Company number 58476-A

1. CORPORATE DIRECTORY

BOARD OF DIRECTORS

Name	Address	Occupation	Nationality
Datuk Haji Ibrahim Bin Haji Ahmad (Non-Executive Chairman)	17, Jalan 1/9C 43650 Bandar Baru Bangi Selangor Darul Ehsan	Director	Malaysian
Ho Sue San @ David Ho Sue San (Managing Director)	51, Jalan Chin Hwa Chateau Garden 30250 Ipoh Perak Darul Ridzuan	Director	Malaysian
Liong Kam Hon (Executive Director)	32, Hala Perajurit 6 Taman Perak 31400 Ipoh Perak Darul Ridzuan	Director	Malaysian
Chuah Chaw Teo (Independent Non-Executive Director)	4, Persiaran 8 Arena Kepayang Putra Fair Park 31400 Ipoh Perak Darul Ridzuan	Chemist	Malaysian
Leong Kwok Yee (Independent Non-Executive Director)	12, Lorong Bruas Damansara Heights 50490 Kuala Lumpur	Chartered Accountant	Australian
YM Raja Shamsul Kamal Bin Raja Shahruzzaman (Non-Executive Director)	1, Jalan 4/6 40000 Shah Alam Selangor Darul Ehsan	Director	Malaysian

AUDIT COMMITTEE

Name	Position	Directorship in the Company
Leong Kwok Yee	Chairman	Independent Non-Executive Director
Ho Sue San @ David Ho Sue San	Member	Managing Director
Chuah Chaw Teo	Member	Independent Non-Executive Director

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1. CORPORATE DIRECTORY (CONTINUED)

COMPANY SECRETARIES	:	Goh Tian Hock (MIA 8222) 15, Dataran Perajurit 3 Taman Kemuncak 31400 Ipoh Perak Darul Ridzuan Ng Yuet Seam (MAICSA 7005639) 1, Lorong Evergreen Taman Bunga Raya 31650 Ipoh Perak Darul Ridzuan
REGISTERED AND HEAD OFFICE	:	121, Jalan Tunku Abdul Rahman (formerly known as Jalan Kuala Kangsar) 30010 Ipoh Perak Darul Ridzuan Telephone: +6 05 506 0690 Facsimile: +6 05 506 1215 Website: www.hovid.com Email: info@hovid.com
AUDITORS AND REPORTING ACCOUNTANTS	:	PricewaterhouseCoopers 1st Floor, Standard Chartered Bank Chambers 21-27, Jalan Dato' Maharaja Lela P. O. Box 136 30710 Ipoh Perak Darul Ridzuan
LEGAL ADVISER	:	Zain & Co. 6th Floor, Bangunan Dato' Zainal 23, Jalan Melaka 50100 Kuala Lumpur
VALUER	:	Colliers, Jordan Lee & Jaafar Sdn Bhd Suites 1, 2 & 3, Tingkat Satu Labrooy House Jalan Dato Sagor 30000 Ipoh Perak Darul Ridzuan
ISSUING HOUSE	:	Malaysian Issuing House Sdn Bhd 27th Floor, Menara Multi-Purpose Capital Square No. 8 Jalan Munshi Abdullah 50100 Kuala Lumpur
SHARE REGISTRAR	:	Tenaga Koperat Sdn Bhd 20th Floor, Plaza Permata Jalan Kampar Off Jalan Tun Razak 50400 Kuala Lumpur
INDEPENDENT MARKET RESEARCH CONSULTANT	:	Infocredit D&B (Malaysia) Sdn Bhd Levels 9-3A, Menara Milenium Jalan Damanlela Pusat Bandar Damansara 50490 Kuala Lumpur

1. CORPORATE DIRECTORY (CONTINUED)

PRINCIPAL BANKERS	:	OCBC Bank (M) Berhad 2, Jalan Dato' Maharaja Lela 30000 Ipoh Perak Darul Ridzuan Malayan Banking Berhad Bangunan Mayban Trust 28, Jalan Tun Sambanthan 30000 Ipoh Perak Darul Ridzuan Southern Bank Berhad Ground Floor, Plaza Teh Teng Seng 227, Jalan Kampar 30250 Ipoh Perak Darul Ridzuan Bumiputera-Commerce Bank Berhad 112, Jalan Sultan Idris Shah 30000 Ipoh Perak Darul Ridzuan Bank Pembangunan Dan Infrastruktur Malaysia Berhad 28, Medan Istana Bandar Ipoh Raya 30300 Ipoh Perak Darul Ridzuan Public Bank Berhad 7-9, Jalan Dato' Maharajalela 30000 Ipoh Perak Darul Ridzuan Hong Leong Bank Berhad No.1, Persiaran Greentown 2 30450 Ipoh Perak Darul Ridzuan United Overseas Bank (M) Berhad 2, Jalan Dato' Seri Ahmad Said 30450 Ipoh Perak Darul Ridzuan
ADVISER AND MANAGING UNDERWRITER	:	OSK Securities Berhad 20th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur
UNDERWRITERS	:	OSK Securities Berhad 20th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Hwang-DBS Securities Berhad Suite 12-01, 12th Floor, Menara Keck Seng 203 Jalan Bukit Bintang 55100 Kuala Lumpur
LISTING SOUGHT	:	Second Board of Bursa Securities

2. INFORMATION SUMMARY

This information is only a summary of the salient information about the Group and is derived from the full text of this prospectus. Investors should read and understand the whole prospectus prior to deciding whether to invest in the Offer Shares and/or Issue Shares of the Company.

2.1 HISTORY AND PRINCIPAL ACTIVITIES

The Company was incorporated on 20 May 1980 under the name of Ho Yan Hor (Kausing Brand) Medical Hall Sdn Bhd. It underwent several name changes, to Ho Yan Hor Pharmaceuticals Sdn Bhd on 21 May 1984, to Ho Yan Hor Sdn Bhd on 21 April 1989, and to Hovid Sdn Bhd on 24 March 1998. Then on 5 December 2003, the Company was converted into a public company under its present name. Its principal activities are the manufacturing of pharmaceutical and herbal products.

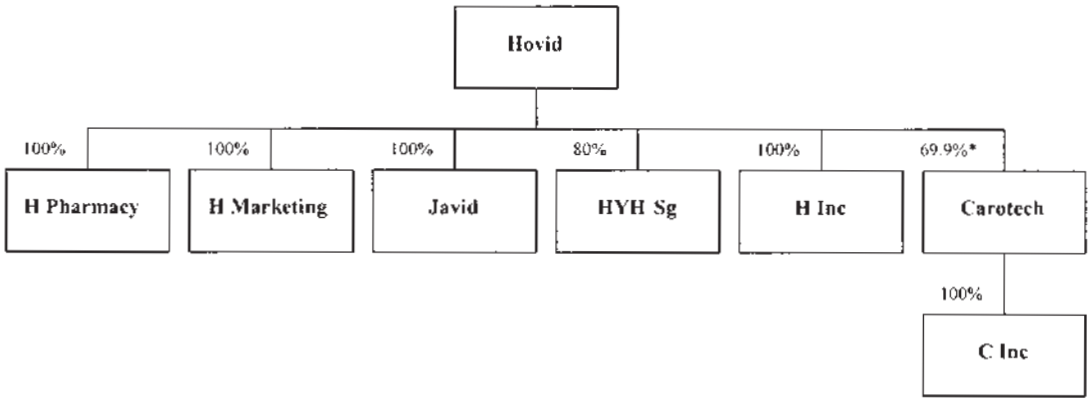
The history of the Group began in 1945 when the Ho Yan Hor business was founded by Dr. Ho Kai Cheong. The principal business then was the manufacture and sale of Ho Yan Hor herbal tea, which has since become a household name in Malaysia. Since then, the business has grown into one of the leading pharmaceutical manufacturers in Malaysia. Today, the Company is led by DH, the son of Dr. Ho Kai Cheong, and is focused on providing high-quality and innovative medicinal preparations and health supplements of various dosage forms.

The Company has seven (7) subsidiaries. A summary of the details of the subsidiaries are as follows:

Name	Date and place of incorporation	Issued and paid-up share capital	Effective equity interest held by the Company	Principal activity
H Pharmacy	16 June 1981, Malaysia	RM1,212,200	100.0%	Trading of medical supplies, pharmaceutical and consumer products
H Marketing	12 February 1998, Malaysia	RM2	100.0%	General trading (presently dormant)
Javid	21 February 1997, Malaysia	RM100	100.0%	Dealers in all kinds of pharmaceuticals, medicated herbs and nutritional products, and land development (presently dormant)
Carotech	16 July 1990, Malaysia	RM20,840,000	69.9%*	The extraction and processing of nutrients from palm oil for the purpose of manufacturing and producing pharmaceutical, phytonutrient and oleochemical products
HYH Sg	10 April 1978, Singapore	SGD50,000	80.0%	Wholesalers, distributors, agents of and dealers in all kinds of pharmaceutical products, embrocation oil, herbal tea and Chinese patented medicines
H Inc	22 March 2002, the Philippines	Peso 10,223,800	100.0%	Trading, importation and distribution of pharmaceutical, products
C Inc	8 October 1999, US	USD97,500	69.9%*	Sales agency and marketing of pharmaceutical, phytonutrient and oleochemical products

2. INFORMATION SUMMARY (CONTINUED)

The Group's corporate structure is as follows:



Note:

* *Carotech was approved for listing on the MESDAQ Market of Bursa Securities by the SC on 6 August 2004 and 9 November 2004, and Bursa Securities on 10 August 2004 and 10 November 2004. Upon completion of the Proposed Listing of Carotech, Hovid will hold 51.1% equity interest in Carotech.*

In addition to manufacturing its own products, the Group also manufactures nutritional supplements and pharmaceuticals on contract manufacture basis for private labels.

The Company's manufacturing facilities and practices in respect of its pharmaceutical products conform with the PIC/S' GMP and Good Laboratory Practice standards. The Group's products are marketed in more than thirty countries worldwide, in Asia, Africa, Oceania, the US, Canada and Central America. The Company is also an approved supplier to UNRWA's drugs procurement programme.

The Group's head office and manufacturing plants are located in Ipoh, Perak Darul Ridzuan, Malaysia. The Group also has overseas offices in Singapore, the Philippines and the US, where the Company's subsidiaries, HYH Sg, H Inc and C Inc are respectively established. In Malaysia, the distribution network is managed by H Pharmacy, which functions as the distribution arm for the Group's pharmaceutical and consumer products.

The Group's customers include government agencies, medical practitioners, hospitals, clinics, drug distributors, institutional healthcare centres, pharmacies, traditional drug stores and consumer retail operators in Malaysia and worldwide.

