

10. REPORTING ACCOUNTANT'S REPORT



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

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3 March 2005

Dear Sirs

**1. Introduction**

The following report has been prepared by PricewaterhouseCoopers, an approved company auditor for inclusion in the Prospectus of Hovid Berhad (hereafter referred to as "Hovid" or "the Company"), in connection with the Public Issue of 12,800,000 new ordinary shares of RM0.50 each at an issue price of RM1.76 per share and the listing and quotation of its entire enlarged issued and fully paid share capital of 95,260,000 ordinary shares of RM0.50 each on the Second Board of Bursa Malaysia Securities Berhad ("Bursa Securities").

**2. General Information**

Hovid was incorporated in Malaysia as Ho Yan Hor (Kausing Brand) Medical Hall Sdn. Bhd. on 20 May 1980. This was followed by subsequent changes in the name of the Company to Ho Yan Hor Pharmaceuticals Sdn. Bhd. on 21 May 1984, Ho Yan Hor Sdn. Bhd. on 21 April 1989 and Hovid Sdn. Bhd. on 24 March 1998. On 5 December 2003, it was converted into a public limited company and assumed its present name.

The principal activity of Hovid is the manufacture of pharmaceutical and herbal products.

With the restructuring and listing exercise, Hovid acquired the following companies to be its subsidiaries (hereafter collectively known as "Hovid Group" or "the Group").

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)



## Hovid Berhad Accountants' Report

### 2. General Information (continued)

Name	Date of incorporation	Issued and fully paid share capital as at 31 October 2004	Effective interest %	Principal activities
Carotech Berhad (formerly known as Carotech Sdn. Bhd.) ("Carotech")	16.07.1990	RM 3,431,900	69.9	Extraction and processing of nutrients from palm oil for the purpose of manufacturing and producing pharmaceutical, phytonutrient and oleochemical products
Carotech Inc. ("C Inc") #	8.10.1999	USD 97,500	69.9	Sales agency and marketing of pharmaceutical, phytonutrient and oleochemical products
Hovid Pharmacy Sdn. Bhd. ("H Pharmacy")	16.06.1981	RM 1,212,200	100	Trading of medical supplies, pharmaceutical and consumer products
Hovid Inc. ("H Inc")	22.03.2002	Peso 10,223,800	100	Trading, importation and distribution of pharmaceutical products
Ho Yan Hor (S) Pte. Ltd. ("HYH Sg")	10.04.1978	SGD 50,000	80	Wholesalers, distributors, agents of and dealers in pharmaceutical products, embrocation oil, herbal tea and chinese patented medicines
Javid Sdn. Bhd. ("Javid")	21.02.1997	RM 100	100	Dealers in all kinds of pharmaceuticals, medicated herbs and nutritional products, and land development
Hovid Marketing Sdn. Bhd. ("H Marketing")	12.02.1998	RM 2	100	General trading

# wholly owned subsidiary of Carotech

### 3. Listing Exercise

In conjunction with, and as an integral part of the listing and quotation of Hovid's shares on the Second Board of Bursa Securities, the Company undertook the following listing scheme which was approved by the relevant authorities:

Completed transactions:

- (a) revaluation of land and buildings of Hovid Group and the incorporation of the revaluation surplus of RM4,850,868 net of deferred taxation into the financial statements of Hovid Group.



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**3. Listing Exercise (continued)**

Completed transactions (continued)

- (b) disposal of a piece of freehold land together with the erected buildings valued at RM5,710,000 by an independent registered valuer to Carotech for a cash consideration of RM5,710,000.
- (c) acquisition of subsidiaries by Hovid as follows:
  - (i) acquisition of the entire issued and fully paid share capital of Hovid Pharmacy Sdn. Bhd. ("H Pharmacy") from Ho Yan Hor Holdings Sdn. Bhd. ("HYH") comprising 1,212,200 ordinary shares of RM1.00 each for a purchase consideration of RM3,034,345 approximating the adjusted net tangible asset value as at 30 June 2003 (after adjusting for the revaluation surplus arising from the valuation of land and buildings), satisfied by the issuance of 3,034,345 new ordinary shares of RM1.00 each at par in Hovid.
  - (ii) acquisition of the entire issued and fully paid share capital of Hovid Inc. ("H Inc") from HYH, comprising 102,238 ordinary shares of Peso 100 each for a purchase consideration of RM460,344 equivalent to the net tangible asset value as at 30 June 2003, satisfied by the issuance of 460,344 new ordinary shares of RM1.00 each at par in Hovid.
  - (iii) acquisition of 46.2% issued and fully paid share capital of Carotech from HYH, comprising 1,587,078 ordinary shares of RM1.00 each for a purchase consideration of RM9,235,328 equivalent to the adjusted net tangible asset value as at 30 June 2003 (adjusted to include rights issue of RM132,000 issued by Carotech on 20 November 2003), satisfied by the issuance of 9,235,328 new ordinary shares of RM1.00 each at par in Hovid.

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


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## 3. Listing Exercise (continued)

Completed transactions: (continued)

(c) acquisition of subsidiaries by Hovid as follows: (continued)

- (iv) acquisition of 23.7% issued and fully paid share capital of Carotech comprising 810,105 ordinary shares of RM1.00 each in Carotech for a consideration of RM4,714,063 equivalent to the adjusted net tangible asset value as at 30 June 2003 (adjusted to include rights issue of RM132,000), satisfied by the issuance of 2,715,603 new ordinary shares of RM1.00 each in Hovid to the following vendors at an issue price of RM1.74 (rounded to nearest 2 decimal places) per share:

Vendors	Acquisition of Ordinary Shares in Carotech	Issuance of Ordinary Shares in Hovid
Commerce Asset Ventures Sdn. Bhd. ("CAV")	361,814	1,212,859
DH	80,001	268,177
HYH	285,793	958,024
Leong Weng Hoong	82,497	276,543
	<u>810,105</u>	<u>2,715,603</u>

- (v) acquisition of 80% issued and fully paid share capital of Ho Yan Hor (S) Pte. Ltd. ("HYH Sg"), comprising 40,000 ordinary shares of Singapore Dollar 1 each for a purchase consideration of RM34,304 equivalent to the net tangible asset value as at 30 June 2003, satisfied by the issuance of 34,304 new ordinary shares of RM1.00 each at par in Hovid.
- (vi) acquisition of the entire issued and fully paid share capital of Javid Sdn. Bhd. ("Javid"), comprising 100 ordinary shares of RM1.00 each and the transfer of shareholders' advances due by Javid to DH of RM1,652,973 for a total purchase consideration of RM5,230,255 approximating the adjusted net tangible asset value as at 30 June 2003 (after adjusting for the revaluation surplus arising from the valuation of land), satisfied by the issuance of 611,967 new ordinary shares of RM1.00 each in Hovid at an issue price of approximately RM8.55 per share.

10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)



**Hovid Berhad**  
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**3. Listing Exercise (continued)**

Completed transactions: (continued)

- (c) acquisition of subsidiaries by Hovid as follows: (continued)
  - (vii) acquisition of the entire issued and fully paid share capital of Hovid Marketing Sdn. Bhd. ("H Marketing"), comprising 2 ordinary shares of RM1.00 each for a purchase consideration of RM2 equivalent to the paid share capital as at 30 June 2003, satisfied by the issuance of 2 new ordinary shares of RM1.00 each at par in Hovid.
- (d) the acquisition by Hovid of two pieces of land together with the erected buildings from HYH valued at RM7,450,000 by an independent registered valuer for a cash consideration of RM7,450,000.
- (e) the acquisition by Hovid of a bungalow unit in Cameron Highlands from DH valued at RM1,000,000 by an independent registered valuer, to be satisfied by the issuance of 117,005 new ordinary shares of RM1.00 each in Hovid at an issue price of approximately RM8.55 per share.
- (f) special dividend of RM8 million declared and paid out by Hovid to HYH in the financial year ending 30 June 2005.
- (g) bonus issue of 21,135,102 new ordinary shares of RM1.00 each on the basis of 1.05 (rounded to 2 decimal places) new ordinary shares for every one existing ordinary share of RM1.00 each held in Hovid.
- (h) subdivision of every ordinary share of RM1.00 each into 2 ordinary shares of RM0.50 each.

Proposals:

- (a) offer for sale of 24,177,000 ordinary shares of RM1.00 each at an offer price of RM1.76 per share by two of Hovid's existing shareholders, CAV and EQL to Bumiputera investors nominated and approved by the MITI.
- (b) Public Issue of 12,800,000 new ordinary shares of RM0.50 each at an issue price of RM1.76 per share.



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**4. Basis of Presentation of Historical Financial Information**

- (a) The financial statements included in this Report are based on the respective audited financial statements of the companies within the Group which comply with the applicable approved accounting standards in Malaysia. The comparative figures comprising the financial years ended 30 June 2000 to 30 June 2004 have been extended and incorporate additional disclosures in accordance with the requirements of the accounting standards issued by the Malaysian Accounting Standards Board ("MASB") that are applicable up to the financial period ended 31 October 2004.

MASB Standard 23 "Impairment of Assets", MASB Standard 24 "Financial Instruments: Disclosure and Presentation" and MASB Standard 25 "Income Taxes" have been adopted in the financial statements of Hovid for the financial year ended 30 June 2002 in advance of their effective dates. For the purpose of this Report, the financial statements of the subsidiaries of Hovid that have not yet adopted MASB Standard 23, MASB Standard 24 and MASB Standard 25, have been adjusted to incorporate the additional requirements of the abovementioned accounting standards for the financial year ended 30 June 2002. However, the effects on income statements of these standards are not material to each subsidiary.

