies acquired are included from the date of acquisition. At the date of acquisition, the fair value of the subsidiary company's net assets are determined and reflected in the Group's financial statements. The difference of the consideration paid for shares in the subsidiary company acquired represents goodwill or reserve on consolidation. Goodwill on consolidation is amortised over 20 years. Where an indication of impairment exists, the carrying amount of the goodwill is assessed and written down immediately to their recoverable amount.

The consolidated financial statements reflect external transactions only and all significant inter-company transactions are eliminated on consolidation.

6.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Subsidiary company

A subsidiary company is a company in which the Group or the Company has a long term equity interest of more than 50 percent of the voting rights or otherwise has power to exercise control over the operations.

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

(d) Property, plant and equipment and depreciation

The cost of property, plant and equipment comprises their purchase cost and any incidental costs of acquisition. Depreciation of property, plant and equipment is calculated so as to write off their cost on a straight-line basis over the expected useful lives of the assets concerned. The annual depreciation rates are: -

Air conditioners	10%
Electrical installation	10%
Factory equipment	10%
Furniture and fittings	10%
Laboratory equipment	10%
Long leasehold land and buildings	56 to 99 years
Long leasehold properties	97 years
Motor vehicles	20%
Moulds	10%
Office equipment	10%
Operator set	10%
Plant and machinery	10%
Renovation	10%
Tools and implements	10%

Property, plant and equipment are written down to recoverable amount if in the opinion of the Directors, it is less than their carrying value. Recoverable amount is the net selling price of the property, plant and equipment i.e. the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposals.

(e) Inventories

Inventories, comprising of raw materials, packaging materials, work-in-progress and finished goods, are stated at the lower of cost and net realisable value. Cost is determined using the first in, first out basis. The cost of inventories comprises the original purchase price plus incidentals in bringing these inventories to their present location and condition. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses. Where necessary, allowance is made for slow moving inventories.

6.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Revenue

Sales are recognised upon delivery of products, which excludes sales taxes, trade discounts and allowances.

(g) Hire purchase

Assets acquired under hire purchase agreements are included in property, plant and equipment and the capital element of the hire purchase is shown as liabilities. The capital element of the hire purchase is applied to reduce the outstanding obligations and the interest element is charged to the income statement so as to give a constant periodic rate of interest on the outstanding liability at the end of each accounting period. Assets acquired under hire purchase are depreciated over the useful lives of equivalent owned assets.

(h) Trade and other receivables

Trade and other receivables are carried at anticipated realisable value. Known bad debts are written off in the period in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at the balance sheet date.

(i) Deferred expenditure

All expenses incurred for the Initial Public Offering exercise of the Company on the Second Board of the Bursa Malaysia Securities Berhad have been deferred and capitalised as deferred expenditure. Deferred expenditure will be written off against share premium upon completion of the Initial Public Offering exercise. If the Initial Public Offering is unsuccessful, the deferred expenditure will be written off immediately.

(j) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax liabilities and assets are provided for under the liability method at the current tax rate in respect of all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base including unused tax losses and unutilised capital allowances.

A deferred tax asset is recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of a deferred tax asset is reviewed at each balance sheet date. If it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset will be reduced accordingly. When it becomes probable that sufficient taxable profit will be available, such reductions will be reversed to the extent of the taxable profit.

6.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Taxation (cont'd)

In prior years, deferred tax was provided for at the applicable current tax rates for all material timing differences except when there is reasonable evidence that such timing differences will not reverse in the foreseeable future. In addition, deferred tax benefits were recognised only when there was reasonable assurance of their realisation. This change in accounting policy has been accounted for retrospectively. However, this has no material effect on the financial statements presented, nor led to a restatement of prior year results.

(k) Financial instruments

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

Financial instruments are offset when the company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(l) Liabilities

Trade and other payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received. Borrowing are recorded at the amount of proceeds received, net of transaction costs.

(m) Financing costs

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

(n) Impairment of assets

The carrying amount of the Group's assets, other than inventories and financial assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

6.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Impairment of assets (cont'd)

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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 has been recognised. The reversal is recognised in the income statement.