Details on the Company and its subsidiaries are set forth in **Section 5.**

2.2 OWNERSHIP AND MANAGEMENT

2.2.1 Promoter

The direct and indirect interests of the promoter of the Company in the issued and paid-up share capital of the Company after the Offer for Sale and the Public Issue (assuming full subscription of the Issue Shares reserved for him under the preferential share allocation scheme pursuant to the Public Issue) are as follows:

		<---------- After Offer for Sale and Public Issue---------->			
		<---------- Direct ---------->		<---------- Indirect ---------->	
Promoter	**Nationality**	**Number of Shares each**	**Percentage of share capital %**	**Number of Shares each**	**Percentage of share capital %**
DH	Malaysian	49,496,760	52.0	–	–

2. INFORMATION SUMMARY (CONTINUED)

2.2.2 Substantial shareholders

The direct and indirect interests of the substantial shareholders of the Company in the issued and paid-up share capital of the Company after the Offer for Sale and the Public Issue (assuming full subscription of the Issue Shares reserved for them under the preferential share allocation scheme pursuant to the Public Issue) are as follows:

		<----------After Offer for Sale and Public Issue---------->			
		<----------Direct---------->		<----------Indirect---------->	
Substantial shareholders	**Nationality**	**Number of Shares each**	**Percentage of share capital %**	**Number of Shares each**	**Percentage of share capital %**
DH	Malaysian	49,496,760	52.0	–	–
Datuk Haji Ibrahim Bin Haji Ahmad	Malaysian	5,000,000	5.2	–	–

2.2.3 Directors

The direct and indirect interests of the directors of the Company in the issued and paid-up share capital of the Company after the Offer for Sale and the Public Issue (assuming full subscription of the Issue Shares reserved for them under the preferential share allocation scheme pursuant to the Public Issue and Offer for Sale) are as follows:

		<----------After Offer for Sale and Public Issue---------->			
		<----------Direct---------->		<----------Indirect---------->	
Directors	**Nationality**	**Number of Shares each**	**Percentage of share capital %**	**Number of Shares each**	**Percentage of share capital %**
Datuk Haji Ibrahim Bin Haji Ahmad	Malaysian	5,000,000	5.2	–	–
DH	Malaysian	49,496,760	52.0	–	–
Liong Kam Hon	Malaysian	1,439,820	1.5	–	–
Chuah Chaw Teo	Malaysian	–	–	–	–
Leong Kwok Yee	Australian	–	–	–	–
YM Raja Shamsul Kamal Bin Raja Shahruzzaman	Malaysian	–	–	–	–

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2. INFORMATION SUMMARY (CONTINUED)

2.2.4 Key management and technical personnel

The direct and indirect interests of the key management and technical personnel of the Group in the issued and paid-up share capital of the Company after the Offer for Sale and the Public Issue (assuming full subscription of the Issue Shares reserved for them under the preferential share allocation scheme pursuant to the Public Issue) are as follows:

		<----------After Offer for Sale and Public Issue---------->			
		<----------Direct---------->		<----------Indirect---------->	
Key management and technical personnel	Nationality	Number of Shares each	Percentage of share capital %	Number of Shares each	Percentage of share capital %
DH	Malaysian	49,496,760	52.0	–	–
Liong Kam Hon	Malaysian	1,439,820	1.5	–	–
Leong Weng Hoong	Malaysian	1,142,902	1.2	–	–
Goh Tian Hock	Malaysian	375,854	0.4	–	–
Lee Kai Meng	Malaysian	16,200	–^	–	–
Ho Shee Kee	Malaysian	16,200	–^	–	–
Chin Lai Ting	Malaysian	15,800	–^	–	–
Ong Bee Lan	Malaysian	15,200	–^	–	–
Yew Ming Chui	Malaysian	15,200	–^	–	–
June Khoo Lay Choo	Malaysian	15,200	–^	–	–
Chin Hui Ling	Malaysian	3,300	–^	–	–
Wong Yoon Kee	Malaysian	16,200	–^	–	–

Note:

^ *Negligible*

Details of the promoter, substantial shareholders and directors of the Company, and the key management and technical personnel of the Group, and their direct and indirect interests in the issued and paid-up share capital of the Company, are set forth in **Section 6.**

2.3 PRODUCTS

The Group's range of principal products includes:

- special drug delivery systems, such as modified release formulations and bioavailability-enhanced formulations;
- ethical products, including anti-biotics, anti-diabetics, anti-hypertensives, anti-malarial and anti-inflammatory analgesics;
- dietary supplements;
- consumer products; and
- extracts of palm tocotrienol complex, mixed carotenoid complex and phytosterols from palm oil.

In addition to manufacturing its own products, the Group also manufactures nutritional supplements and pharmaceuticals on a contract manufacture basis for private labels.

Details of the Group's products are set forth in **Section 7.1**.

2. INFORMATION SUMMARY (CONTINUED)

2.4 R&D AND QUALITY ASSURANCE

2.4.1 R&D

One of Hovid's main strengths lies in its research and development. This is evidenced by its two R&D divisions, housed at two (2) different locations. The one situated in Universiti Sains Malaysia directs efforts towards pre-formulation studies, drug characterizations, special drug delivery system and efficacy studies. The other R&D division, located in its manufacturing plant in Ipoh, Perak Darul Ridzuan, mainly works at improving production processes, improving formulations of existing products and developing new products.

Some R&D accomplishments of the Company are as follows:

- the first in Malaysia to produce film coated analgesic and painkillers in dispersible tablet form;
- the first in Malaysia to have soft gelatin encapsulation;
- a suprabio formulation of tocotrienols with enhanced absorption properties; and
- development and commercialisation of its special drug delivery system.

2.4.2 Quality assurance

Hovid has modern and PIC/S compliant plants. The management of the Company believes that the Company is the first in Malaysia to have a modern cGMP certified soft gelatine encapsulation plant for encapsulation of its wide range of in-house developed pharmaceutical and health food supplements. Internal and external audits are constantly being carried out to ensure that the manufacturing practices conform to cGMP requirements at all times.

Among the goals of PIC/S is to lead the international development, implementation and maintenance of harmonised cGMP standards and quality systems of inspectorates in the field of medicinal products. Malaysia's status as a member country facilitates the export of locally manufactured pharmaceutical products to developed countries. Malaysia's application to become a member of PIC/S was accepted in January 2002.

Details of the Group's efforts on R&D and quality assurance are set forth in **Section 7.8** and **Section 7.9** of this prospectus.

2.5 TECHNOLOGY, INTELLECTUAL PROPERTY AND LICENCES

2.5.1 Technology

Among some of the most significant achievements of Hovid in terms of technology is the technical capability to come up with the soft gelatine technology and the special drug delivery systems. At present, there are 16 types of soft gels products and 6 types of special drug delivery systems products developed by Hovid. For example, one of the successful technologies developed by the Company is the SupraBio Delivery System for tocotrienols, increasing the rate and extent of absorption of tocotrienols.

The introduction of special drug delivery systems have contributed tremendously to the increasing sales of the respective products. The three (3) types of products, i.e. Diabetmin, Clofenac and Tocovid SupraBio, utilizing the special drug delivery systems, have shown an increase in sales of more than 100% in the first year of introduction and more than 300% after three to four years.

Carotech's technological edge resides in its patent for an integrated process for the extraction of palm tocotrienols and palm carotene from crude palm oil. The extraction of palm tocotrienols complex utilizes a sophisticated and specialized high vacuum-low temperature distillation technology. The patented process is complicated, involving the process of reaction, washing, drying, and distillation at extremely high vacuum and low temperature to protect the integrity of the phytonutrients and finally, the quality assurance inspection and approvals.

2.5.2 Intellectual property and licences

The Group has a range of patents and trademarks which have been applied for or registered with regulatory authorities in various jurisdictions in respect of its products. In addition, the Group holds a number of licences in respect of the manufacture of its products.

The process used by Carotech for the commercial extraction of tocotrienol complex, mixed carotene complex and phytosterols from palm oil involves a sophisticated and specialised high vacuum-low temperature distillation technology. A patent for this process has been registered with, *inter alia*, regulatory authorities in the US, the Philippines, Indonesia and Malaysia and there is an application under the Patent Cooperation Treaty under application number PCT/US92/08911, which was published on 28 April 1994 under publication number WO 94/08987 in respect of various countries.

Details of the Group's technology, intellectual property and licences are set forth in **Section 7.7.**

2.5.3 Marketing and distribution

Hovid has established a wide distribution network all over the country with over 5,000 customers comprising of pharmaceutical and consumer customers in Malaysia and exports to more than 30 countries worldwide. The Group's tocotrienols and carotenoids are mainly exported to the US, in its raw material form and in bulk, in various levels of concentration, while a small portion goes to Europe and Japan.

Details on the Group's marketing and distribution system are set forth in **Section 7.3.**

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2. INFORMATION SUMMARY (CONTINUED)

2.6 PROFORMA CONSOLIDATED INCOME STATEMENTS OF THE GROUP

The following table sets forth a summary of the proforma consolidated income statements of the Group for the past five (5) FYE 30 June 2004, and the four (4) month period ended 31 October 2004, prepared based on the assumption that the current structure of the Group has been in existence since 1 July 1999. These proforma consolidated income statements are presented for illustrative purposes only and should be read in conjunction with the accompanying notes and assumptions set forth in **Section 9.1**.

	<----------FYE 30 June---------->					Financial period ended 31 October
	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2004 RM'000
Turnover	70,069	74,682	79,385	100,517	113,503	39,012
Consolidated profit before interest, depreciation, amortisation and taxation	16,539	12,259	12,863	19,607	23,365	7,444
Amortisation	(1,239)	(1,430)	(512)	(663)	(803)	(231)
Depreciation	(2,179)	(2,550)	(2,664)	(3,032)	(3,372)	(1,430)
Interest expense	(4,029)	(2,706)	(2,517)	(2,878)	(1,392)	(586)
Consolidated PBT after depreciation, amortisation and interest expense	9,092	5,573	7,170	13,034	17,798	5,197
Taxation	(1,903)	(1,393)	(1,423)	(1,724)	(2,307)	(1,063)
Consolidated PAT	7,189	4,180	5,747	11,310	15,491	4,134
MI	(1,330)	(614)	(1,999)	(3,392)	(3,069)	(190)
Net profit attributable to shareholders	5,859	3,566	3,748	7,918	12,422	3,944
Number of Shares in the Company based on the enlarged number of shares in the Company upon listing ('000)	95,260	95,260	95,260	95,260	95,260	95,260
Gross EPS (Sen)	9.5	5.9	7.5	13.7	18.7	16.4*
Net EPS (Sen)	6.2	3.7	3.9	8.3	13.0	12.4*

Note:

* *Annualised*

There were no exceptional or extraordinary items in the relevant financial periods under review. The Group's audited financial statements for the past five (5) FYE 30 June 2004 and for the four (4) month period ended 31 October 2004 have not been subjected to any audit qualification save for:

a) FYE 30 June 2002 and 2003, where it was stated that the financial statements of C Inc were prepared on the basis that it was a going concern and was dependent on the continuing financial support of Carotech and on C Inc attaining cash inflows to sustain its operations;

b) FYE 30 June 2002 to the period ended 31 October 2004, where the auditors drew attention in the financial statements of H Marketing that the directors of H Marketing would ensure sufficient funds are made available to settle any liabilities as and when required; and

c) FYE 30 June 2001 to the period ended 31 October 2004, where the auditors drew attention in the financial statements of Javid that the directors of Javid would ensure sufficient funds are made available to settle any liabilities as and when required.