For the purpose of this Report, foreign subsidiaries where their financial statements are expressed in Singapore Dollar and Philippines Peso are translated at the respective exchange rates prevailing at each balance sheet date.

- (b) The directors of Hovid are of the opinion that the financial statements are not significantly affected by transactions and balances between the companies to which they relate, except to the extent stated in the notes to their respective financial statements.

**5. Summary of Significant Accounting Policies**

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

**(a) Property, plant and equipment**

All property, plant and equipment are initially stated at cost. Certain freehold and leasehold land and buildings are subsequently shown at market value, based on valuations by external independent valuers less subsequent depreciation/amortisation/impairment. All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad  
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**5. Summary of Significant Accounting Policies (continued)**
**(a) Property, plant and equipment (continued)**

The Group has applied the transitional provisions of International Accounting Standard 16 (Revised) Property, Plant and Equipment as adopted by Malaysian Accounting Standards Board where certain freehold and leasehold land and buildings are stated at their valuation amounts. Accordingly, these valuations have not been updated.

Freehold land and capital work in progress are not depreciated. Depreciation on assets under construction commences when the assets are ready for their intended use. The leasehold land is amortised on a reducing balance basis over the periods of the respective leases that range from 82 to 97 years. All other property, plant and equipment are depreciated on a reducing balance basis to write off the cost of the assets or the revalued amounts to their residual values over their estimated useful lives at the following annual rates:

	%
Buildings	2 - 3
Plant, machinery, laboratory equipment, factory equipment and electrical equipment	10 - 20
Motor vehicles	20
Furniture, fittings, office equipment, computer system and electrical installation	10 - 20

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds with their carrying amount and are included in profit from operations. On disposal of revalued assets, amounts in revaluation reserve relating to those assets are transferred to retained earnings.

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

**(b) Basis of consolidation**

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

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



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

**(b) Basis of consolidation (continued)**

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

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

**(c) Intangible assets**

**(i) Product development expenditure**

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

**(ii) Other intangible assets**

Expenditure on acquired patents, trademarks and licenses is capitalised and amortised using the straight line method over a period of 10 years from the date of its commercial production. Intangible assets are not revalued.

**(iii) Impairment of intangible assets**

When an indication of impairment exists, the carrying amount of the intangible assets is assessed and written down immediately to its recoverable amount.

**(d) Impairment of assets**

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



10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)



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

**(d) Impairment of assets (continued)**

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation reserve. Any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation reserve.

**(e) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. The cost of work in progress and finished goods comprises raw materials, direct labour, other direct costs and related production overheads.

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

**(f) Trade and other debtors**

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

**(g) Hire-purchase creditors**

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

**(h) Income taxes**

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group operates and includes all taxes based upon the taxable profits.

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

10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)



**Hovid Berhad  
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**5. Summary of Significant Accounting Policies (continued)**

**(h) Income taxes (continued)**

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

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

**(i) Employee benefits**

**(i) Short term employee benefits**

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

**(ii) Post-employment benefits**

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

**(j) Borrowing costs**

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

**(k) Foreign currencies**

Foreign currency transactions are accounted for at exchange rates ruling at the transaction dates, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Foreign currency monetary assets and liabilities are translated into Ringgit Malaysia at exchange rates ruling at the balance sheet date, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used.

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
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**5. Summary of Significant Accounting Policies (continued)**
**(k) Foreign currencies (continued)**

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

The Group's foreign entity comprises operations that are not an integral part of the operations of the Group. Income statements of the foreign entity are translated at average exchange rates for the financial year and the balance sheets are translated at exchange rates ruling at the balance sheet date. All resulting translation differences are taken to exchange fluctuation reserve.

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

Foreign currency	As at 30 June					As at
	2000 RM	2001 RM	2002 RM	2003 RM	2004 RM	31 October 2004 RM
1 US Dollar ("USD")	3.80	3.80	3.80	3.80	3.77	3.80
1 Singapore Dollar ("SGD")	2.44	2.06	2.11	2.14	2.18	2.16
1 Euro	N/A	N/A	3.76	3.79	4.47	4.39
100 Philippines Peso ("Peso")	N/A	N/A	7.12	6.68	6.47	6.45
1 Sterling Pound ("GBP")	N/A	N/A	N/A	N/A	7.00	N/A

**(l) Revenue recognition**

Revenue is recognised upon delivery of goods and customer acceptance, if any, net of rebates, returns and discounts allowed.

Rental and interest income are recognised on accrual basis.

**(m) Cash and cash equivalents**

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



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

**(n) Financial instruments**

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

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

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

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

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

**(ii) Financial instruments not recognised on the balance sheet**

The Group enters into foreign currency forward contracts with the licensed banks. This financial instrument is not recognised in the financial statements on inception.

The purpose of entering into these foreign currency forward contracts is to protect the Group from movements in the exchange rates by establishing the rate at which a foreign currency asset or liability will be settled.

Exchange gains and losses arising on contracts entered into as hedges of anticipated future transactions are deferred until the date of such transaction, at which time they are included in the measurement of such transactions.

All other exchange gains and losses relating to hedged instruments are recognised in the income statement in the same period as the exchange differences on the underlying hedged items. Gains and losses in contracts which are no longer designated as hedged instruments are included in the income statement.



**Hovid Berhad  
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**5. Summary of Significant Accounting Policies (continued)**

**(n) Financial instruments (continued)**

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

The fair value of foreign currency forward contracts is determined using the market forward rates at the balance sheet date.

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

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

**(o) Comparatives**

Comparatives figures were extended to comply with the additional disclosure requirements of the new MASB standards that are applicable up to the financial year ended 30 June 2004 except for certain comparatives which are not disclosed upon the first application of MASB Standard 24, as permitted by the Standard.

**6. Financial Risk Management Objectives and Policies**

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

**(a) Foreign currency exchange risk**

The Group's exposure to foreign currency exchange risk arises from the import of raw materials and export of finished goods that are generally denominated in USD which is presently pegged at RM3.80 per 1USD. Additionally, the availability of both inflow and outflow of USD arising from the normal business transactions of the Group provides a natural hedge to foreign currency exchange risk. Nevertheless, the Group enters into forward foreign currency exchange contracts to hedge its exposure on certain foreign currency receivables and payables.

10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)



**Hovid Berhad  
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**6. Financial Risk Management Objectives and Policies (continued)**

**(b) Interest rate risk**

Interest rate exposure arises mainly from the Group's borrowings. The Group closely monitors the interest rate trend, its decisions in respect of fixed or floating rate debt structure and tenor of borrowings are made based on the expected interest rates trend and after consultations with the bankers.

**(c) Credit risk**

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

**(d) Market risk**

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

**(e) Liquidity and cash flow risk**

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

**7. Hovid Berhad**

**7.1 General information**

Hovid was incorporated in Malaysia as Ho Yan Hor (Kausing Brand) Medical Hall Sdn. Bhd. on 20 May 1980. This was followed by subsequent changes in the name of the Company to Ho Yan Hor Pharmaceuticals Sdn. Bhd. on 21 May 1984, Ho Yan Hor Sdn. Bhd. on 21 April 1989, Hovid Sdn. Bhd. on 24 March 1998 and Hovid Berhad on 5 December 2003.

**10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)**
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**7. Hovid Berhad (continued)****7.1 General information (continued)**

The principal activity of Hovid is the manufacture of pharmaceutical and herbal products.

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

121 Jalan Tunku Abdul Rahman  
(formerly known as Jalan Kuala Kangsar)  
30010 Ipoh  
Perak Darul Ridzuan

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

	As at 30 June					As at 31 October
	2000	2001	2002	2003	2004	2004
Number of employees	437	484	483	531	658	656

**7.2 Financial statements and auditors**

The financial statements included in this Report have been prepared under the historical cost convention except as disclosed in the summary of significant accounting policies and in accordance with the applicable approved accounting standards in Malaysia. The accounting standards require the directors to use estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year/period. Although these estimates are based on the directors' best knowledge of current events and action, actual results may differ from those estimates.

The financial statements are the responsibility of Hovid's directors. We are the auditors of Hovid for all financial years and period relevant to this Report. The audited financial statements of Hovid for all the five financial years ended 30 June 2004 and the four months ended 31 October 2004 under review were audited and reported on by us without modification.