(o) Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, bank balances (including bank overdrafts), short term demand deposits and highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risks of changes in value.

(p) Foreign currencies

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

The principal closing rate used in translation of foreign currency amount is as follows:-

	<u>2003</u>
	RM
1 US Dollar	<u>3.825</u>

10. ACCOUNTANTS' REPORT (Cont'd)**Shamsir Jasani Grant Thornton** **6.4 PROPERTY, PLANT AND EQUIPMENT**

Proforma Group

	Cost	Cost	Accumulated depreciation	Net book value
	Additions through acquisition of subsidiary companies/at end of year	Additions through utilisation of the proceeds from Rights Issue and Public Issue	Additions through acquisition of subsidiary companies/at end of year	At end of year
	RM	RM	RM	RM
Air conditioners	1,014,154	-	566,990	447,164
Electrical installation	114,947	-	114,946	1
Factory equipment	895,020	-	527,032	367,988
Furniture and fittings	79,992	-	42,412	37,580
Laboratory equipment	281,538	-	87,189	194,349
Long leasehold land and buildings	10,239,062	1,600,000	1,223,021	10,616,041
Long leasehold properties	244,346	-	20,152	224,194
Motor vehicles	493,623	-	189,065	304,558
Moulds	991,598	-	398,573	593,025
Office equipment	472,775	-	245,613	227,162
Operator set	9,113	-	6,518	2,595
Plant and machinery	19,071,419	3,000,000	7,069,773	15,001,646
Renovation	2,881,965	-	554,875	2,327,090
Tools and implements	247,040	-	97,613	149,427
Total	37,036,592	4,600,000	11,143,772	30,492,820

6.5 INVENTORIES

	Proforma Group RM
At cost:-	
Raw materials	2,114,898
Packaging materials	2,782,992
Work-in-progress	484,163
Finished goods	<u>6,314,788</u>
	<u>11,696,841</u>

6.6 RECEIVABLES

	Proforma Group RM
Trade receivables	7,985,637
Less: Allowance for doubtful debts	<u>(64,545)</u>
	7,921,092
Other receivables	<u>2,546,547</u>
	<u>10,467,639</u>

6.7 PAYABLES

	Proforma Group RM
Trade payables	1,231,513
Other payables	<u>1,042,790</u>
	<u>2,274,303</u>

10. ACCOUNTANTS' REPORT (Cont'd)**Shamsir Jasani Grant Thornton****6.8 BORROWINGS**

	As at 31 December 2003	Repayment through the proceeds from Rights Issue and Public Issue	Proforma Group RM
	RM	RM	
Secured:			
<u>Payable within 1 year</u>			
Term loan	733,287	(733,287)	-
Overdraft	1,863,165	(1,568,216)	294,949
Trade finance	10,304,105	-	10,304,105
Hire purchase creditors	517,780	(517,780)	-
	<u>13,418,337</u>	<u>(2,819,283)</u>	<u>10,599,054</u>
<u>Payable after 1 year</u>			
Term loan	2,232,085	(2,232,085)	-
Hire purchase creditors	473,632	(473,632)	-
	<u>2,705,717</u>	<u>(2,705,717)</u>	<u>-</u>
	<u>16,124,054</u>	<u>(5,525,000)</u>	<u>10,599,054</u>

The borrowings are secured by the long leasehold land and building of a subsidiary company, debenture covering fixed and floating charges over all the present and future assets of the subsidiary company, joint and several guarantees by the Directors of the subsidiary company and charge over fixed deposit placed with the bank.

Interest is charged at rates ranging from 1.5% to 2.5% per annum above bank's Base Lending Rate and is repayable on monthly installments or upon maturity date.