2. INFORMATION SUMMARY (CONTINUED)

2.7 PROFORMA CONSOLIDATED BALANCE SHEETS OF THE GROUP AS OF 31 OCTOBER 2004

The following table sets forth a summary of the proforma consolidated balance sheets of the Group as of 31 October 2004, for illustrative purposes only, to show the effects of the Listing Exercise, on the assumption that the Listing was completed on 31 October 2004, and should be read with the notes and assumptions to the proforma consolidated balance sheets of the Group as set forth in **Section 9.10.**

	Audited balance sheet of Hovid as at 31 October 2004 RM'000	Proforma I Completed transactions* RM'000	Proforma II After Public Issue RM'000	Proforma III After Proposed Listing of Carotech RM'000
Non current assets				
Property, plant and equipment	29,582	85,387	85,387	85,387
Intangible assets	13,100	13,100	13,100	13,100
	42,682	98,487	98,487	98,487
Current assets				
Inventories	13,783	36,447	36,447	36,447
Trade debtors	8,138	26,221	26,221	26,221
Other debtors, deposits and prepayments	1,743	3,125	3,125	3,125
Amount owing by HYH	13,259	-	-	-
Amount owing by fellow subsidiaries	15,236	-	-	-
Tax recoverable	-	1,081	1,081	1,081
Cash and bank balances	942	2,040	8,968	26,144
	53,101	68,914	75,842	93,018
Current liabilities				
Trade creditors	7,941	11,776	11,776	11,776
Other creditors and accruals	3,096	5,301	5,301	5,301
Amount owing to fellow subsidiaries	3,801	-	-	-
Hire-purchase creditors	1,226	3,143	3,143	3,143
Short term bank borrowings	18,807	30,137	30,137	30,137
Term loans	2,110	3,295	3,295	3,060
Bank overdrafts	9,942	16,442	6,942	6,942
Tax payable	581	583	583	583
	47,504	70,677	61,177	60,942
Net current (liabilities)/assets	5,597	(1,763)	14,665	32,076
Non current liabilities				
Deferred taxation	4,982	7,451	7,451	7,451
Hire-purchase creditors	898	5,179	5,179	1,184
Term loans	8,685	16,911	12,411	4,641
	14,565	29,541	25,041	13,276
	33,714	67,183	88,111	117,287
Capital and reserves				
Share capital	3,886	41,230	47,630	47,630
Revaluation reserve	67	3,154	3,154	3,154
Share premium	935	-	14,528	14,528
Reserve on consolidation	-	6,074	6,074	6,074
Retained earnings	28,826	8,437	8,437	18,175
Minority interests	-	8,288	8,288	27,726
	33,714	67,183	88,111	117,287
NTA per RM1.00 share (RM)	5.30	N/A	N/A	N/A
NTA per RM0.50 share (RM)	N/A	0.56	0.70	0.80

2. INFORMATION SUMMARY (CONTINUED)

Note:

Completed transactions under Proforma I above is defined and further detailed out in part (a) of paragraph 2.3 under Section 9.10 of this prospectus.

2.8 CONSOLIDATED PROFIT FORECAST

The Directors of Hovid forecast that the consolidated PAT of the Hovid Group after the Offer for Sale and Public Issue for the FYE 30 June 2005 will be as follows:

Forecast 2005	Aggregate results	Consolidation adjustments	Consolidated results
	RM'000	RM'000	RM'000
Turnover	182,708	(56,887)	125,821
Profit before taxation	22,021	(3,535)	18,486
Taxation	(3,429)	514	(2,915)
Minority interests	–	(2,556)	(2,556)
Profit after taxation and minority interests	18,592	(5,577)	13,015
Weighted average number of ordinary shares of RM0.50 each in issue ('000)			57,947
Basic earnings per RM0.50 share (sen)			22.46
Price - earnings multiple based on the issue price of RM1.76 per share			7.84

See **Section 9.3** of this prospectus for further details.

2.9 CONSOLIDATED CASH FLOW FORECAST

The Directors of Hovid forecast that the consolidated cash flow forecast of the Hovid Group after the Offer for Sale and Public Issue for FYE 30 June 2005 will be as follows:

	FYE 30 June 2005 RM'000
Net cash flow from operating activities	14,700
Net cash flow used in investing activities	(21,700)
Net cash flow from financing activities	24,578
Net changes in cash and cash equivalents	17,578
Cash and cash equivalents as at 1 July 2004	(5,071)
Cash and cash equivalents as at 30 June 2005	12,507

See **Section 9.5** of this prospectus for further details.

2. INFORMATION SUMMARY (CONTINUED)

2.10 DIVIDEND FORECAST

It is the policy of the Directors of the Company to recommend dividends to allow shareholders to participate in the profits of the Company as well as leaving adequate reserves for the future growth of the Group.

For the FYE 30 June 2005, the Directors of the Company do not intend to declare any dividend save for the Proposed Special Dividend of RM8.0 million which was completed on 1 December 2004. Nevertheless, the Directors will endeavour to declare dividends in the future.

Future dividends may be waived if:

(a) the Group is in a loss position for the relevant financial year; or

(b) the Group has insufficient cash flows to meet any dividend payments.

Notwithstanding the above, the Directors of the Company have full discretion not to propose any future dividend payment as and when deemed necessary, if it is in the best interest of the Company to do so.

Details of the dividend forecast are set out in **Section 9.8** of this prospectus.

2.11 RISK FACTORS

Prospective investors, prior to making an investment in the Offer Shares and/or the Issue Shares, should carefully consider the risk factors inherent in and affecting the business of the Group in addition to the other information contained elsewhere in this prospectus. In addition, the statements in this prospectus may contain forward-looking statements that involve risks and uncertainties.

Factors that could cause or contribute to such differences include, without limitation, those highlighted in "Risk Factors" under **Section 4** of this prospectus and others highlighted throughout this prospectus.

The key risk factors (which may not be exhaustive) that may affect the Group's future profitability are (but are not limited to) as follows:

(a) no prior market for the Shares;

(b) operating history;

(c) operational risks;

(d) dependence on Directors and key management and technical personnel;

(e) protection of the Group's technology and intellectual property rights;

(f) delays in R&D and technological risks;

(g) investment risks;

(h) continued control by existing shareholders;

(i) foreign exchange risks;

(j) resistance to change;

(k) competition;

(l) threats from China and India;

(m) brand recognition;

2. INFORMATION SUMMARY (CONTINUED)

(n) proving efficacy and maintaining quality;

(o) multinational pharmaceutical companies' reformulation strategy;

(p) regulatory pressures;

(q) purchasing power and disease awareness;

(r) market perceptions;

(s) supply of raw material;

(t) future capital injections;

(u) changes to general economic, political, legislative, business and/or credit conditions;

(v) forward looking statements;

(w) delay in or failure of the Listing;

(x) underwriting;

(y) borrowings;

(z) customers and product distribution;

(aa) outbreak of diseases;

(bb) product liability;

(cc) environmental risks;

(dd) legal uncertainties concerning the business, operations or contractual agreements;

(ee) regulatory risks;

(ff) dependency on particular suppliers/customers and failure of ongoing relationships;

(gg) risks associated with any foreign operations which may include currency fluctuations, trade restrictions, sovereignty, political and economic risks;

(hh) low capital expenditure requirements;

(ii) potential competition from managing director;

(jj) risks relating to financial performance which may include, but not be limited to –
- i. covenants under borrowing facility agreements which limit the corporation's/Group's operating and financial flexibilities;
- ii. foreseeable capital commitments; and
- iii. indebtedness; and

(kk) delay in or failure of the Proposed Listing of Carotech.

For details on these risk factors, please refer to **Section 4.**

2. INFORMATION SUMMARY (CONTINUED)

2.12 PRINCIPAL STATISTICS RELATING TO THE OFFER FOR SALE AND PUBLIC ISSUE

The following statistics relating to the Offer for Sale and the Public Issue are derived from the full text of this prospectus and should be read in conjunction with that text:

2.12.1 Share capital

Authorised share capital	
100,000,000 ordinary shares of RM0.50 each	RM50,000,000
Issued and fully paid-up share capital (prior to the Public Issue)	
82,460,000 ordinary shares of RM0.50 each	RM41,230,000
To be issued pursuant to the Public Issue	
12,800,000 ordinary shares of RM0.50 each	RM6,400,000
Enlarged share capital upon the Listing	
95,260,000 ordinary shares of RM0.50 each	RM47,630,000

2.12.2 Classes of shares and ranking

There is only one (1) class of shares in the Company, being ordinary shares of RM0.50 each. The Offer Shares and the Issue Shares will all rank pari passu in all respects with the other existing issued and paid-up Shares of the Company at the time of the Offer for Sale and the Public Issue, including as to voting rights, and will be entitled to all rights, dividends and/or other distribution that may be declared subsequent to the date of this prospectus.

2.12.3 Offer Price and Issue Price

The Offer Price for each Offer Share	RM1.76
The Issue Price for each Issue Share	RM1.76

2.12.4 Market capitalisation

Market capitalisation of the Company upon Listing, based on the Offer Price and the Issue Price of RM1.76 per Share	RM167,657,600

2.12.5 Proforma consolidated NTA as of 31 October 2004

Proforma consolidated NTA after Public Issue (RM'000)	66,723
Proforma consolidated NTA per Share (sen)	70 sen
Premium of Offer Price and Issue Price over proforma consolidated NTA per Share (sen)	106 sen
Premium of Offer Price and Issue Price over proforma consolidated NTA per Share (%)	151%

Details of the Offer for Sale and the Public Issue are set out in **Section 3** of this prospectus.

2. INFORMATION SUMMARY (CONTINUED)

2.13 PROCEEDS FROM THE PUBLIC ISSUE AND UTILISATION

The total gross proceeds from the Public Issue of RM22,528,000 are expected to be fully utilised for the core business of the Group by September 2005 as follows:

	RM'000
Repayment of bank borrowings	14,000
Payment of listing expenses	1,600
Working capital	6,928
	22,528

Detailed information on the utilisation of proceeds is set forth in **Section 3.7**.

2.14 WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITY, MATERIAL COMMITMENT AND MATERIAL LITIGATION

2.14.1 Working capital

The directors of the Company are of the opinion that, after taking into account the forecast consolidated cash flows, banking facilities available and the gross proceeds from the Public Issue, the Group will have adequate working capital for a period of twelve (12) months after the date of issuance of this prospectus.

2.14.2 Borrowings

As of 31 January 2005, the outstanding borrowings, all of which are interest-bearing, of the Group are as follows:

Outstanding borrowings	Repayable within twelve months RM'000	Repayable after twelve months RM'000
Trade Facilities	35,736	–
Overdraft	17,240	–
Term loan	3,371	12,088
Hire-purchase	3,131	8,666
Total	59,478	20,754

2.14.3 Contingent liability

As of 31 January 2005, being the last practicable date prior to the printing of this prospectus, the directors of the Company are not aware of any contingent liability incurred by the Company and/or its subsidiaries which, upon becoming enforceable, may have a material impact on the financial position of the Group, save as follows:

	RM '000
Corporate Guarantees (in respect of bank borrowings taken by subsidiaries of the Company)	8,550

2. INFORMATION SUMMARY (CONTINUED)

2.14.4 Material commitment

As of 31 January 2005, being the last practicable date prior to the printing of this prospectus, the directors of the Company are not aware of any material capital commitment contracted or known to be contracted by the Company and/or its subsidiaries which, upon becoming enforceable, may have a material impact on the financial position of the Group, save as follows:

	RM '000
Approved and contracted for	
Land and Building	8,450
Plant and Equipment	109
	8,559
Approved but not contracted for	
Building	2,400
Plant and Equipment	10,221
	12,621
Total Material Capital Commitment	21,180

2.14.5 Material litigation

As of 31 January 2005, being the last practicable date prior to the printing of this prospectus, none of the Company and its subsidiaries is engaged in any litigation and/or arbitration, either as plaintiff or claimant, or as defendant or respondent, which has a material effect on the financial position of the Company or its subsidiary, and the directors of the Company are not aware of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the financial position or business of the Company and/or its subsidiaries, save as follows:

(a) In the High Court of Malaya at Kuala Lumpur Suit No. D4-22-2138-2001 Rotta Research Laboratium S.P.A. and Antah Pharma Sdn Bhd v. the Company & 4 others

Rotta Research Laboratium S.P.A ("Rotta") and Antah Pharma Sdn Bhd ("Antah Pharma") (collectively the "Plaintiffs") had filed this suit seeking, *inter alia*, an injunction to restrain the Company and four (4) others, namely Ho Tack Sien ("Mr. Ho"), Chai Yuet Ying ("Ms Chai"), Advance Pharma Sdn Bhd ("APSB") and Schmidt Scientific Sdn Bhd ("Schmidt") (collectively the "Defendants") from infringing Rotta's trademark, namely Registered Trademark No. M/072175, and producing, manufacturing, distributing and offering for sale an offending product or any product bearing a name which will infringe the said trademark. The Plaintiffs are also seeking an assessment on damages or the profits obtained by the Company, APSB and Schmidt as a result of the said infringement, and an order to pay all relevant amounts to the Plaintiffs as a result of the said assessment.