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
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## 7.3 Income statements

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

	Note	Financial year ended 30 June					4 months ended 31 October
		2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
<b>Revenue</b>	1	50,844	46,107	50,985	58,443	65,487	22,118
Other operating income		343	315	1,253	2,214	2,713	2,314
Changes in inventories of work in progress and finished goods		(750)	131	1,005	516	(1,062)	2,263
Raw materials and packing materials used		(26,918)	(24,166)	(30,103)	(33,458)	(31,846)	(11,138)
Staff costs		(7,413)	(8,297)	(8,777)	(9,975)	(11,653)	(5,037)
Depreciation of property, plant and equipment		(1,328)	(1,744)	(1,845)	(2,234)	(2,514)	(808)
Amortisation of intangible assets		(804)	(996)	(77)	(228)	(368)	(86)
Utilities and fuel		(820)	(779)	(820)	(1,383)	(2,426)	(867)
Transportation and freight charges		(662)	(720)	(698)	(945)	(1,192)	(419)
Advertisement and promotions		(1,187)	(978)	(1,686)	(1,192)	(1,443)	(936)
Upkeep of machinery		(337)	(456)	(429)	(227)	(442)	(189)
Upkeep of factory		(239)	(327)	(476)	(804)	(581)	(242)
Allowance for doubtful debts		0	0	(688)	(169)	(92)	0
Other operating expenses		(2,465)	(3,481)	(3,456)	(3,872)	(3,454)	(1,399)
<b>Profit from operations</b>	2	8,264	4,609	4,188	6,686	11,127	5,574
Finance (cost)/income	3	(2,205)	(1,617)	(1,487)	(1,462)	(280)	29
<b>Profit from ordinary activities before taxation</b>		6,059	2,992	2,701	5,224	10,847	5,603
Taxation	4	(1,399)	(497)	(762)	(1,125)	(1,860)	(810)
<b>Net profit for the financial year/period</b>		4,660	2,495	1,939	4,099	8,987	4,793
Basic earnings per RM1 share (RM)	5	1.29	0.69	0.54	1.14	2.39	1.23



## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)



## Hovid Berhad Accountants' Report

### 7.4 Balance sheets

The balance sheets of Hovid as at 30 June 2000 to 30 June 2004 and as at 31 October 2004, which are based on the audited financial statements after incorporating the adjustments set out in Note 7.7.24 are as follows:

	Note	As at 30 June					As at
		2000	2001	2002	2003	2004	31 October
	7.7	RM'000	RM'000	RM'000	RM'000	RM'000	2004 RM'000
<b>Non current assets</b>							
Property, plant and equipment	6	16,231	18,791	26,438	32,062	34,014	29,582
Intangible assets	7	5,620	6,463	8,427	10,529	12,461	13,100
		<u>21,851</u>	<u>25,254</u>	<u>34,865</u>	<u>42,591</u>	<u>46,475</u>	<u>42,682</u>
<b>Current assets</b>							
Inventories	8	10,241	9,855	10,464	12,014	11,291	13,783
Trade and other debtors	9	7,584	8,432	7,347	10,593	11,860	9,882
Income tax recoverable		0	0	515	605	0	0
Amount owing by HYH	10	3,438	0	4,192	11,311	20,531	23,089
Amounts owing by fellow subsidiaries	11	15,585	14,074	16,300	13,145	15,828	15,236
Cash and bank balances	12	1,472	4,761	2,485	127	1,740	942
		<u>38,320</u>	<u>37,122</u>	<u>41,303</u>	<u>47,795</u>	<u>61,250</u>	<u>62,932</u>
<b>Current liabilities</b>							
Trade and other creditors	13	11,762	10,428	7,436	10,835	12,002	11,038
Amount owing to HYH	10	0	7,421	9,402	8,314	10,170	9,829
Amounts owing to fellow subsidiaries	14	1,352	1,772	2,403	6,440	7,542	3,801
Hire-purchase creditors	15	1,587	1,610	1,760	1,421	1,343	1,226
Term loans	16	296	174	715	1,500	1,999	2,110
Short term bank borrowings	17	21,230	17,416	20,632	19,262	23,797	18,807
Bank overdrafts	18	7,087	2,704	7,665	9,513	6,811	9,942
Tax payable		0	0	0	0	265	582
		<u>43,314</u>	<u>41,525</u>	<u>50,013</u>	<u>57,285</u>	<u>63,929</u>	<u>57,335</u>
<b>Net current (liabilities)/assets</b>		(4,994)	(4,403)	(8,710)	(9,490)	(2,679)	5,597
<b>Non current liabilities</b>							
Hire-purchase creditors	15	2,177	3,694	3,367	2,251	1,016	898
Term loans	16	2,623	2,221	5,212	8,240	9,371	8,685
Deferred tax liabilities	19	1,957	2,341	3,042	3,977	4,568	4,982
		<u>6,757</u>	<u>8,256</u>	<u>11,621</u>	<u>14,468</u>	<u>14,955</u>	<u>14,565</u>
		<u>10,100</u>	<u>12,595</u>	<u>14,534</u>	<u>18,633</u>	<u>28,841</u>	<u>33,714</u>
<b>Capital and reserves</b>							
Share capital	20	3,600	3,600	3,600	3,600	3,886	3,886
Share premium	21	0	0	0	0	935	935
Revaluation reserve	22	206	206	206	206	206	67
Retained earnings	23	6,294	8,789	10,728	14,827	23,814	28,826
		<u>10,100</u>	<u>12,595</u>	<u>14,534</u>	<u>18,633</u>	<u>28,841</u>	<u>33,714</u>
Number of ordinary shares in issue as at 30 June/ 31 October ('000)		<u>3,600</u>	<u>3,600</u>	<u>3,600</u>	<u>3,600</u>	<u>3,886</u>	<u>3,886</u>
NTA per RM1 share (RM)		<u>1.24</u>	<u>1.70</u>	<u>1.70</u>	<u>2.25</u>	<u>4.22</u>	<u>5.30</u>

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
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## 7.5 Statements of changes in equity

The statements of changes in equity of Hovid for the five financial years ended 30 June 2004 and the four months ended 31 October 2004, which are based on the audited financial statements after incorporating the adjustments set out in Note 7.7.24 are as follows:

	Note	Issued and fully paid ordinary shares of RM1 each		Non distributable		Distributable	Total
		Number of shares '000	Share capital RM'000	Share premium RM'000	Revaluation reserve RM'000	Retained earnings RM'000	
At 1 July 1999 as previously reported		3,600	3,600	0	325	1,870	5,795
Change in accounting policy relating to deferred taxation	24	0	0	0	(119)	(236)	(355)
At 1 July 1999 as restated		3,600	3,600	0	206	1,634	5,440
Net profit for the financial year							
As previously reported		0	0	0	0	5,562	5,562
Change in accounting policy relating to deferred taxation	24	0	0	0	0	(902)	(902)
As restated		0	0	0	0	4,660	4,660
At 30 June 2000		3,600	3,600	0	206	6,294	10,100
At 1 July 2000 as previously reported		3,600	3,600	0	325	7,432	11,357
Change in accounting policy relating to deferred taxation	24	0	0	0	(119)	(1,138)	(1,257)
At 1 July 2000 as restated		3,600	3,600	0	206	6,294	10,100
Net profit for the financial year							
As previously reported		0	0	0	0	2,452	2,452
Change in accounting policy relating to deferred taxation	24	0	0	0	0	43	43
As restated		0	0	0	0	2,495	2,495
At 30 June 2001		3,600	3,600	0	206	8,789	12,595



## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)

**PRICEWATERHOUSECOOPERS** 

**Hovid Berhad**  
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## 7.5 Statements of changes in equity (continued)

	Note 7.7	Issued and fully paid ordinary shares of RM1 each		Non distributable		Distributable	Total RM'000
		Number of shares '000	Share capital RM'000	Share premium RM'000	Revaluation reserve RM'000	Retained earnings RM'000	
At 1 July 2004		3,886	3,886	935	206	23,814	28,841
Deferred tax written back to revaluation reserve		0	0	0	80	0	80
Revaluation reserve realised upon disposal of property		0	0	0	(219)	219	0
Net profit for the financial period		0	0	0	0	4,793	4,793
At 31 October 2004		<u>3,886</u>	<u>3,886</u>	<u>935</u>	<u>67</u>	<u>28,826</u>	<u>33,714</u>

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## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**
**7.6 Cash flow statement**

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

	4 months ended 31 October 2004 RM'000
<b>Operating activities</b>	
Net profit for the financial period	4,793
Adjustments for:	
Amortisation of intangible assets	86
Product development expenditure written off	192
Depreciation of property, plant and equipment	808
Property, plant and equipment written off	*
Gains on disposals of property, plant and equipment	(1,576)
Interest expense	933
Interest income	(962)
Taxation	810
	<u>5,084</u>
Net movements in working capital:	
Inventories	(2,492)
Trade and other debtors	1,938
Trade and other creditors	(948)
Intercompany balances	665
Cash generated from operations	<u>4,247</u>
Interest paid	(885)
Interest received	154
Tax paid	0
Net cash flow from operating activities	<u>3,516</u>
<b>Investing activities</b>	
Purchase of property, plant and equipment	(374)
Proceeds from disposal of plant and equipment	5,710
Product development expenditure incurred	(840)
Advances to HYH	(1,800)
Repayment from fellow subsidiaries	158
Net cash flow from investing activities	<u>2,854</u>
<b>Financing activities</b>	
Advances repaid to HYH	(341)
Advances repaid to a fellow subsidiary	(3,922)
Proceeds from short term bank borrowings	(5,003)
Term loans obtained	89
Repayments of term loans	(664)
Repayments of hire-purchase creditors	(458)
Net cash flow used in financing activities	<u>(10,299)</u>
<b>Net changes in cash and cash equivalents during the financial period</b>	<u>(3,929)</u>
Cash and cash equivalents at beginning of the financial period	(5,071)
<b>Cash and cash equivalents at end of the financial period (Note 7.7.12)</b>	<u>(9,000)</u>

\* Less than RM500

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements

## 7.7.1 Revenue

Revenue represents sales of goods at invoiced value less rebates, returns and discounts allowed.