6.9 SHARE CAPITAL

	Proforma Group RM	Company RM
Authorised: -		
Ordinary shares of RM0.50 each	<u>50,000,000</u>	<u>100,000</u>
Issued and fully paid: -		
Ordinary shares of RM0.50 each	2	2
Ordinary shares of RM0.50 each issued as consideration for acquisition of subsidiary companies	27,874,567	-
Ordinary shares of RM0.50 each issued as rights issue on the basis of approximately every nine existing ordinary shares held	3,125,431	-
Public issue	<u>9,000,000</u>	<u>-</u>
At end of year	<u>40,000,000</u>	<u>2</u>

6.10 SHARE PREMIUM

	Proforma Group RM
Arising from public issue	3,600,000
Less: Listing expenses	<u>(1,400,000)</u>
	<u>2,200,000</u>

6.11 CAPITAL COMMITMENT

	Proforma Group RM
Capital expenditure: Approved and contracted for	<u>2,295,150</u>

6.12 CONTINGENT LIABILITIES

	Proforma Group RM
Corporate guarantees given to a third party	<u>6,384,000</u>

Subsequent to the financial year end, the bank has discharged HCM from the above corporate guarantees.

6.13 NET TANGIBLE ASSETS PER ORDINARY SHARE

Based on the statement of assets and liabilities of Hi-City Group as at 31 December 2003, the net tangible assets per ordinary share is calculated as follows: -

	Proforma Group
Net tangible assets (NTA) as per Proforma Group's statement of assets and liabilities (RM)	<u>43,400,643</u>
Total number of issued and fully paid-up ordinary shares of RM0.50 each	<u>80,000,000</u>
NTA per ordinary share of RM0.50 each (RM)	<u>0.54</u>

7. CONSOLIDATED CASH FLOW STATEMENT

The following is a cash flow statement of Proforma Hi-City Group prepared based on the audited financial statements of Hi-City Bioscience Group Berhad (formerly known as Hi-City Holdings Berhad), HCM, CG, HCT, ZP and PTPSPC as at 31 December 2003.

The Hi-City Group's cash flow statement has been prepared for illustration purposes, based on the financial statements for the financial year ended 31 December 2003 incorporating the effects of the acquisitions of HCM, CG, HCT, ZP and PTPSPC.

	RM
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before taxation	6,672,445
Adjustments for:-	
Allowance for doubtful debts	64,545
Bad debts written off	51,409
Depreciation	2,373,749
Interest expenses	884,980
Loss on disposal of property, plant and equipment	(21)
Gain on disposal of associate company	(624,360)
Interest income	(28,806)
Operating profit before working capital changes	9,393,941
Changes in working capital:-	
Inventories	(349,739)
Receivables	(275,282)
Payables	(574,292)
Bills payables	3,695,881
Cash generated from operations	11,890,509
Interest paid	(884,980)
Tax paid	(1,041,255)
Interest received	28,806
Net cash from operating activities	9,993,080
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(8,639,991)
Proceeds from disposal of property, plant and equipment	230
Proceeds from disposal of associate company	283,004
Placement of deposits with licensed banks	(930,481)
Net cash used in investing activities	(9,287,238)

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7. CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

	RM
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment of hire purchase creditors	(1,556,174)
Repayment of term loans	(3,663,626)
Dividend paid	(3,750,000)
Proceeds from issuance of shares	15,725,000
Payment of listing expenses	<u>(1,400,000)</u>
Net cash from financing activities	<u>5,355,200</u>
CASH AND CASH EQUIVALENTS	
Net increase	6,061,042
Cash and cash equivalents at 1 January	<u>(1,418,414)</u>
Cash and cash equivalents at 31 December	<u>4,642,628</u>

NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Cash and cash equivalents comprise the following balance sheet amounts:-


	RM
Cash and bank balances	4,937,577
Bank overdraft	<u>(294,949)</u>
	<u>4,642,628</u>


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8. **AUDITED FINANCIAL STATEMENTS**

No audited financial statements have been prepared in respect of any period subsequent to 31 December 2003.

Yours faithfully,


SHAMSIR JASANI GRANT THORNTON
Firm Number: AF-737
Chartered Accountants


DATO' N. K. JASANI
Partner
Approval Number: 708/03/06(J/PH)