The litigation is centered around the product Artril 250, which is a supplement consumed to stop the narrowing of joint space and improves osteoarthritis conditions. In other words, this product can help consumers in the treatment of joint pains resulting from osteoarthritis or the thinning of ligaments at the joints, or to be used as an adjunctive therapy in osteoarthritis and lubrication of joints. Artril is not patented in Malaysia, but is produced and distributed under licence issued by NPCB to APSB, a company owned by Ms Chai and Mr Hoo Kiow @ Ho Fatt, which was incorporated to hold the licence for this product.

2. INFORMATION SUMMARY (CONTINUED)

On 15 September 2000, the Company had, at that time, entered into a Contract Manufacturing Agreement ("CMA") with Advance Pharma, a sole proprietorship owned by Ms Chai, wherein Advance Pharma had appointed the Company to contract manufacture Artril 250 based on the specifications and information provided by Ms Chai. The Company was subsequently served with the abovementioned Writ of Summons by the Plaintiffs on 18 December 2001, who alleged, *inter alia*, that Mr. Ho and Ms Chai may have provided confidential information sourced from Antah Pharma (being their ex-employer) to the Company to contract manufacture Artril 250 without the Plaintiffs' permission. Although Advance Pharma was the party who had entered into the CMA with the Company, APSB was named as the relevant defendant in the said Writ of Summons, by virtue of being the licensee of Artril 250.

The matter has been fixed for case management on 8 March 2005.

In anticipation of the outcome of this case, the Company had sought and was allowed by the High Court to bring in Ms. Chai as a third party, on the basis of indemnities provided by Ms Chai, on behalf of APSB, to the Company dated 6 December 2001 and 7 December 2001 ("Third Party Indemnity"). Under the Third Party Indemnity, APSB agreed to, *inter alia*, indemnify the Company, being the contract manufacturer of Artril 250, against all damages, costs, legal costs, penalties and fines as a result of the Company manufacturing and packing Artril 250 on its behalf. Following this, it was agreed that a deposit of RM60,000, being part of the Third Party Indemnity, was payable, the amount of which was subsequently deposited by Ms Chai with the Company.

The Company's solicitors have advised that, all things being equal, the plaintiffs will have difficulty in proving their case. However, the outcome of the suit against the Company may be dependent on evidence within the knowledge of the other Defendants. Even if the Company were found to be liable to the Plaintiffs, the solicitors are of the opinion that the Company has a good case to call on the Third Party Indemnity, which, as mentioned above, covers all damages, costs, legal costs, penalties and fines which may be imposed by the Court against the Company.

In the event that the Company is found to be liable to the Plaintiffs, the Directors of the Company are of the opinion that the liability will not have a material adverse impact on its financial position and its commercial reputation, on the basis that the Company should be able to call on the Third Party Indemnity if necessary. Also, as Artril 250 is not part of the Hovid brand, and the Company is named in this suit by virtue of being the contract manufacturer as per the CMA, it would not materially affect the Company in the event the Company is ordered by the Court to not manufacture the product.

(b) In the High Court of Malaya at Kuala Lumpur Civil Suit No. D6-22-754-02 Chai Yuet Ying v. the Company

This case is related to the Rotta suit mentioned in paragraph (a) above, whereby Ms Chai, (as defined in paragraph (a) above), being the plaintiff here, has claimed for specific performance of the CMA by the Company. The plaintiff has claimed for specific performance of the manufacturing agreement, damages and a refund of RM60,000 which was deposited for cost to defend the said Rotta suit (as described in paragraph (a) above) plus cost. The Company has filed its defence and has obtained an order to transfer the case to Ipoh. The matter has not yet been set down for trial and the plaintiff has not taken any further steps to proceed with the case in Ipoh.

2. INFORMATION SUMMARY (CONTINUED)

Although this case is related to the Rotta suit by virtue of Ms Chai and the Company's obligations under the CMA, the Company's solicitors are of the opinion that there is no guarantee that a positive outcome for the Company in the Rotta suit, will bring similar positive results in this case. Such an outcome could lead to the Company being obliged to fulfil any remaining obligations it has under the CMA, provided that the CMA is still valid. Nevertheless, in the event the Rotta suit brings a positive outcome for the Company, such turn of events may lead Ms Chai to reconsider her claim hereunder. However, this again will depend on the course of action that Ms Chai would take in respect of the same.

In the event that the Company is found to be liable to the plaintiff, the Directors of the Company are of the opinion that the liability will not have a material adverse impact on its financial position, as the said deposit amount is not substantial and there are no outstanding orders pending delivery to the plaintiff. However, the quantum of the damages which may be payable by the Company to the plaintiff cannot be ascertained at this point in time.

Please refer to **Section 9.2** for details on the Group's working capital, borrowings, contingent liability, material commitment and material litigation.

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3. DETAILS OF THE OFFER FOR SALE AND PUBLIC ISSUE

3.1 INTRODUCTION

This prospectus is dated 15 March 2005. A copy of this prospectus has been registered with the SC and lodged with the ROC, and neither the SC nor the ROC takes any responsibility for its contents.

Approval has been obtained from the SC on 26 October 2004 for the listing of the Company on the Second Board of Bursa Securities. An application will be made to Bursa Securities within three (3) market days from the date of this prospectus for admission to the Official List of the Second Board of Bursa Securities and for permission to deal in and the listing of and quotation of the entire issued and paid-up Shares of the Company. Any allotment and allocation made on an application to subscribe for securities pursuant to this prospectus shall be void if the permission is not applied for in the form for the time being required by the stock exchange before the third day on which the exchange is open after the date of issue of the prospectus or the permission is not granted before the expiration of six (6) weeks from the issue of the prospectus or such longer period as may be specified by the SC, provided that the applicant is notified by or on behalf of the exchange within the six (6) weeks or such longer period as may be specified by the SC. These Shares will be admitted to the Official List of the Second Board of Bursa Securities and official quotation will commence after receipt of confirmation from Bursa Depository that all CDS Accounts of the successful applicants have been duly credited and notices of allotment have been dispatched to all successful applicants.

Acceptance of application will be conditional upon permission being granted by Bursa Securities to deal in and for the listing of and quotation for the entire issued and fully-paid up Shares of the Company. Accordingly, monies paid in respect of any application accepted will be returned without interest if the said permission is not granted.

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act 1991, Bursa Securities has prescribed the Shares as a Prescribed Security. In consequence thereof, the Offer Shares and Issue Shares offered through this prospectus will be deposited directly with Bursa Depository, and any dealings in these Shares will be carried out in accordance with the Securities Industry (Central Depositories) Act 1991 and the Rules of Bursa Depository. No share certificates will be issued to successful applicants.

Pursuant to the Listing Requirements, the Company needs to have at least 25% of its issued and paid-up share capital in the hands of public shareholders, and a minimum number of 1,000 public shareholders holding at least 100 shares each, upon admission to the Second Board of Bursa Securities. The Company is expected to achieve this at the point of Listing. However, in the event that this requirement is not met pursuant to the Offer for Sale and the Public Issue, the Company may not be allowed to proceed with the Listing. In this event, moneys paid in respect of all applications will be returned without interest.

In the case of an application by way of Application Form, an applicant should state his CDS Account number in the space provided in the Application Form. In the case of an application by way of Electronic Share Application, only an applicant who is an individual and has a CDS Account can make an Electronic Share Application and the applicant shall furnish his CDS Account number to the Participating Financial Institution by way of keying in his CDS Account number if the instructions on the ATM screen at which he enters his Electronic Share Application requires him to do so. A corporation or institution cannot apply for the Offer Shares and/or the Issue Shares by way of Electronic Share Application.

No person is authorised to give any information or to make any representation not contained herein in connection with the Offer for Sale and/or the Public Issue, and if given or made, such information or representation must not be relied upon as having been authorised by the Company and/or OSK. Neither the delivery of this prospectus nor any Offer for Sale and/or Public Issue made in connection with this prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Company or its subsidiary, or of the Group, since the date of this prospectus.

The distribution of this prospectus and the offer, sale and/or issue of the Offer Shares and/or Issue Shares are subject to Malaysian law, and neither the Company nor OSK take any responsibility for the distribution of this prospectus and/or offer, sale and/or issue of the Offer Shares and/or Issue Shares outside Malaysia, which may be restricted by law in other jurisdictions. Persons who may be in possession of this prospectus are required to inform themselves of and to observe such restrictions.

This prospectus does not constitute and may not be used for the purpose of an offer to sell and/or issue, or an invitation of an offer to buy and/or subscribe for, any Offer Share and/or Issue Share in any jurisdiction in which such offer or invitation is not authorised or lawful, or to any person to whom it is unlawful to make such offer or invitation.

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, accountant or any other professional adviser immediately.

3.2 DETAILS OF THE OFFER FOR SALE AND PUBLIC ISSUE

Both the Offer for Sale and the Public Issue are subject to the terms and conditions contained in this prospectus. The Offer Price per Offer Share, and the Issue Price per Issue Share, is RM1.76. Upon acceptance of applications, the Offer Shares and the Issue Shares will be allocated in the following manner.

3.2.1 Allocation of the Offer Shares

All 24,177,000 Offer Shares representing approximately 25.4% of the enlarged issued and paid-up ordinary share capital of the Company have been reserved for Bumiputera investors who have been nominated and approved by the MITI.

3.2.2 Allocation of the Issue Shares

All 12,800,000 Issue Shares representing approximately 13.4% of the enlarged issued and paid-up ordinary share capital of the Company will be allocated as follows.

(a) **Eligible directors, employees and other persons contributing to the success of the Group**

2,350,000 Issue Shares have been reserved for eligible directors, employees and other persons contributing to the success of the Group, which will be allocated based on designation, length of service and performance –

(i) Directors

No.	Name of Director	Designation	Number of Shares Allocated
1.	DH	Managing Director	477,400
2.	Liong Kam Hon	Director	77,600

(ii) As for the employees, number of persons eligible is 615.

(iii) The number of persons contributing to the success of the Group eligible to subscribe for allocation is 12.

(b) **Bumiputera investors nominated and approved by MITI**

4,450,000 Issue Shares have been reserved for Bumiputera investors nominated and approved by the MITI.

(c) **Malaysian public**

6,000,000 Issue Shares are available for application by Malaysian citizens, companies, societies, co-operatives and institutions.

Up to 8,350,000 Issue Shares, comprising the unsubscribed portion of the Issue Shares described in paragraph (a) and the Issue Shares described in paragraph (c) above have been fully underwritten by the Underwriters. The Issue Shares described in paragraph (b) above is not underwritten. Any Issue Share described in paragraph (a) above not subscribed by eligible directors, employees and other persons contributing to the success of the Group will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions under paragraph (c) above.

The basis of allocation shall take into account the desirability of distributing the Issue Shares to a reasonable number of applicants with a view to broadening the shareholding base of the Company to meet the public spread requirements, and to establishing a liquid and adequate market in the Shares. Applicants will be selected in a manner to be determined by the directors of the Company.

In the event of an overall under-subscription of the Public Issue, all the Issue Shares not applied for under paragraphs (a) and (c) above will be made available for subscription by the Underwriters in accordance with the terms and conditions specified in the underwriting agreement described in **Section 3.9** of this prospectus.