## 7.7.2 Profit from operations

	Financial year ended 30 June					4 months ended
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	31 October 2004 RM'000
<b>Profit from operations is stated after charging:</b>						
Auditors' remuneration						
- current financial year/period	15	15	15	15	15	13
- under provision in prior financial year	2	0	0	0	0	0
Allowance for doubtful debts	0	0	688	169	92	0
Consultancy fee paid to a past director	110	110	0	0	0	0
Depreciation of property, plant and equipment	1,328	1,744	1,845	2,234	2,514	808
Amortisation of intangible assets	804	996	77	228	368	86
Rental of premises	195	209	222	232	243	96
Product development expenditure written off	0	0	830	0	108	192
Property, plant and equipment written off	0	0	0	40	2	*
<b>and crediting:</b>						
Rental income	183	180	180	264	264	44
Net gains on disposals of property, plant and equipment	105	107	20	3	27	1,576
Net gains on foreign exchange						
- realised	16	9	210	274	384	152
- unrealised	0	0	0	0	68	0
Allowance for doubtful debts written back	0	0	0	37	391	0
Grant received for acquisition of property, plant and equipment	0	0	331	0	0	0
Included in staff costs are:						
- directors' remuneration other than fees	332	352	364	445	461	205
- defined contribution plan expenses ("DCP")	560	662	803	904	1,099	481
Included in the DCP are:						
- contributions in respect of a director	46	49	51	62	64	25
Cost of inventories recognised as an expense	37,509	35,735	39,588	46,543	48,892	15,271

\* Less than RM500

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.2 Profit from operations (continued)

Included in the net gains on disposals of property, plant and equipment for the four months ended 31 October 2004 is a net gain arising from the disposal of a piece of freehold land and buildings to a fellow subsidiary, Carotech, in conjunction with the listing exercise of the Company on the Second Board of Bursa Malaysia Securities Berhad.

## 7.7.3 Finance (cost)/income

	Financial year ended 30 June					4 months ended
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
This comprises interest expense on:						
- bank overdrafts	(673)	(432)	(400)	(540)	(549)	(167)
- term loans	(332)	(214)	(230)	(600)	(739)	(323)
- other borrowings	(1,728)	(1,110)	(1,046)	(1,090)	(1,204)	(443)
	(2,733)	(1,756)	(1,676)	(2,230)	(2,492)	(933)
Less: Interest income	528	139	189	768	2,212	962
	(2,205)	(1,617)	(1,487)	(1,462)	(280)	29

## 7.7.4 Taxation

	Financial year ended 30 June					4 months ended
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Current financial year/period:						
- Income tax charge	(470)	(290)	(61)	(190)	(1,269)	(316)
- Deferred tax charge	(931)	(384)	(701)	(935)	(591)	(494)
	(1,401)	(674)	(762)	(1,125)	(1,860)	(810)
Overprovision in respect of previous financial year	2	177	0	0	0	0
	(1,399)	(497)	(762)	(1,125)	(1,860)	(810)

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.4 Taxation (continued)

Numerical reconciliation between the average effective tax rate and the statutory tax rate of Malaysia is as shown below:

	Financial year ended 30 June					4 months ended 31 October
	2000 %	2001 %	2002 %	2003 %	2004 %	2004 %
Statutory income tax rate	28	28	28	28	28	28
Tax effects of:						
- income not subject to tax	0	0	0	0	0	(9)
- expenses not deductible for tax purposes	3	4	3	3	3	3
- reinvestment allowances utilised	(8)	(9)	(3)	(3)	(10)	(7)
- double deduction claimed for research and development expenditure	0	0	0	(6)	(4)	(1)
- over accrual in previous financial year	*	(6)	0	0	0	0
Average effective tax rate	<u>23</u>	<u>17</u>	<u>28</u>	<u>22</u>	<u>17</u>	<u>14</u>

\* Less than 1%

Subject to the agreement by the Inland Revenue Board, Hovid's unutilised reinvestment allowances carried forward of which the deferred tax benefit has not been recognised are as follows:

	Financial year ended 30 June					4 months ended 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Reinvestment allowances	<u>0</u>	<u>0</u>	<u>2,159</u>	<u>9,584</u>	<u>7,678</u>	<u>8,802</u>



## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.5 Basic earnings per RM1 share

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

	Financial year ended 30 June					4 months ended
	2000	2001	2002	2003	2004	31 October 2004
Net profit for the financial year/period (RM'000)	4,660	2,495	1,939	4,099	8,987	4,793
Weighted average number of ordinary shares in issue ('000)	3,600	3,600	3,600	3,600	3,767	3,886
Basic earnings per RM1 share (RM)	1.29	0.69	0.54	1.14	2.39	1.23

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

## 7.7.6 Property, plant and equipment

	Freehold land at valuation RM'000	Freehold land at cost RM'000	Building on freehold land at cost RM'000	Plant, machinery and electrical equipment at cost RM'000	Motor vehicles at cost RM'000	Furniture, fittings, office, laboratory and factory equipment at cost RM'000	Capital work in progress at cost RM'000	Total RM'000
<b>2000</b>								
Cost/valuation								
At 1 July 1999	3,870	484	1,279	12,101	972	3,401	0	22,107
Additions	0	0	98	1,240	0	1,051	0	2,389
Disposals	0	0	0	(84)	(3)	(15)	0	(102)
At 30 June 2000	3,870	484	1,377	13,257	969	4,437	0	24,394
Less:								
Accumulated depreciation								
At 1 July 1999	0	0	119	4,710	600	1,310	0	6,739
Charge for the financial year	0	0	24	967	95	408	0	1,494
Disposals	0	0	0	(58)	(3)	(9)	0	(70)
At 30 June 2000	0	0	143	5,619	692	1,709	0	8,163
Net book value								
At 30 June 2000	3,870	484	1,234	7,638	277	2,728	0	16,231

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.6 Property, plant and equipment (continued)

	Freehold land at valuation RM'000	Freehold land at cost RM'000	Building on freehold land at cost RM'000	Plant, machinery and electrical equipment at cost RM'000	Motor vehicles at cost RM'000	Furniture, fittings, office, laboratory and factory equipment at cost RM'000	Capital work in progress at cost RM'000	Total RM'000
<b>2001</b>								
Cost/valuation								
At 1 July 2000	3,870	484	1,377	13,257	969	4,437	0	24,394
Additions	0	0	0	2,937	1,250	277	41	4,505
Disposals	0	0	0	0	(227)	0	0	(227)
At 30 June 2001	3,870	484	1,377	16,194	1,992	4,714	41	28,672
Less:								
Accumulated depreciation								
At 1 July 2000	0	0	143	5,619	692	1,709	0	8,163
Charge for the financial year	0	0	23	1,155	323	381	0	1,882
Disposals	0	0	0	0	(164)	0	0	(164)
At 30 June 2001	0	0	166	6,774	851	2,090	0	9,881
Net book value								
At 30 June 2001	3,870	484	1,211	9,420	1,141	2,624	41	18,791
<b>2002</b>								
Cost/valuation								
At 1 July 2001	3,870	484	1,377	16,194	1,992	4,714	41	28,672
Additions	0	40	137	2,287	241	1,104	5,879	9,688
Disposals	0	0	0	0	(98)	0	0	(98)
At 30 June 2002	3,870	524	1,514	18,481	2,135	5,818	5,920	38,262
Less:								
Accumulated depreciation								
At 1 July 2001	0	0	166	6,774	851	2,090	0	9,881
Charge for the financial year	0	0	25	1,255	308	437	0	2,025
Disposals	0	0	0	0	(82)	0	0	(82)
At 30 June 2002	0	0	191	8,029	1,077	2,527	0	11,824
Net book value								
At 30 June 2002	3,870	524	1,323	10,452	1,058	3,291	5,920	26,438

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.6 Property, plant and equipment (continued)

	Freehold land at valuation RM'000	Freehold land at cost RM'000	Building on freehold land at cost RM'000	Plant, machinery and electrical equipment at cost RM'000	Motor vehicles at cost RM'000	Furniture, fittings, office, laboratory and factory equipment at cost RM'000	Capital work in progress at cost RM'000	Total RM'000
<b>2003</b>								
Cost/valuation								
At 1 July 2002	3,870	524	1,514	18,481	2,135	5,818	5,920	38,262
Additions	0	0	25	1,318	225	598	5,859	8,025
Transfer	0	0	4,902	3,090	0	3,564	(11,556)	0
Write off	0	0	0	(156)	0	0	0	(156)
Disposals	0	0	0	0	(122)	0	0	(122)
At 30 June 2003	3,870	524	6,441	22,733	2,238	9,980	223	46,009
Less:								
Accumulated depreciation								
At 1 July 2002	0	0	191	8,029	1,077	2,527	0	11,824
Charge for the financial year	0	0	92	1,471	197	569	0	2,329
Write off	0	0	0	(116)	0	0	0	(116)
Disposals	0	0	0	0	(90)	0	0	(90)
At 30 June 2003	0	0	283	9,384	1,184	3,096	0	13,947
Net book value								
At 30 June 2003	3,870	524	6,158	13,349	1,054	6,884	223	32,062

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)

**PRICEWATERHOUSECOOPERS** 

**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.6 Property, plant and equipment (continued)

	Freehold land at valuation RM'000	Freehold land at cost RM'000	Building on freehold land at cost RM'000	Plant, machinery and electrical equipment at cost RM'000	Motor vehicles at cost RM'000	Furniture, fittings, office, laboratory and factory equipment at cost RM'000	Capital work in progress at cost RM'000	Total RM'000
<u>2004</u>								
Cost/valuation								
At 1 July 2003	3,870	524	6,441	22,733	2,238	9,980	223	46,009
Reclassification	0	0	(453)	280	0	0	173	0
Additions	0	0	188	3,314	75	523	622	4,722
Transfer	0	0	0	28	0	93	(121)	0
Write off	0	0	0	0	(33)	0	0	(33)
Disposals	0	0	0	0	(175)	0	0	(175)
At 30 June 2004	3,870	524	6,176	26,355	2,105	10,596	897	50,523
Less:								
Accumulated depreciation								
At 1 July 2003	0	0	283	9,384	1,184	3,096	0	13,947
Reclassification	0	0	(4)	4	0	0	0	0
Charge for the financial year	0	0	117	1,634	210	760	0	2,721
Write off	0	0	0	0	(31)	0	0	(31)
Disposals	0	0	0	0	(128)	0	0	(128)
At 30 June 2004	0	0	396	11,022	1,235	3,856	0	16,509
Net book value								
At 30 June 2004	3,870	524	5,780	15,333	870	6,740	897	34,014

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.6 Property, plant and equipment (continued)

	Freehold land at valuation RM'000	Freehold land at cost RM'000	Building on freehold land at cost RM'000	Plant, machinery and electrical equipment at cost RM'000	Motor vehicles at cost RM'000	Furniture, fittings, office, laboratory and factory equipment at cost RM'000	Capital work in progress at cost RM'000	Total RM'000
4 months ended <u>31 October 2004</u>								
Cost/valuation								
At 1 July 2004	3,870	524	6,176	26,355	2,105	10,596	897	50,523
Additions	0	0	30	325	0	215	11	581
Transfer	0	0	0	4	0	122	(126)	0
Write off	0	0	0	0	0	(2)	0	(2)
Disposals	(2,589)	(350)	(1,430)	0	0	0	0	(4,369)
At 31 October 2004	1,281	174	4,776	26,684	2,105	10,931	782	46,733
Less:								
Accumulated depreciation								
At 1 July 2004	0	0	396	11,022	1,235	3,856	0	16,509
Charge for the financial period	0	0	35	548	53	243	0	879
Write off	0	0	0	0	0	(2)	0	(2)
Disposals	0	0	(235)	0	0	0	0	(235)
At 31 October 2004	0	0	196	11,570	1,288	4,097	0	17,151
Net book value								
At 31 October 2004	1,281	174	4,580	15,114	817	6,834	782	29,582

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.6 Property, plant and equipment (continued)

	Financial year ended 30 June					4 months ended
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Assets under hire-purchase						
Plant, machinery and electrical equipment						
- additions during the financial year/period	905	2,446	1,146	75	0	248
- net book value as at 30 June/31 October	4,228	5,463	4,996	3,374	3,017	3,117
Motor vehicles						
- additions during the financial year/period	0	1,162	255	225	75	0
- net book value as at 30 June/31 October	253	1,016	987	938	792	739
Furniture, fittings, office, laboratory and factory equipment						
- additions during the financial year/period	794	174	567	176	0	0
- net book value as at 30 June/31 October	1,330	1,098	1,085	713	619	598
Capital work in progress						
- additions during the financial year/period	0	0	0	51	0	0
- net book value as at 30 June/31 October	0	0	0	51	51	51

The freehold land which is based on an independent professional valuation, is as follows:

Year of valuation	Description of property	Valuation RM'000	Basis of valuation
1992	Freehold land in Ipoh	1,281	Open market value

As allowed by the transitional provisions of International Accounting Standard 16 (Revised), Property, Plant and Equipment as adopted by the Malaysian Accounting Standards Board, the freehold land is stated on the basis of its 1992 valuation and has not been updated.

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
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## 7.7 Notes to the financial statements (continued)

## 7.7.6 Property, plant and equipment (continued)

The net book value of revalued property, plant and equipment of Hovid that would have been included in the financial statements, had the freehold land been carried at cost is as follows:

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Freehold land	1,145	1,145	1,145	1,145	1,145	375

Net book value of property, plant and equipment pledged as securities for the credit facilities granted to Hovid as disclosed in Notes 7.7.16 to 7.7.18 to the financial statements is as follows:

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Net book value of property, plant and equipment pledged	5,588	1,936	9,842	14,130	17,130	11,312

## 7.7.7 Intangible assets

	Financial year ended 30 June					4 months
	2000	2001	2002	2003	2004	ended
	RM'000	RM'000	RM'000	RM'000	RM'000	31 October
						2004
						RM'000
<u>Product development expenditure</u>						
Cost						
At 1 July	6,457	8,116	9,955	11,178	13,508	15,808
Additions	1,659	1,839	2,101	2,330	2,408	917
Write off	0	0	(878)	0	(108)	(192)
At 30 June/31 October	8,116	9,955	11,178	13,508	15,808	16,533
Accumulated amortisation						
At 1 July	1,692	2,496	3,492	3,521	3,672	3,963
Charge during the financial year/period	804	996	77	151	291	62
Write off	0	0	(48)	0	0	0
At 30 June/31 October	2,496	3,492	3,521	3,672	3,963	4,025
Net book value at 30 June/31 October	5,620	6,463	7,657	9,836	11,845	12,508

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


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**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.7 Intangible assets (continued)

	Financial year ended 30 June					4 months ended
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
<u>Acquired trademark</u>						
Cost						
At 1 July	0	0	0	770	770	770
Additions	0	0	770	0	0	0
At 30 June/31 October	0	0	770	770	770	770
Accumulated amortisation						
At 1 July	0	0	0	0	77	154
Charge during the financial year/period	0	0	0	77	77	24
At 30 June/31 October	0	0	0	77	154	178
Net book value at 30 June/ 31 October	0	0	770	693	616	592
<u>Total</u>						
Cost						
At 1 July	6,457	8,116	9,955	11,948	14,278	16,578
Additions	1,659	1,839	2,871	2,330	2,408	917
Write off	0	0	(878)	0	(108)	(192)
At 30 June/31 October	8,116	9,955	11,948	14,278	16,578	17,303
Accumulated amortisation						
At 1 July	1,692	2,496	3,492	3,521	3,749	4,117
Charge during the financial year/period	804	996	77	228	368	86
Write off	0	0	(48)	0	0	0
At 30 June/31 October	2,496	3,492	3,521	3,749	4,117	4,203
Net book value at 30 June/ 31 October	5,620	6,463	8,427	10,529	12,461	13,100



## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


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## 7.7 Notes to the financial statements (continued)

## 7.7.7 Intangible assets (continued)

Included in Hovid's product development expenditure for the five financial years ended 30 June 2004 and the four months ended 31 October 2004 are the following expenses:

	Financial year ended 30 June					4 months ended 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Interest expenses	8	6	4	4	13	6
Rental of premises	16	21	26	39	41	17
Depreciation of property, plant and equipment	166	138	180	95	207	71
Staff costs	781	885	1,017	1,102	1,175	490
Included in staff costs are: - defined contribution plan expenses	65	78	93	102	119	51

## 7.7.8 Inventories

	As at 30 June					As at 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
At cost,						
Raw materials	4,520	3,610	3,368	4,164	4,249	4,419
Work in progress	3,643	3,185	2,610	2,290	1,484	2,255
Finished goods	927	1,516	3,096	3,932	3,676	5,168
Packing materials	1,151	1,544	1,390	1,628	1,882	1,941
	10,241	9,855	10,464	12,014	11,291	13,783

## 7.7.9 Trade and other debtors

	As at 30 June					As at 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Trade debtors, net of allowances for doubtful debts	6,105	7,642	6,249	9,808	9,818	8,138
Other debtors	1,071	31	104	101	577	398
Downpayments for purchase of raw materials	141	413	616	44	110	0
Deposits and prepayments	229	214	260	546	1,270	1,256
Hire-purchase instalments prepaid	38	132	118	94	85	90
	7,584	8,432	7,347	10,593	11,860	9,882

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.9 Trade and other debtors (continued)

	As at 30 June			As at
	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	2004
				RM'000
Currency exposure profile of trade and other debtors:				
USD	5,106	9,055	8,076	6,600
Ringgit Malaysia	806	227	1,484	1,183
SGD	440	579	832	753
Others	1	48	3	0
	<u>6,353</u>	<u>9,909</u>	<u>10,395</u>	<u>8,536</u>
	Payment	Payment	Payment	Payment
	in	in	in	in
	advance	advance	advance	advance
Credit terms of trade debtors (days)	to 150	to 150	to 150	to 150

Concentration of credit risk with respect to trade debtors is limited as Hovid has a large number of customers in a broad spectrum of manufacturing and distribution sectors and Hovid has a variety of end markets. Hovid's historical experience in collection of trade debtors falls within the recorded allowances. Due to this factor, management believes that no additional credit risk beyond amounts allowed for collection losses is inherent in Hovid's trade debtors.