3.3 SHARE CAPITAL AND RIGHTS ATTACHING TO THE OFFER SHARES AND ISSUE SHARES

The following are details of the share capital of the Company:

Authorised share capital	
100,000,000 ordinary shares of RM0.50 each	RM50,000,000
Issued and fully-paid up share capital (prior to the Public Issue)	
82,460,000 ordinary shares of RM0.50 each	RM41,230,000
To be issued pursuant to the Public Issue	
12,800,000 ordinary shares of RM0.50 each	RM6,400,000
Enlarged share capital upon the Listing	
95,260,000 ordinary shares of RM0.50 each	RM47,630,000

The Offer Price and Issue Price of RM1.76 per Offer Share or Issue Share is payable in full upon application.

There is only one (1) class of shares in the Company, namely ordinary shares of RM0.50 each. The Offer Shares (when sold), and the Issue Shares (when issued), shall rank pari passu in all respects with the other existing issued and paid-up ordinary shares of RM0.50 each in the Company, including voting rights and rights to all dividends and distributions that may be declared, paid or made subsequent to the date of this prospectus.

Subject to special rights attaching to any share which may be issued by the Company in the future, the shareholders of the Company shall, in proportion to the amount paid-up on the shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and other distributions, and the whole of any surplus in the event of liquidation of the Company, such surplus to be distributed amongst the members in proportion to the capital paid-up at the commencement of the liquidation, in accordance with the Company's Articles of Association.

Each shareholder shall be entitled to vote at any general meeting of the Company in person, by proxy or by attorney, and, on a show of hands, every person present who is a shareholder, or a representative, proxy or attorney of a shareholder, shall have one (1) vote, and on a poll, every shareholder present in person, by proxy, by attorney or by duly authorised representative shall have one (1) vote for each Share held. A proxy may but need not be a member of the Company.

3.4 OPENING AND CLOSING OF APPLICATION

Applications will be accepted from 9.00 a.m. on 15 March 2005 and will close at 5.00 p.m. on 23 March 2005 or will be open for such later period as the directors of the Company and the Managing Underwriter may in their absolute discretion mutually decide. Late applications will not be accepted. Should the closing date of the application be extended, the dates for the balloting, despatch of notice of allotment and listing of and quotation for the entire issued and paid-up share capital of the Company on the Second Board of Bursa Securities will be extended accordingly. Any change to the closing date of the application will be advertised in widely circulated newspapers in Malaysia in Bahasa Malaysia and English prior to the original closing date of the application. Late applications will not be accepted. The indicative timing of events leading up to the Listing is as follows:

Event	Date
Issuance of prospectus	15 March 2005
Opening of application	15 March 2005
Closing of application	23 March 2005
Balloting of applications	25 March 2005
Tentative date of despatch of notices of allotment to successful applicants	1 April 2005
Tentative listing date of the Company's entire enlarged issued and paid-up share capital on the Second Board of Bursa Securities	5 April 2005

3.5 PURPOSE OF THE OFFER FOR SALE AND PUBLIC ISSUE

The purposes of the Offer for Sale and the Public Issue are as follows:

(a) to obtain the listing of and quotation for the entire issued and paid-up share capital of the Company on the Second Board of Bursa Securities, which is expected to enhance the business, profile and future prospects of the Group;

(b) to enable the Group to have access to the capital market for its future expansion and growth;

(c) to provide an opportunity for Malaysian investors and institutions, eligible directors, employees and other persons contributing to the success of the Group, and the public to participate in the equity growth of the Company; and

(d) to raise funds for the Group's operation and expansion.

3. DETAILS OF THE OFFER FOR SALE AND PUBLIC ISSUE (CONTINUED)

3.6 BASIS OF ARRIVING AT THE OFFER PRICE AND ISSUE PRICE

The Offer Price and the Issue Price of RM1.76 per Offer Share or Issue Share was determined and agreed upon by the Company and OSK, as the Adviser and Managing Underwriter, after taking into consideration the following factors:

(a) The historical proforma consolidated PATMI for the FYE 30 June 2004 of RM12.422 million. Based on the number of Hovid Shares in issue before the Public Issue of 82,460,000, the net historical proforma EPS is 15.1 sen. The Issue Price of RM1.76 represents a net historical proforma PE Multiple of 11.7 times. The historical PE Multiple is at a premium of approximately 11.4% to the average PE Multiple for comparable listed pharmaceutical companies as at 31 December 2004 of 10.5 times;

(b) The forecast consolidated PATMI for the FYE 30 June 2005 of approximately RM13.015 million assuming that the listing of Carotech is completed by April 2005 and the Public Issue is completed by March 2005. Based on the weighted average number of Hovid Shares in issue of 59,013,577, the net EPS is 22.05 sen. The Issue Price of RM1.76 represents a net forecast PE Multiple of 7.98 times. The forecast PE Multiple is at a discount of 24.8% to the average PE Multiple for comparable listed pharmaceutical companies as at 31 December 2004 of 10.5 times;

(c) The NTA per Share of the proforma Hovid Group of RM0.70 after the Public Issue. The Issue Price represents a premium of RM1.06 per Share or approximately 151% above the NTA per Share of the proforma consolidated Hovid Group;

(d) The Hovid Group's operating and financial history and conditions as outlined in **Sections 9.1, 9.8** and **10** of the prospectus; and

(e) The prevailing market conditions.

Investors should also note that market price of the Offer Shares and the Issue Shares upon and subsequent to the Listing are subject to the vagaries of market forces and other uncertainties, which may affect the price of the said shares. Investors should bear in mind the risk factors set forth in **Section 4** before deciding on whether or not to invest in the Offer Shares and/or Issue Shares.

3.7 PROCEEDS FROM THE PUBLIC ISSUE AND UTILISATION

The total gross proceeds from the Public Issue of RM22,528,000 are expected to be fully utilised for the core business of the Group by September 2005 as follows:

	Note	RM'000
Repayment of bank borrowings	(i)	14,000
Payment of listing expenses	(ii)	1,600
Working capital	(iii)	6,928
		22,528

Notes:

(i) The Group proposes to utilise RM14.0 million of the proceeds from the Public Issue, within six (6) months of receipts, to repay its existing borrowings, that is RM9.5 million in respect of overdraft with current interest rates of 7.25% and RM4.5 million in respect of long term loans with current average interest rates of 7.5%, thus resulting in interest savings amounting to approximately RM1.0 million per annum for the Group. As at 31 January 2005, the total overdraft, hire purchase and term loans outstanding in the Group are RM17.2 million, RM11.8 million and RM15.5 million respectively.

(ii) *Details of the estimated listing expenses of RM1.6 million, which would be paid within three (3) months from the receipt of the proceeds from the Public Issue, are set out in* ***Section 3.10*** *of this prospectus.*

(iii) *The proceeds from the Public Issue allocated for working capital requirements will be utilised to fund the Group's general working capital and administrative requirements, within three (3) months of receipts.*

There is no minimum subscription to be raised from the Public Issue.

3.8 BROKERAGE AND UNDERWRITING EXPENSES

Brokerage relating to the Issue Shares are payable by the Company at the rate of 1.0% of the Issue Price of RM1.76 per Share in respect of successful applications which bear the stamp of OSK, participating organisations of Bursa Securities, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or the Issuing House.

Underwriting commission is payable by the Company to the Underwriters at a rate of 1.5% of the Issue Price of RM1.76 for each of the Issue Shares described in **Section 3.2.2(c)**. The same rate of commission is payable by the Company in respect of the unsubscribed portion of the Issue Shares described in **Section 3.2.2(a)**, which will then be offered to the Malaysian public.

The Company shall bear all expenses such as brokerage and underwriting commissions, registration fees relating to the Public Issue together with all other expenses and fees incidental to the listing of and quotation for the entire enlarged issued and paid-up share capital of Hovid on the Second Board of Bursa Securities, which is estimated at RM1.6 million. The Offerors shall bear the brokerage relating to the Offer for Sale.

3.9 DETAILS OF THE UNDERWRITING AGREEMENT

The Company has entered into an underwriting agreement dated 2 March 2005 ("Underwriting Agreement") with the Underwriters to underwrite up to 8,350,000 Issue Shares mentioned in **Section 3.2.2** of this prospectus ("Underwritten Shares").

The obligations of the parties are subject to the following:

(a) the listing of and quotation for the enlarged issued and paid-up capital of the Company on the Second Board of the Bursa Securities having been approved by Bursa Securities and SC, on or prior to a date falling no later than the expiry of three (3) months from the date of the Underwriting Agreement or such other longer period as may be approved in writing by the mutual agreement of the parties ("Closing Date");

(b) the Public Issue having been approved by the SC, on or prior to the Closing Date;

(c) there not having been, on or prior to the Closing Date, any adverse change of or in the condition (financial or otherwise) of the Company from that set forth in the prospectus which is material in the context of the Public Issue, nor the occurrence of any event rendering untrue or incorrect to an extent which is material as aforesaid any representation or warranty contained in the Underwriting Agreement and in the prospectus as though they has been given or made on such date;

(d) the registration with the SC and the lodgement with the ROC of the prospectus in its final form in accordance with the requirements of the Securities Commission Act 1993;

(e) the offering and/or subscription of the Issue Shares under the Public Issue in accordance with the provisions of the Underwriting Agreement not being prohibited by any statute, order, rule, regulation, directive or guideline (whether or not having the force of law) promulgated or issued by any legislative, executive or regulatory body or authority of Malaysia (including Bursa Securities);

(f) the Underwriting Agreement having been duly executed by all parties and stamped; and

3. DETAILS OF THE OFFER FOR SALE AND PUBLIC ISSUE (CONTINUED)

(g) all other necessary approvals and consents required in relation to the Public Issue (including but not limited to shareholders' and governmental approvals) having been obtained and being in full force and effect.

If any of the above conditions is not satisfied, the Underwriters shall be entitled to terminate the Underwriting Agreement by notice given to the Company not later than the Closing Date, and in that event (except for the liability of the Company for the payment of all the costs and expenses related to the Public Issue, and any right and/or liability of the Company and/or the Underwriters for any breach of warranty or undertaking) the parties shall be released and discharged from their respective obligations hereunder. The Underwriters have the discretion to waive compliance with any of the above conditions, in which case any condition so waived shall be deemed to have been satisfied in relation to it.

It is also provided that, if in the reasonable opinion of the Underwriters, any of the following matters or circumstances occurs:

(a) there shall have been such a change in national or international monetary, financial, political or economic conditions, or in exchange control or currency exchange rates;

(b) there shall have occurred, happened or come into effect any event or series of events beyond the reasonable control of the Underwriters by reason of Force Majeure which would have, or can reasonably be expected to have, a material adverse effect on the business or the operations of the Company or the success of the Public Issue, or which is likely to have the effect of making any material part of the Underwriting Agreement incapable of performance in accordance with its terms. In this clause, "Force Majeure" means an event or cause which is unpredictable and beyond the reasonable control of the party claiming the same, and which could not have been avoided or prevented by reasonable foresight, planning and/or implementation, and includes (without limitation) war, hostilities, riot, uprising, flood, fire, storm, epidemic, explosion, disease, earthquake, hijacking, sabotage, crimes, and acts of God;

(c) the imposition of any moratorium, suspension or material restriction on trading in all securities generally on Bursa Securities;

(d) any change in any law, regulation, directive, policy or ruling in any relevant jurisdiction;

(e) any relevant government requisition or occurrence of any nature; or

(f) the Company has committed a breach of any of the representations, warranties, undertakings, covenants or other provisions of the Underwriting Agreement, the breach of which is either incapable of remedy or if capable of remedy, the Company has failed to remedy such breach within a period of 14 days from the date of a notice in writing by the Underwriters notifying the Company of such breach and requiring the Company to remedy the same,

which would prejudice materially the success of the Public Issue, then the Underwriters may by notice in writing to the Company terminate the Underwriting Agreement before 5.00 p.m. on the Closing Date, and thereupon the parties shall (except for the liability of the Company for the payment of all the costs and expenses relating to the Public Issue incurred prior to and/or in connection with such termination) be released and discharged from their respective obligations hereunder.

3. DETAILS OF THE OFFER FOR SALE AND PUBLIC ISSUE (CONTINUED)

3.10 ESTIMATED LISTING EXPENSES

The expenses of the Listing are estimated at approximately RM1,600,000, with the following estimated breakdown:

	RM
Professional fees	600,000
Fees of the authorities	66,000
Underwriting fee	220,440
Brokerage fee	105,600
Printing and advertising fees	250,000
Issuing house's fees	80,000
Miscellaneous	277,960
Total	1,600,000

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3. DETAILS OF THE OFFER FOR SALE AND PUBLIC ISSUE (CONTINUED)

3.11 APPROVALS BY THE RELEVANT AUTHORITIES

The Listing is subject to the approvals of the following regulatory authorities.

Authority	Date granted	Conditions	Status of compliance
SC and SC on behalf of FIC	26 October 2004	(i) Hovid is required to formulate a management succession plan prior to the implementation of the scheme;	The management succession plan was submitted to the SC on 6 January 2005.
		(ii) The proposed directors of Hovid are required to submit the requisite declarations pursuant to Schedule 16.02 of the Policies and Guidelines on Issue/Offer of Securities (Issues Guidelines);	Submitted to the SC on 6 January 2005.
		(iii) The following matters should be fully disclosed in Hovid's listing prospectus:	
		(a) The key elements of its management succession plan;	Complied – see Section 7.11.
		(b) The latest debtors collection periods of the companies within the proposed Hovid Group and the directors' comments thereon; and	Complied – see Section 5.5.3.
		(c) The material litigation involving the proposed Hovid Group, a legal opinion thereon and comments by the directors of Hovid on the impact of the litigation on its financial position and commercial reputation;	Complied – see Sections 9.2 and 14.6.
		(iv) At least 30% of the enlarged share capital of Hovid is to be held by Bumiputera investors approved by MITI to comply with the National Development Policy ("NDP") requirements;	To be complied with.
		(v) OSK / Hovid should provide SC with the status of compliance on the NDP requirements upon completion of the listing exercise;	To be complied with.
		(vi) In respect of the properties, Hovid is to comply with the following:	
		(a) Lot No. 8811N, Mukim of Ipoh, District of Kinta, Hovid is to –	Provided on 6 January 2005.
		• provide an undertaking to use its best endeavour to obtain the Certificate of Fitness/Certificate of Completion for the approved buildings, namely the cephalosporin store and machinery (plant) Buildings, within 6 months from the date of SC's approval; and	
		• provide an undertaking to use its best endeavour to rectify the extensions, which have yet to be approved, within 12 months from the date of SC's approval;	

3. DETAILS OF THE OFFER FOR SALE AND PUBLIC ISSUE (CONTINUED)

Authority	Date granted	Conditions	Status of compliance
		(b) In respect of Lot No 2056S, Mukim of Bandar Ipoh, District of Kinta, Hovid is to provide an undertaking to use its best endeavour to rectify the extension, which had yet to be approved, within 12 months from the date of SC's approval;	Provided on 6 January 2005.
		(c) In respect of Lot Nos. 312, 313 and 314, Mukim of Damansara District of Petaling, Hovid is to provide an undertaking to use its best endeavour to rectify the extension, which has yet to be approved, within 12 months from the date of SC's approval; and	Provided on 6 January 2005.
		(d) In respect of the above 3 subject properties, Hovid is required upon listing, to make quarterly announcements to Bursa Malaysia on the status of such applications, until such approvals are obtained; and to update the SC on the status of the applications every quarter until such approvals are obtained;	To be complied with upon Listing.
		(vii) A moratorium on the disposal of shares is to be complied with whereby the affected shareholder will not be allowed to sell, transfer or assign his shareholding amounting to 45% of the nominal issued and paid-up share capital for 1 year from the date of admission of Hovid to the Official List of the Second Board of Bursa Malaysia, as proposed, as follows; DH 42,867,000 (45.0% of the enlarged issued and paid-up Share capital)	To be complied with upon implementation.
		(viii) OSK/Hovid to comply with all the provisions of the Issues Guidelines in connection with the implementation of the listing proposal.	To be complied with upon implementation.

The SC, under the FIC Guidelines on the Acquisition of Interests, Mergers and Takeovers by Local and Foreign Interests, has no objections to the following equity structure of Hovid in relation to the Listing:

	Before the Public Issue (%)	After the Public Issue (%)
Bumiputera	-	30.1
Non-Bumiputera	100	65.1
Foreign	-	4.8
	100	100.0

MITI	24 May 2004 and 23 September 2004	(i)	To obtain the approval of the SC;	Complied.
		(ii)	All the 28,627,000 shares of Hovid (i.e. 30.05% of its enlarged capital) is subject to the approval of MITI, which allocation will be decided separately after the approval of SC.	Complied vide the MITI's letters dated 24 May 2004 and 23 September 2004.

3. DETAILS OF THE OFFER FOR SALE AND PUBLIC ISSUE (CONTINUED)

3.12 MORATORIUM ON SALE OF SHARES

Pursuant to the Listing Requirements, Shares held by the promoter of the Company amounting to 45% of the issued and paid-up share capital of the Company at the date of admission of the Company to the Official List of the Second Board of Bursa Securities are to be placed under moratorium.

The promoter whose Shares are subject to moratorium are set out below:

Promoter	Shares under moratorium upon Listing	
	No. of Shares	% of the enlarged issued and paid-up capital
DH	42,867,000	45.0

The moratorium has been fully accepted by the aforementioned promoter. DH will not be allowed to sell, transfer or assign of any part of his interest in the Shares under the moratorium within one (1) year from the date of admission of the Company to the Official List of the Second Board of Bursa Securities.

The restriction is specifically endorsed on the notices of allotment representing the respective shareholdings of the promoter which is under moratorium to ensure that the Company's Share Registrar shall not register any transfer not in compliance with the aforesaid restriction. The public is deemed to have notice of this restriction.

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4. RISK FACTORS

Notwithstanding the prospects of the Group outlined in this prospectus, applicants should carefully consider the following risk factors (which may not be exhaustive) that may have a significant impact on the future performance of the Group, in addition to other information contained elsewhere herein, before applying for the Offer Shares and/or the Issue Shares.

Investors should rely on their own evaluation to assess the merits and risks of the investment. Investors who are in any doubt as to the information contained in this section should immediately consult their stockbroker, bank manager, solicitor, accountant or other professional adviser.

4.1 NO PRIOR MARKET FOR THE SHARES

There has been no prior public market for the Company's shares. The Offer Price and the Issue Price were determined through negotiation between the Company and the Managing Underwriter based upon several factors and may not be an indication of the market price of the Company's shares after the Offer for Sale, the Public Issue and the Listing. See **Section 3.6** on the basis for the determination of the Offer Price and the Issue Price.

There can be no assurance that an active public market in the Shares will be developed or be sustained after this Offer for Sale, Public Issue and Listing, or that the market price of the Shares will not decline below the Offer Price and the Issue Price.

A variety of factors may cause the price of the Shares to fluctuate, including (without limitation) sales of substantial amounts of the Shares in the public market in the immediate future; announcements of developments relating to the Group's business; fluctuations in the Group's operating results and sales levels; the conditions of the general industry, or the national or world-wide economy; announcements of new products or product enhancements by the Group and/or its competitors; and developments in patent, copyright or other intellectual property rights.

4.2 OPERATING HISTORY

The Group's operating history may not be illustrative or indicative of the Group's future prospects. There is no assurance that the Group will be profitable in future years, or that it will achieve increasing or consistent levels of profitability.

The Group's revenue and operating results may be difficult to forecast and may be adversely affected by many factors. These may include, among others, disruption to production, debt collection problems, the ability of the Group to control unforeseen costs, unforeseen changes to the Group's operating expenses, reliance on performance of other industries, competition, the ability of the Group to develop and market, on a timely basis, the Group's products, market acceptance of new or competing products or services, and other business risks common to going concerns.

Apart from the revenue generated from the Group's core products and services, the Group continuously procures sales leads which the Directors of the Company believe are promising and which, if successfully completed, will contribute positively to the Group's revenue. The management of the Company believes that these sales leads should materialise in the next 12 to 24 months.

Moreover, the Group has been able to operate its business through the challenging economic conditions since 1997, and continues to focus on cash flow management, effective and result-oriented market penetration efforts, developing long-term relationships with its customers, controlling costs and developing its products.

4.3 OPERATIONAL RISKS

The Group is exposed to the risks of fire breakouts and electricity supply disruptions at its premises, which may disrupt or otherwise adversely affect the operations of the Group. In this regard, the Group has installed fire detection systems at its premises, and also has back-up electricity generator sets capable of generating back-up power supply for a short period of time, in order to mitigate against such risks.

The Group also has all-risks insurance coverage, which includes fire insurance, for all of its equipment and premises. Although it has not taken insurance coverage against disruptions in electricity supply, the Group believes that its operations should not be significantly affected by temporary electricity supply disruptions.

However, it should also be noted that in the context of the Group's insurance coverage, though the assets located at the Group's premises are covered by the said insurance to the amount of its book value, there is a risk that any damage or destruction to such assets may still result in a materially adverse disruption to the Group's operations the financial costs of which may exceed the book value of the Group's, despite any claim which the Group may have for insurance compensation to the amount of the book value of the said assets. In order to further mitigate such risks, the Group also has in place consequential loss insurance.

Carotech recently completed the construction and commissioning of the expansion to its existing manufacturing plant located in Chemor, Perak in September 2004 and recently commenced operations and commercial production at its new facility. However, there is no assurance that the financial results of Carotech will not be adversely affected by disruptions to its production caused by manufacturer's defects on the new plant and machinery and equipment, delays in obtaining replacement parts under warranty as well as delays in attaining the optimum operating capacity for Carotech's new plant. However, based on Carotech's past experience in running the existing plant, the management of Carotech is confident that it will be able to overcome any problems relating to the expanded plant's operations.

4.4 DEPENDENCE ON DIRECTORS AND KEY MANAGEMENT AND TECHNICAL PERSONNEL

The Group's future performance depends to a significant extent on the continued efforts and abilities, as well as the networking, of its directors, key management and technical personnel. The loss of the services of any key individuals may have a material and adverse effect on the Group. The Group also depends on its ability to attract and retain sufficient skilled employees. The Group does not have key management insurance cover for its key executives.

The Group is led by DH, aged 55, who is the Managing Director of the Hovid Group. DH has valuable experience in the pharmaceutical, nutraceutical and cosmecuetical industry. He also heads the R&D function of the Group. His experience and expertise is one of the primary reasons for the success of the Group. If he were to cease to be involved in the management of the Group's business, the Group's business and profitability could be adversely affected. In order to mitigate this risk, the Group has:-

(i) entered into service agreements with DH in relation to his employment as Managing Director of Hovid and Carotech for a period of five (5) and three (3) years, respectively. Details of the agreements are set out under **Section 6.3.5** of this prospectus; and

(ii) in place a management succession plan, further details of which are set out under **Section 7.11** of this prospectus.