## 7.7.10 Amounts owing by/(to) HYH

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Amount owing by HYH						
Non trade - interest bearing	<u>3,438</u>	<u>0</u>	<u>4,192</u>	<u>11,311</u>	<u>20,531</u>	<u>23,089</u>
Amount owing to HYH						
Non trade - non interest bearing	<u>0</u>	<u>(7,421)</u>	<u>(9,402)</u>	<u>(8,314)</u>	<u>(10,170)</u>	<u>(9,829)</u>
Interest rates per annum (%)	<u>7.55-8.25</u>	<u>0</u>	<u>9.00</u>	<u>9.00</u>	<u>9.00</u>	<u>9.00</u>

Both the balances which are denominated in Ringgit Malaysia, are unsecured and carry no fixed terms of repayment.

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)

**PRICEWATERHOUSECOOPERS** 

**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.11 Amounts owing by fellow subsidiaries

	As at 30 June					As at
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	31 October 2004 RM'000
Trade account	14,022	12,268	13,756	12,011	15,343	14,909
Non trade account						
- interest bearing	1,362	1,806	0	0	379	141
- non interest bearing	201	0	2,544	1,134	106	186
	1,563	1,806	2,544	1,134	485	327
	15,585	14,074	16,300	13,145	15,828	15,236
Currency exposure profile:						
Ringgit Malaysia			16,300	12,902	15,217	14,520
USD			0	241	611	716
Euro			0	2	0	0
			16,300	13,145	15,828	15,236
Credit term of trade account (days)			150	150	150	150

With effect from financial year ended 30 June 2004, the overdue trade balances carry an interest rate of 7.25% per annum.

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

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October 2004
Interest rate per annum (%)	8.80	8.80	0	0	7.25	7.25

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.12 Cash and cash equivalents

	As at 30 June					As at 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Cash and bank balances	1,472	4,761	2,485	127	1,740	942
Bank overdrafts	(7,087)	(2,704)	(7,665)	(9,513)	(6,811)	(9,942)
	<u>(5,615)</u>	<u>2,057</u>	<u>(5,180)</u>	<u>(9,386)</u>	<u>(5,071)</u>	<u>(9,000)</u>

Currency exposure profile of cash and bank balances:

	2000	2001	2002	2003	2004	2004
Ringgit Malaysia			1,867	51	44	27
USD			343	74	1,366	891
SGD			275	2	330	24
			<u>2,485</u>	<u>127</u>	<u>1,740</u>	<u>942</u>

Bank balances are deposits placed in current accounts at various licensed banks in Malaysia which do not earn any interest except for the following balances placed in foreign currency accounts which carry interest rates as follows:

	As at 30 June					As at 31 October
	2000	2001	2002	2003	2004	2004
Foreign currency accounts (RM'000)	N/A	N/A	N/A	76	1,671	891
Interest rates per annum (%)	N/A	N/A	N/A	0.90	0.20-1.00	0.20-1.00

## 7.7.13 Trade and other creditors

	As at 30 June					As at 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Trade creditors	9,455	6,239	5,231	8,103	8,380	7,941
Other creditors and accruals	2,307	4,189	2,205	2,732	3,622	3,097
	<u>11,762</u>	<u>10,428</u>	<u>7,436</u>	<u>10,835</u>	<u>12,002</u>	<u>11,038</u>

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.13 Trade and other creditors (continued)

	As at 30 June			As at
	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	2004
				RM'000
Currency exposure profile of trade and other creditors and accruals:				
Ringgit Malaysia	4,512	6,105	6,883	6,967
USD	2,813	4,504	4,982	3,925
Euro	66	175	40	32
SGD	0	18	90	102
Others	45	33	7	12
	<u>7,436</u>	<u>10,835</u>	<u>12,002</u>	<u>11,038</u>
Credit terms of trade creditors (days)	<u>30-120</u>	<u>30-120</u>	<u>30-120</u>	<u>30-120</u>

The above trade creditors balance as at 30 June 2000 has been adjusted to reflect the following reclassification of balances.

Certain balances in short term bank borrowings which are mainly in respect of letters of credit, have been reclassified to trade creditors in order to present a more reflective gearing position as at 30 June 2000.

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Trade creditors						
As shown in the audited financial statements	3,779	6,239	5,231	8,103	8,380	7,941
Reclassifications	5,676	0	0	0	0	0
As restated	<u>9,455</u>	<u>6,239</u>	<u>5,231</u>	<u>8,103</u>	<u>8,380</u>	<u>7,941</u>
Short term bank borrowings - secured						
As shown in the audited financial statements	16,173	5,349	7,175	8,849	7,926	6,169
Reclassifications	(4,544)	0	0	0	0	0
As restated	<u>11,629</u>	<u>5,349</u>	<u>7,175</u>	<u>8,849</u>	<u>7,926</u>	<u>6,169</u>
Short term bank borrowings - unsecured						
As shown in the audited financial statements	10,733	12,067	13,457	10,413	15,871	12,638
Reclassifications	(1,132)	0	0	0	0	0
As restated	<u>9,601</u>	<u>12,067</u>	<u>13,457</u>	<u>10,413</u>	<u>15,871</u>	<u>12,638</u>

The reclassified short term bank borrowings are reflected in Note 7.7.17 below.

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)

**PRICEWATERHOUSECOOPERS** 

**Hovid Berhad**  
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## 7.7 Notes to the financial statements (continued)

## 7.7.14 Amounts owing to fellow subsidiaries

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Trade account	1,352	1,772	2,403	3,119	3,620	3,801
Non trade account	0	0	0	3,321	3,922	0
	<u>1,352</u>	<u>1,772</u>	<u>2,403</u>	<u>6,440</u>	<u>7,542</u>	<u>3,801</u>
Currency exposure profile:						
Ringgit Malaysia			2,403	6,410	7,524	3,737
USD			0	20	18	64
Euro			0	10	0	0
			<u>2,403</u>	<u>6,440</u>	<u>7,542</u>	<u>3,801</u>
Interest rate per annum (%)	<u>0</u>	<u>0</u>	<u>0</u>	<u>3.00</u>	<u>3.00</u>	<u>3.00</u>
Credit terms of trade account (days)			<u>60-90</u>	<u>60-90</u>	<u>60-90</u>	<u>60-90</u>

The non trade amounts owing to fellow subsidiaries are unsecured with no fixed terms of repayment.

## 7.7.15 Hire-purchase creditors

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Gross amount due:						
Payable not later than one year	1,877	2,115	2,097	1,659	1,480	1,410
Payable later than one year and not later than five years	2,441	4,145	3,993	2,742	1,316	1,114
	<u>4,318</u>	<u>6,260</u>	<u>6,090</u>	<u>4,401</u>	<u>2,796</u>	<u>2,524</u>
Less: Finance charges	(554)	(956)	(963)	(729)	(437)	(400)
	<u>3,764</u>	<u>5,304</u>	<u>5,127</u>	<u>3,672</u>	<u>2,359</u>	<u>2,124</u>

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
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## 7.7 Notes to the financial statements (continued)

## 7.7.15 Hire-purchase creditors (continued)

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Present value of hire-purchase creditors:						
Payable not later than one year	1,587	1,610	1,760	1,421	1,343	1,226
Payable later than one year and not later than five years	2,177	3,694	3,367	2,251	1,016	898
	<u>3,764</u>	<u>5,304</u>	<u>5,127</u>	<u>3,672</u>	<u>2,359</u>	<u>2,124</u>
Fair value of hire-purchase creditors			<u>5,276</u>	<u>3,882</u>	<u>2,538</u>	<u>2,111</u>
Interest rates per annum (%)	<u>6.36-11.68</u>	<u>6.36-11.68</u>	<u>6.36-11.78</u>	<u>6.36-11.68</u>	<u>6.18-11.68</u>	<u>6.18-11.68</u>

All hire-purchase creditors are denominated in Ringgit Malaysia.

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

## 7.7.16 Term loans

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Term loans (secured)						
Term loan A	0	2,395	2,271	2,039	1,784	1,674
Term loan B	0	0	1,268	2,395	2,110	1,915
Term loan C	0	0	2,388	2,806	2,564	2,480
Term loan D	0	0	0	892	978	947
Term loan E	0	0	0	168	131	119
Term loan F	0	0	0	789	2,250	2,198
Term loan G	0	0	0	0	981	925
Term loan H	90	0	0	0	0	0
Term loan I	1,300	0	0	0	0	0
Term loan J	841	0	0	0	0	0
Term loan K	688	0	0	0	0	0
	<u>2,919</u>	<u>2,395</u>	<u>5,927</u>	<u>9,089</u>	<u>10,798</u>	<u>10,258</u>
Term loan (unsecured)						
Term loan L	0	0	0	651	572	537
	<u>2,919</u>	<u>2,395</u>	<u>5,927</u>	<u>9,740</u>	<u>11,370</u>	<u>10,795</u>

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
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## 7.7 Notes to the financial statements (continued)

## 7.7.16 Term loans (continued)

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Current liabilities						
Repayable not later than one year	296	174	715	1,500	1,999	2,110
Non current liabilities						
Repayable later than one year and not later than five years	1,104	883	3,310	5,851	7,817	7,403
Repayable later than five years	1,519	1,338	1,902	2,389	1,554	1,282
	<u>2,623</u>	<u>2,221</u>	<u>5,212</u>	<u>8,240</u>	<u>9,371</u>	<u>8,685</u>
	<u>2,919</u>	<u>2,395</u>	<u>5,927</u>	<u>9,740</u>	<u>11,370</u>	<u>10,795</u>

All balances are denominated in Ringgit Malaysia.

Contractual terms of term loans of the Company are as follows:

	<u>Repayment term</u>	<u>Commencement date</u>
Term loan A	120 monthly instalments	November 2000
Term loan B	60 monthly instalments	December 2002
Term loan C	132 monthly instalments	January 2003
Term loan D	120 monthly instalments	July 2003
Term loan E	60 monthly instalments	August 2003
Term loan F	60 monthly instalments	May 2003
Term loan G	60 monthly instalments	June 2004
Term loan H	96 monthly instalments	January 1993
Term loan I	180 monthly instalments	December 1993
Term loan J	180 monthly instalments	March 1998
Term loan K	180 monthly instalments	June 1994
Term loan L	120 monthly instalments	January 2003

Certain of the term loans are secured by the following:

- fixed charges over a leasehold land and building of HYH;
- debentures incorporating fixed charges over certain plant and machinery of Hovid;
- fixed charges over a freehold land and buildings of Hovid and its fellow subsidiary, Carotech; and
- fixed charges over a factory lot of Hovid.



## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
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## 7.7 Notes to the financial statements (continued)

## 7.7.16 Term loans (continued)

Interest expenses on these loans are calculated based on floating interest rates which may be varied at the banks' discretion. These loans carry the following interest rates:

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
Interest rates per annum (%)	<u>9.80-10.25</u>	<u>7.95-8.05</u>	<u>7.65-8.15</u>	<u>7.00-7.75</u>	<u>7.25-7.75</u>	<u>7.25-7.75</u>

## 7.7.17 Short term bank borrowings

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
	RM'000					
Secured	11,629	5,349	7,175	8,849	7,926	6,169
Unsecured	9,601	12,067	13,457	10,413	15,871	12,638
	<u>21,230</u>	<u>17,416</u>	<u>20,632</u>	<u>19,262</u>	<u>23,797</u>	<u>18,807</u>
Currency exposure profile:						
Ringgit Malaysia			20,632	19,262	20,725	16,898
USD			0	0	3,072	1,909
			<u>20,632</u>	<u>19,262</u>	<u>23,797</u>	<u>18,807</u>

Short term bank borrowings comprise bankers' acceptances, trust receipts and revolving credits which have the interest rates per annum and credit periods as follows:

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
Interest rates per annum (%)	<u>8.30-9.75</u>	<u>3.95-9.30</u>	<u>3.75-8.90</u>	<u>3.65-8.50</u>	<u>2.65-8.50</u>	<u>3.20-8.50</u>
Credit periods (days)			<u>30-156</u>	<u>28-150</u>	<u>30-150</u>	<u>30-150</u>

The secured short term bank borrowings are secured by:

- fixed charges over a leasehold land and building of HYH; and
- fixed charges over a freehold land and buildings of Hovid and its fellow subsidiary, Carotech.

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)

**PRICEWATERHOUSECOOPERS** 

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## 7.7 Notes to the financial statements (continued)

## 7.7.18 Bank overdrafts

	As at 30 June					As at 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Secured	5,572	1,848	6,810	7,891	5,478	8,421
Unsecured	1,515	856	855	1,622	1,333	1,521
	<u>7,087</u>	<u>2,704</u>	<u>7,665</u>	<u>9,513</u>	<u>6,811</u>	<u>9,942</u>
Interest rates per annum (%)	<u>8.30-9.75</u>	<u>7.70-9.30</u>	<u>7.40-8.40</u>	<u>7.00-8.50</u>	<u>7.00-8.50</u>	<u>7.00-8.50</u>

All balances are denominated in Ringgit Malaysia.

The secured bank overdrafts are secured by:

- (a) fixed charges over a leasehold land and building of HYH; and
- (b) fixed charges over a freehold land and buildings of Hovid and its fellow subsidiary, Carotech.

## 7.7.19 Deferred tax liabilities

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

	As at 30 June					As at 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Deferred tax liabilities						
- subject to income tax	1,838	2,222	2,923	3,858	4,449	4,943
- subject to capital gains tax	119	119	119	119	119	39
	<u>1,957</u>	<u>2,341</u>	<u>3,042</u>	<u>3,977</u>	<u>4,568</u>	<u>4,982</u>
At 1 July	1,026	1,957	2,341	3,042	3,977	4,568
Charged to income statement:						
- property, plant and equipment	705	151	399	325	236	186
- intangible assets	226	233	302	610	355	308
(Credited) to revaluation reserve upon disposal of property	0	0	0	0	0	(80)
At 30 June/31 October	<u>1,957</u>	<u>2,341</u>	<u>3,042</u>	<u>3,977</u>	<u>4,568</u>	<u>4,982</u>

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.19 Deferred tax liabilities (continued)

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Subject to income tax:						
Deferred tax liabilities						
- property, plant and equipment	493	644	1,043	1,368	1,604	1,790
- intangible assets	1,345	1,578	1,880	2,490	2,845	3,153
	<u>1,838</u>	<u>2,222</u>	<u>2,923</u>	<u>3,858</u>	<u>4,449</u>	<u>4,943</u>
Subject to capital gains tax:						
Deferred tax liabilities						
- property, plant and equipment	119	119	119	119	119	39

## 7.7.20 Share capital

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Ordinary shares of RM1 each						
Authorised	10,000	10,000	10,000	10,000	10,000	10,000
Issued and fully paid ordinary shares of RM1 each						
At 1 July	3,600	3,600	3,600	3,600	3,600	3,886
Rights issue	0	0	0	0	286	0
At 30 June/31 October	<u>3,600</u>	<u>3,600</u>	<u>3,600</u>	<u>3,600</u>	<u>3,886</u>	<u>3,886</u>

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.21 Share premium

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Non distributable						
At 1 July	0	0	0	0	0	935
Rights issue of 220,000 ordinary shares of RM1.00 each at a premium of RM4.25 each	0	0	0	0	935	0
At 30 June/31 October	0	0	0	0	935	935

## 7.7.22 Revaluation reserve

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Non distributable						
Surplus on revaluation of freehold land	325	325	325	325	325	106
Deferred tax liabilities	(119)	(119)	(119)	(119)	(119)	(39)
Balance as at 30 June/31 October	206	206	206	206	206	67

## 7.7.23 Retained earnings

Subject to the agreement by the Inland Revenue Board, Hovid has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and exempt income account to frank a total of RM13,447,000 (30 June 2004: RM11,234,000) out of its retained earnings as at 31 October 2004, if paid out as dividends.

The extent of the retained earnings not covered by the abovementioned tax credit and exempt income accounts as at 31 October 2004 amounted to RM15,378,655 (30 June 2004: RM12,579,999).

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)

**PRICEWATERHOUSECOOPERS** 

**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.24 Change in accounting policy

During the financial year ended 30 June 2002, Hovid changed its accounting policy to comply with MASB 25 "Income Taxes". This change in accounting policy has been accounted for retrospectively and reflected as prior year adjustments. The effects of the adjustments on previous financial years' figures are as follows:

	As previously reported RM'000	Effect of change RM'000	As restated RM'000
2000			
Income statement			
Profit before taxation	6,059	0	6,059
Taxation	(497)	(902)	(1,399)
Net profit for the financial year	<u>5,562</u>	<u>(902)</u>	<u>4,660</u>
Balance sheet			
Deferred tax liabilities	700	1,257	1,957
Revaluation reserve	325	(119)	206
Retained earnings	<u>7,432</u>	<u>(1,138)</u>	<u>6,294</u>
Statement of changes in equity			
Retained earnings as at 1 July 1999	1,870	(236)	1,634
Net profit for the financial year	<u>5,562</u>	<u>(902)</u>	<u>4,660</u>
Notes to the 2000 financial statements			
Taxation			
Income tax	470	0	470
Deferred tax charge	29	902	931
	<u>499</u>	<u>902</u>	<u>1,401</u>
Overprovision in prior financial year	(2)	0	(2)
	<u>497</u>	<u>902</u>	<u>1,399</u>

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)

**PRICEWATERHOUSECOOPERS** 

**Hovid Berhad  
Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.24 Change in accounting policy (continued)

	As previously reported RM'000	Effect of change RM'000	As restated RM'000
2001			
Income statement			
Profit before taxation	2,992	0	2,992
Taxation	(540)	43	(497)
Net profit for the financial year	<u>2,452</u>	<u>43</u>	<u>2,495</u>
Balance sheet			
Deferred tax liabilities	1,127	1,214	2,341
Revaluation reserve	325	(119)	206
Retained earnings	<u>9,884</u>	<u>(1,095)</u>	<u>8,789</u>
Statement of changes in equity			
Retained earnings as at 1 July 2000	7,432	(1,138)	6,294
Net profit for the financial year	<u>2,452</u>	<u>43</u>	<u>2,495</u>
Notes to the 2001 financial statements			
Taxation			
Income tax charge	290	0	290
Deferred tax charge	427	(43)	384
	<u>717</u>	<u>(43)</u>	<u>674</u>
Overprovision in prior financial year	(177)	0	(177)
	<u>540</u>	<u>(43)</u>	<u>497</u>

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)

# PRICEWATERHOUSECOOPERS

## Hovid Berhad Accountants' Report

## 7.7 Notes to the financial statements (continued)

## 7.7.25 Significant related party disclosures

The significant related parties and their relationship with Hovid are as follows:

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

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

	Financial year ended 30 June					4 months ended
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
HYH						
- interest income received/receivable	436	0	189	768	1,679	758
- reallocation of common cost received/receivable	0	0	0	328	304	109
- rental of premises paid/payable	180	180	180	180	180	60
H Pharmacy						
- sales of goods	26,697	23,877	26,694	25,115	27,326	9,313
- reallocation of common cost received/receivable	0	0	477	551	811	299
- interest income received/receivable	0	0	0	0	533	204

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.25 Significant related party disclosures (continued)

	Financial year ended 30 June					4 months ended 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Carotech						
- reallocation of common cost received/receivable	0	0	0	1,035	389	115
- rental income received/receivable	180	180	180	264	264	44
- interest income received/receivable	0	101	0	0	0	0
- sales of goods	0	0	75	4	4	1
- purchases of goods	682	279	676	719	358	285
- interest expense paid/payable	0	0	0	58	109	29
- steam service expense paid/payable	0	0	0	0	570	120
- sale of freehold land and buildings	0	0	0	0	0	5,710
C Inc						
- purchases of goods	0	0	0	326	624	0
H Inc						
- sales of goods	0	0	243	290	611	105
Falcon Plastics Sdn. Bhd.						
- purchases of packing materials	1,118	826	1,084	1,303	1,262	535

The balances outstanding for Hovid in connection with the transactions stated above are disclosed in balance sheets.