The Group is supported by a team of experienced employees, which have been with the Group for an average of more than ten (10) years. Most of them have more than ten (10) years of experience in the pharmaceutical industry. The success of the Group today is also very much attributable to this team of people, in particular the founders. Hence, any loss of these personnel will have an initial adverse impact on the operations and future expansion of the Group. Realising this, the Group has been investing in on-going programmes to train and equip employees as well as providing a good working environment for them.

The Group is also continuously grooming the junior members of the management team for increased responsibilities and exposure.

The Group currently enjoys cordial relationships with its employees, and these employees do not belong to any trade union.

4. RISK FACTORS (CONTINUED)

4.5 PROTECTION OF THE GROUP'S TECHNOLOGY AND INTELLECTUAL PROPERTY RIGHTS

The Group's success is dependent upon its ability to protect the intellectual property rights that it currently enjoys. Accordingly, there can be no assurance that the Group will be able to continue to protect its proprietary and intellectual property rights against infringement, or unauthorised third-party copying, use or exploitation, any of which may have a material and adverse impact on the Group's business, operating results and financial condition.

Further, the Group has not, to date, experienced any challenge to the validity of its intellectual property rights. However, there can be no assurance that there will not, in future, be any challenge (whether or not with merit) to the validity of the Group's intellectual property rights, and, in the event of any dispute in this regard, that the Group would not be exposed to adverse consequences as a result of existing or future laws, or unfavourable judicial decisions.

Although the Group's businesses do not currently involve the use of third party intellectual property rights, it is anticipated that there may be such use in the future. There can be no assurance that there will not, in future, be any challenge (whether or not with merit) to the Group's rights to use those third party intellectual property rights, and, in the event of any dispute in this regard, that the Group would not be exposed to adverse consequences as a result of existing or future laws, or unfavourable judicial decisions.

The intellectual property rights of the Group are registered or protected in only certain limited jurisdictions. There can be no assurance that third parties will not exploit these intellectual property rights in those jurisdictions in which they have not been registered or otherwise protected.

The filing for and grant of a patent in a particular jurisdiction will result in public disclosure of the inventions of the Group. This will aid a third party in exploiting the inventions in a jurisdiction in which there is no or limited patent protection.

The directors of the Company believe that the Group has taken active steps in the protection of its patents, and if the need arises, the Group is prepared to initiate legal proceedings against parties deemed to have infringed upon the Group's proprietary rights and licences.

4.6 DELAYS IN R&D AND TECHNOLOGICAL RISKS

The pharmaceutical industry faces the constant risk of rapid technological change, which may adversely affect the business of the Group, in terms of market viability and competitiveness. Such advancements could come in the form of molecular advancements affecting formulations, as well as advancements affecting delivery systems and applications of drugs. These could result in one or more of the Group's products being rendered obsolete and unmarketable.

The Group has on-going R&D programmes, application research and clinical trials with the purpose of developing products and showing the health benefits of tocotrienols that are on the front edge of the market, and to meet the dynamic requirements and expectations of the market. However, successful pharmaceutical product development and favourable application research and clinical trials are highly uncertain. Product development, application research and clinical trials may fail to reach the market for numerous reasons such as inconclusive findings and the failure to obtain the necessary regulatory approvals. Clinical trials results are susceptible to different interpretations that may delay regulatory approvals. There is no assurance that the research or trials may achieve the expected result and if successfully developed and approved by the relevant authorities may receive market acceptance. Additionally, products under development may fail to reach the market for numerous reasons such as the discovery of harmful side effects in pre-clinical and/or clinical testings and the failure to obtain the necessary regulatory approvals. There can be no assurance that the production of these new or enhanced products can be successfully achieved on a timely basis.

However, the Group believes that its current range of products and applications are stable and have been well-accepted by its customers, and as such the effects of any material delay in the commercial production or development of new or enhanced products / applications is mitigated by the continued availability of the Group's existing range of products / applications. The future growth of the Group is nevertheless dependent upon, to a certain extent, the successful development of new products / applications. The consolidated profit forecast for the FYE 30 June 2005 (as set out in **Section 9.3** of this prospectus) assumes that there is no such development of new applications. Nevertheless, the Group is currently researching more than 80 products and has at least another 50 products pending registration in Malaysia.

The Group collaborates with a number of research institutes worldwide for the development of new applications. There is no assurance that the Group would be able to maintain its business relationships with these research institutes or its co-operation with these research institutes would achieve the expected results. In the event of any early termination or non-compliance with or breach of the relevant non-binding memorandum of co-operation or technology transfer agreements by any of such research institutes or if the Group's relationships with these research institutes deteriorate, the Group's business and future prospects would be adversely affected.

However, the Group believes that its relationships with these research institutes are strong and the risk of the relationship deteriorating in the near future is low.

4.7 INVESTMENT RISKS

If appropriate opportunities present themselves, whether in Malaysia or elsewhere, the Group may decide to acquire businesses, products or technologies, or enter into joint ventures, alliances or partnerships with third parties, or to expand into other geographical markets.

There can be no assurance that the Group will be able to successfully identify, negotiate, finance or implement these ventures or investments, to successfully integrate these ventures or investments with its current business and operations, or to benefit from the same. These ventures and investments may also require additional capital, which may or may not be available on terms satisfactory to the Group. However, any venture or investment of such nature will be carefully considered by the Directors of the Company and its subsidiaries with due care.

The Group may also from time to time invest in new ventures and products. These investments may not be successful, or may have a delayed gestation period. In this event, the Group may not be able, or may be slow, to recover its investments and/or achieve satisfactory returns. However, any venture or investment of such nature will be carefully considered by the Directors of the Company and its subsidiaries with due care.

4.8 CONTINUED CONTROL BY EXISTING SHAREHOLDERS

Upon the completion of the Offer for Sale and the Public Issue, DH, a director and substantial shareholder of the Company, will in the aggregate beneficially own approximately 52.0% of the issued and paid-up share capital of the Company. As a result, DH will possess voting control over the Company, giving him the ability, among others, to elect at least a majority of the Company's directors and to control the vote on significant corporate transactions.

Nonetheless, the Company has appointed two (2) independent directors as a step towards good corporate governance to ensure that any future transactions involving related parties, if any, are entered into on arms-length terms.

4. RISK FACTORS (CONTINUED)

4.9 FOREIGN EXCHANGE RISKS

A substantial amount of the Groups' revenue is currently generated from exports. As such, the Group may be potentially exposed to foreign exchange risks.

However, the Group's imports of raw materials and exports of products are generally denominated in USD. Since the USD is pegged to the Ringgit at RM3.80 per USD1.00, the foreign exchange risk is minimised. Additionally, the availability of both inflow and outflow of USD arising from normal business transactions provide a natural hedge to foreign currency exchange risk.

4.10 RESISTANCE TO CHANGE

Some medical professionals in primary care institutions are quite conservative and do not favour recommending new drug delivery systems to patients. This could be due to lack of awareness of the advantages of newly introduced therapeutic options or special drug delivery system. Another reason is the higher cost associated with newer generations of therapeutic options or drugs offering special drug delivery systems, or because medical professionals do not want to change to a new regime of treatments when patients comply with the existing treatment or that the effect is satisfactory. There is thus an inherent risk in investing in R&D to incorporate or introduce special drug delivery systems to generic drugs, a strategy adopted by the Group. Both medical professionals and the public need to be made more aware of the advantages of the enhanced delivery systems. The challenge is to overcome their natural conservatism and resistance to change.

(Main Source: Independent Market Research Consultant report prepared by Infocredit D&B (Malaysia) Sdn Bhd dated 29 December 2003 ("IMR Report")

4.11 COMPETITION

Competition remains stiff amongst Malaysian generic drug manufacturers, the imported generic manufacturers and distributors and the multinational pharmaceutical companies with their patented products. It has been increasingly difficult for Malaysian generic players to stay ahead of competition, especially with the multinational pharmaceutical companies striving to protect themselves by the reformulation of their to-be-expired patents and the Chinese and Indian manufacturers pushing for export market growth, given their internally saturated markets.

Offering a wide variety of products is one way of staying ahead of the local Malaysian generic players. In terms of product range, the top five (5) major generic manufacturers in Malaysia have a range of 100 to 400 products. The Group has a good range of more than 300 products registered with the DCA, out of which approximately 180 products are active in the market. Pricing remains a major issue for generic drugs as increased competition by other generic drug manufacturers keeps profit margins thin. Generic products make up 80% of the Group's pharmaceutical divisions' active products in the market while the remaining 20% are covered by dietary supplements.

The Group strives to stay ahead constantly by having an ongoing new product portfolio with new products coming into the market constantly and consistently. For the FYE 2003 and FYE 2004, the Group launched a total of ten (10) and three (3) new products respectively. As at 31 January 2005, the Group has more than fifty (50) new products pending registration approvals to be launched into the Malaysian market. It is expected that three (3) products will be launched by the end of 2005, and more than twenty (20) products in the following two years. The Group is working towards a quicker time-to-market for the to-be-expired patented products to achieve better margins and increase market share.

To stay ahead of its competitors, the Group is also moving into niche therapeutic areas such as anti-malaria and anti-diabetic products which have lower exposure to competition. However, in the event that other pharmaceutical manufacturing companies manufacture similar products or products having comparable medicinal applications or therapeutic effects, which may be used as direct substitutes for the Group's products, and such potential substitutes are launched in the market with their prices analogous with or lower than those manufactured and sold by the Group, the Group's profitability could be adversely affected.

4. RISK FACTORS (CONTINUED)

The Malaysian government hospital sector is dominated by a few players such as Pharmaniaga Manufacturing Berhad and the Upha Group. Penetration into the market by other players is extremely difficult. Whereas for private hospitals, physicians and medical specialists, as well as patients, who are paying higher medical fees, often have the perception that generic drugs are not as safe and as effective as their innovator counterparts. Furthermore, unlike innovators' drugs, generic drugs are rarely clinically tested for safety and efficacy in patients. It is difficult to challenge and change such misconceptions. As such, generic pharmaceutical manufacturers are competing for the same target segment, specifically the general practitioner and clinic markets. This limits growth opportunities and there is risk of intense price competitions among generic players.

(Main Source: IMR Report)

In the case of palm tocotrienols, mixed carotene and phytosterols, Carotech regards as competitors Keck Seng (M) Berhad, Carotino Sdn Bhd and Golden Hope Bioganic Sdn Bhd. Carotech's products are distributed via Carotech's sales and marketing office under C Inc in the US. Carotech also works with strategic partners and appointed exclusive distributors in various countries such as Germany, Italy, France, the Netherlands, UK, Australia, New Zealand, Japan and Canada. Carotech provides technical training to sales personnel of these strategic partners to ensure that they can meet the needs and requirements of end customers in the respective countries. Carotech has also been granted exclusive rights to supply tocotrienols complex to various major dietary supplement companies in the US.

However, there is no assurance that market competition for Carotech's products will not adversely affect the Group. The price of carotenoids has been eroded in recent years. In 2001, F. Hoffman-La Roche Ltd announced a temporary stop in its production in order to stabilise carotenoids prices. Some producers may resort to contracting strategic alliances or merger and acquisition, for example, the acquisition of the colouring activities of Quest International, including carotenoids, by Chr. Hansen Holding A/S in 1999. At present, tocotrienols are sold by Carotech in its raw form in concentrations, and prices vary according to concentrations. There can be no assurance that the prices of tocotrienols will not be similarly eroded.

(Main Source: IMR Report)

In tandem with the risk of competition, it can be said that the tocotrienols industry takes a long gestational period. For instance, it took Carotech about five (5) years in R&D before the successful commercialisation of producing palm tocotrienols. However, the positive effect of this is that its long-time market presence has already created the first mover advantage, building its own brand of tocotrienols in the process of creating product awareness. As such, this advantage readily provides Carotech an edge ahead of its competitors in the industry.