## 7.7.26 Capital commitments

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

	As at 30 June					As at 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Authorised and contracted						
Purchase of properties	0	0	0	0	0	8,450
Authorised but not contracted						
Construction of factory buildings	0	5,260	3,413	2,320	2,400	2,400
Purchase of plant and equipment	0	5,218	4,482	5,709	10,330	10,221
	0	10,478	7,895	8,029	12,730	12,621



## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.27 Contingent liabilities

## (a) Corporate guarantees (unsecured)

	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Guarantees given to banks for credit facilities extended to Carotech	10,980	5,380	8,380	8,380	5,250	8,550

## (b) Litigations

Two claims have been lodged against Hovid in respect of the following:

- (i) Alleged infringement of claimants' trademark and producing, manufacturing, distributing and offering for sale of products bearing a name relating to claimants' trademark.
- (ii) Specific performance of a manufacturing agreement by another claimant and the refund of RM60,000 deposited on the manufacturing contract retained by Hovid as cost to defend the claim mentioned in b(i) above.

Other than the refund of RM60,000, the quantum of the other claims are not specified by the claimants. The directors are of the opinion that these claims will not materialise as they are of the view that there was no infringement on the part of Hovid. No liability is recognised in the financial statements other than the RM60,000 included under other creditors.

The above claims have been disclosed as contingent liabilities in the statutory financial statements for the three financial years ended 30 June 2004 and the four months ended 31 October 2004.

## 7.7.28 Financial instruments

## (i) Foreign currency forward contracts

Foreign currency forward contracts are entered into by Hovid in currencies other than their functional currency to manage exposure to fluctuations in foreign currency exchange rates on specific transactions.

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.28 Financial instruments (continued)

## (i) Foreign currency forward contracts (continued)

The details of the outstanding forward contracts as at 31 October 2004 are as follows:

<u>Hedged item</u>	<u>Currency bought</u>	<u>Currency sold</u>	<u>Contractual rate</u>	<u>RM equivalent</u>
31.10.2004				
<u>Trade debtors</u>				
- USD 175,000	RM	USD	3.8000	665,000
- USD 206,000	RM	USD	3.8002	782,841
30.6.2004				
<u>Trade debtors</u>				
- USD 70,000	RM	USD	3.8075	266,525
- SGD 100,000	RM	SGD	2.2080	220,800

The open forward contracts outstanding as at 31 October 2004 were fully utilised within 3 days from the balance sheet date.

The fair values of the outstanding forward contracts at the balance sheet date of 31 October 2004 was a favourable net position of RM13,376 (30 June 2004: RM5,275).

Other than as mentioned above, Hovid has no other outstanding forward contracts as at 30 June 2000 to 30 June 2003.

## (ii) Fair values

The carrying amounts of financial assets and liabilities of Hovid as at 30 June 2002, 30 June 2003, 30 June 2004 and 31 October 2004 approximated their fair values.

## 7.7.29 Non cash transactions

The principal non cash transactions of Hovid during the five financial years ended 30 June 2004 and the four months ended 31 October 2004 consist of the acquisitions of property, plant and equipment by means of the following:

	Financial year ended 30 June					4 months ended
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Hire-purchase	1,698	3,551	1,855	493	69	223

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 7.7 Notes to the financial statements (continued)

## 7.7.30 Segment reporting

## (a) Primary reporting format - business

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

## (b) Secondary reporting format - geographical segments

Hovid operates in two main geographical areas:

- (i) Asia \*
- (ii) Africa

\* Hovid's home region

	Financial year ended 30 June					4 months ended
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
<b>Revenue</b>						
Asia	46,327	40,950	43,639	46,298	51,441	15,730
Africa	2,394	3,163	6,143	9,354	11,478	6,203
Others	2,123	1,994	1,203	2,791	2,568	185
	<u>50,844</u>	<u>46,107</u>	<u>50,985</u>	<u>58,443</u>	<u>65,487</u>	<u>22,118</u>
	As at 30 June					As at
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
<b>Total assets</b>						
Asia	60,171	62,376	76,168	90,386	107,725	105,614
Africa	0	0	0	0	0	0
Others	0	0	0	0	0	0
	<u>60,171</u>	<u>62,376</u>	<u>76,168</u>	<u>90,386</u>	<u>107,725</u>	<u>105,614</u>
	Financial year ended 30 June					4 months ended
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
<b>Capital expenditure</b>						
Asia	2,389	4,505	9,688	8,025	4,722	581
Africa	0	0	0	0	0	0
Others	0	0	0	0	0	0
	<u>2,389</u>	<u>4,505</u>	<u>9,688</u>	<u>8,025</u>	<u>4,722</u>	<u>581</u>

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

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)



## Hovid Berhad Accountants' Report

### 7.8 Statement of assets and liabilities

The statement of assets and liabilities based on the audited financial statements of Hovid as at 31 October 2004 has been included in the balance sheets stated in Note 7.4 above.

### 8. Carotech Berhad

#### 8.1 General information

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

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

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

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

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

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

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

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

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad  
Accountants' Report**
**8.1 General information (continued)**

The numbers of employees in Carotech Group as at each financial year/period end is:

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

**8.2 Financial statements and auditors**

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

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

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## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 8.3 Consolidated income statements

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

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

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 8.5 Statements of changes in equity

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

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

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
**Accountants' Report**

## 8.6 Consolidated cash flow statement

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

	4 months ended 31 October 2004 RM'000
<b>Operating activities</b>	
Net profit for the financial period	630
Adjustments for:	
Depreciation of property, plant and equipment	515
Interest expense	306
Interest income	(41)
Amortisation of product development expenditure	145
Taxation	164
	<u>1,719</u>
Net movements in working capital:	
Inventories	(5,417)
Trade and other debtors	728
Trade and other creditors	38
Intercompany balances	(283)
Cash generated used in operations	<u>(3,215)</u>
Interest paid	(429)
Interest received	1
Tax paid	(434)
Net cash flow used in operating activities	<u>(4,077)</u>
<b>Investing activities</b>	
Purchase of property, plant and equipment	(3,301)
Net cash flow used in investing activities	<u>(3,301)</u>
<b>Financing activities</b>	
Proceeds of bankers' acceptances	7,317
Repayments of bankers' acceptances	(4,593)
Repayments of term loans	(115)
Repayments of hire-purchase creditors	(500)
Repayment from a fellow subsidiary	1,854
Net cash flow from financing activities	<u>3,963</u>
<b>Net changes in cash and cash equivalents during the financial period</b>	<b>(3,415)</b>
Cash and cash equivalents at beginning of the financial period	40
<b>Cash and cash equivalents at end of the financial period (Note 8.7.12)</b>	<b><u>(3,375)</u></b>



## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


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## 8.7 Notes to the financial statements

## 8.7.1 Revenue

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

## 8.7.2 Profit from operations

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

\* Amount is less than RM500

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


**Hovid Berhad**  
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## 8.7 Notes to the financial statements (continued)

## 8.7.3 Finance cost

	Financial year ended 30 June					4 months ended
	2000	2001	2002	2003	2004	31 October
	RM'000	RM'000	RM'000	RM'000	RM'000	2004
						RM'000
Total interest expense	597	437	286	216	346	410
Less: Interest expense capitalised into property plant and equipment (Note 8.7.6)	0	0	0	0	(105)	(104)
	<u>597</u>	<u>437</u>	<u>286</u>	<u>216</u>	<u>241</u>	<u>306</u>
This comprises interest expense on:						
- term loans	38	5	0	0	0	44
- bank overdrafts	127	67	63	19	43	25
- other borrowings	432	365	223	197	198	237
	<u>597</u>	<u>437</u>	<u>286</u>	<u>216</u>	<u>241</u>	<u>306</u>

## 8.7.4 Taxation

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

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


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## 8.7 Notes to the financial statements (continued)

## 8.7.4 Taxation (continued)

Numerical reconciliation between the average effective tax rate and the statutory tax rate of Malaysia is as shown below:

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

\* Less than 1%

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

## 8.7.5 Basic earnings per RM1 share

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

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

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

## 10. REPORTING ACCOUNTANT'S REPORT (CONTINUED)


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## 8.7 Notes to the financial statements (continued)

## 8.7.6 Property, plant and equipment

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