4.12 THREATS FROM CHINA AND INDIA

Pharmaceutical companies in India and China are posing strong competition to Malaysian manufacturers that have similar target export markets like theirs. In the 1970s, Indian patent law was amended to prohibit the patenting of pharmaceutical, food products and agrochemicals while pharmaceutical processes have a statutory term limit of seven (7) years from application or five (5) years from grant. The biggest contributor to the price difference could be the due to lower manufacturing and labour cost and the non-payment of royalty fees to the original patent holder. This low price advantage that Indian manufacturers enjoy would be helpful in getting them market penetration in export markets, specifically in less-developed markets where price is the main determining purchase factor.

(Main Source: IMR Report)

Previously, intellectual property rights in China have been slack, with little enforcement. Some generic drugs have been manufactured along side patented ones without much enforcement of patent infringement law. However, with China's entry to the WTO, many foreign pharmaceutical companies are viewing it as a positive move towards pushing China to adhere to global standards. Part of the reason for China's lack of competitiveness in the global market is their lack of size and weakness in technological innovations. Thus, in the post-WTO marketplace, foreign pharmaceutical companies may try to obtain a larger market share. While foreign pharmaceutical companies invade the Chinese local market, many Chinese pharmaceutical companies may find that local Chinese market is too competitive and decide to expand their exports of traditional medicines and OTC drugs to other countries in South East Asia such as Malaysia, Singapore and Vietnam.

4.13 BRAND RECOGNITION

There is an excessive number of dietary supplements in the local Malaysian retail market, at both pharmacies and supermarkets. Besides, there are the multi-level-marketing companies that are offering full range of dietary and health supplements competing for the same consumers. Many companies prefer to be conservative by following the market leaders. They often offer products that have successfully gained acceptance in the market place. However, late comers usually have to sacrifice on price and margin. In addition, only products that address customers' needs stand better chances to grow further. Brand building and marketing play a vital role in this effort. In this regard, industry players are facing the same risk factor as any other fast moving consumer goods where they are exposed to diverse factors that impede a successful launch of products. They need to constantly invest in brand building, advertising and promotional activities to create market awareness and brand preference. Besides, it is necessary to keep abreast with the ever-changing consumers' desires and market trends. They need to invest into studying the latest market trends and consumers' needs. Although this may not guarantee that the next product launch will be favourable, but failing to respond and act fast to the changing market trends often lead to product failure.

Brand building and marketing and promotional activities in the generics and dietary supplement market is a big challenge to pharmaceutical players. The Group aims to build brand recognition among the generic products and educate consumers on the benefits of its products. Several brand awareness and education campaigns and promotions have been held to foster brand loyalty among consumers. Some of the Group's better known brand names are "Tocovid Suprabio", the dietary supplements with its tocotrienols ingredients, and "Diabetmin", its anti-diabetic drugs.

Campaigns, brochures, promotions and incentives are also part of the Group's marketing strategies to promote its brands to general practitioners, private hospitals and the retail markets. Continuous and consistent education of consumers coupled with constant reassurances on the quality of locally made generic products will help change market perceptions.

(Main Source: IMR Report)

4.14 PROVING EFFICACY AND MAINTAINING QUALITY

A generic drug can obtain registration by reference to published information and data on the safety and efficacy of the innovator drug, instead of having to repeat the entire process of proving efficacy and safety. The DCA requires bio equivalence test result for the registration of generic versions of certain medicine. Regulatory requirements aside, generic pharmaceutical manufacturers are facing increasing pressures to prove their products' efficacy and safety to gain physicians and pharmacists' confidence in local generic drugs. The DCA and NPCB also require that a pharmaceutical manufacturing company conforms to current GMPs. The players must follow the cGMP in all phases of the manufacturing process, and must continually monitor quality control and compliance. If the company fails to meet these requirements, the authority can impose sanctions that can result in the recall of products already sold into the marketplace, withholding new product approvals, and even order the manufacturing plant to shut down its operation.

Nevertheless, the Group has a QA team that continuously monitors and audits the compliance of the Group's procedures and practices.

4. RISK FACTORS (CONTINUED)

The standard of compliance required in connection with the GMP may change from time to time, which may give rise to substantial compliance burdens and increase the Group's costs. In the event that the renewal of any required GMP-related status is not granted, the relevant operations of the Group may have to be terminated which in turn would have an adverse impact on the Group's profitability.

For Carotech, the tocotrienols industry is still very much at its infancy stage, and there is no assurance that the Group will not be adversely affected in future by any adverse event or development of this market. There is also no assurance that the prospects for the market will be positive. In terms of palm tocotrienols, there are only two players in the market currently, Carotech and Golden Hope Bioganics Sdn Bhd. Carotech started trading and distributing tocotrienols since 1995 whilst Golden Hope Bioganics Sdn Bhd started selling on a smaller scale via its parent company, Golden Hope Plantation Berhad, in 2001. Carotech believes that it has the major share of the tocotrienols market in the world. The remaining market is shared between Golden Hope Bioganics Sdn Bhd (in palm tocotrienols), and Oryza Oil & Fat Chemical Co. Ltd. of Japan and Eastman Chemical Company of the US, both of which are in rice bran tocotrienols.

While tocotrienols are considered food supplements and therefore do not require product registration in most countries, the claims for its applications and the results of clinical trials have to be accepted by the various regulatory authorities and could be tedious and time consuming. There is also no assurance that a country's regulatory authority will accept the clinical trials conducted by or for Carotech.

(Main Source: IMR Report)

4.15 MULTINATIONAL PHARMACEUTICAL COMPANIES' REFORMULATION STRATEGY

Multinational pharmaceutical companies strive to protect revenues of their current drugs facing patent expiry. The strategies to protect patent exclusivity include litigation, reformulation, new isomeric forms, changing manufacturing processes, or releasing generics under subsidiary names. Approximately 61% of drug manufacturers have opted to reformulate their drugs into improved versions that aim to prolong patent protection and conserve revenue. This also offers greater benefits for patients in terms of administration, efficacy, tolerability and compliance. Reformulation strategy to lengthen and strengthen an existing drug's presence in the market represents a worthy low risk venture to rejuvenate the commercial life of the patented molecule. The opportunities for multinationals to reformulate drugs are vast as there are hundreds of proprietary drug delivery technologies available offering wide-ranging delivery routes including oral, pulmonary, transdermal, transmucosal, injectable, needleless and ocular delivery. Generic manufacturers may thus find it increasingly more challenging in efforts to seize market share from branded drugs in the future.

The pharmaceutical and health-care markets have been developing rapidly with the continuous introduction of advanced technologies and new products. The future development of product technologies and products may render the Group's existing products obsolete, impairing their market share and competitiveness. As a result, the Group's future success depends on, to a large extent, the enhancement of existing products and the development of competitively-priced new products to cater for the rapidly changing market. Should the Group fail to keep abreast with technology advancements or fail to promptly enhance or develop new products, or if the Group's products are not accepted by the market, the Group's operations and profitability would be adversely affected.

Nevertheless, the Group believes that its R&D team will continue to keep abreast of technological advancement and to maintain the new products pipeline. Additionally, the Group is also exploring more niche products to avoid competing directly with these multinational pharmaceutical companies.

(Main Source: IMR Report)

4. RISK FACTORS (CONTINUED)

4.16 REGULATORY PRESSURES

Product registrations in some developing countries can be tedious and time consuming. Pharmaceutical manufacturers face challenges to explore or expand the export markets as the regulatory agencies in some of the export markets, particularly less-developed countries, do not have well-documented legislation or the rules are constantly changing, making it extremely difficult for product registration. However, among the ASEAN member countries, the ASEAN Consultative Committee for Standards and Quality ("ACCSQ") Pharmaceutical-Product Working Group was formed with the main objective to harmonise schemes of pharmaceutical regulations of the ASEAN member countries in order to complement and facilitate the objectives of AFTA, particularly, the elimination of technical barriers to trade posed by regulations, without compromising the quality, efficacy and safety of drugs. This eliminates any discrepancies, ambiguities and loopholes in the various regulations of different countries. However, it should be cautioned that this concept started in 1998 but until today, it has shown little progress towards implementation.

There has also been a growing trend of counterfeit and substandard drugs in developing countries. Overall, it was found that there was a need to improve regulatory measures; especially, drug regulation needs to be in place in order to enhance the quality of the drugs in the market. With the need to strengthen regulatory controls, there is a possibility that many of these countries, especially those in South East Asia, may tighten their regulatory process even further, making it almost impossible for small and medium sized foreign pharmaceutical companies to penetrate local markets.

The Group has a regulatory compliance team that constantly monitors compliance of its products with the regulators and keeps abreast of such developments. The vast experience in the regulatory compliance team has been obtained from registering the Group's products in more than 30 countries worldwide.

(Main Source: IMR Report)

4.17 PURCHASING POWER AND DISEASE AWARENESS

Many local Malaysian pharmaceutical manufacturers, including the Group, are targeting developing countries, such as countries in Indochina and Africa. These markets present a lot of opportunities with their large population sizes. The majority of the generic manufacturers surveyed are already actively developing these markets. However, there is an inherent risk factor that is common among these markets, namely limited purchasing power. In these countries, many people, particularly those in the rural areas, are dependent on traditional medicines or alternative treatments that are cheaper and readily available as compared to modern medications. Besides, the disease awareness level and patients' compliance to therapeutic regimes are low in these countries. Pharmaceutical companies need to understand the levels of disease and treatment awareness before launching products into the market place. They need the backing of medical professionals and the media to help educate the public.

(Main Source: IMR Report)

4.18 MARKET PERCEPTIONS

There are often criticisms that the natural dietary supplements market is minimally regulated. There is limited clinical evidence and scientific backing on the functional claims or efficacy of dietary supplements. This is one of the reasons that lead to consumers' preference towards imported products of established dietary supplement manufacturers. Random store checks show that about 80% of the dietary supplements in retail pharmacies are imported products that are developed and/or manufactured in foreign countries. In this market segment, consumers often perceive that imported supplements are of higher quality. This presents a strong barrier for local Malaysian players to penetrate the Malaysian retail market segment. Growth of the local dietary supplements development and manufacturing industry requires self-regulation to improve product testing and product standardisation. Market participants should ensure that their manufacturing practices conform to industry standards and should have testing procedures in place to determine consistency of the final products. This requires long-term commitment from the industry players to create market confidence and positive market perceptions towards locally-produced dietary supplements.

4. RISK FACTORS (CONTINUED)

Over the last two to three decades, struggle for dominance amongst vegetable oil producers has augured the launch of the anti-palm oil campaign that has given rise to many misunderstandings and allegations about the harmful properties of palm oil to health. Although most of these allegations were counter-proved, such negative publicity has caused confusions and misunderstandings among consumers particularly in the US and the Western countries. Palm tocotrienols manufacturers, like Carotech, may be affected by such negative publicity about palm oil, and will need to put in more efforts and invest in marketing strategies to promote the health benefits of palm tocotrienols in order to reverse the effects of these allegations.

(Main Source: IMR Report)

Furthermore, as the main raw material for the Group's phytonutrient products is CPO, the Group's reliance on palm oil products may be affected by such negative publicity as well as competition from other alternative products.

4.19 SUPPLY OF RAW MATERIAL

One of the main business risks faced by pharmaceutical companies is cost, availability and suitability of raw materials. The basic raw materials are mainly chemicals, which are commodities. However, these raw materials are not easily replaceable, as various studies need to be carried out and conducted to ensure that the raw material is suitable and fits into the bio-equivalence of the generic drug to be produced. The changing of a supplier is tedious, as the raw material will need to undergo again the process of testing and confirming bio-equivalent test. Given that, the Group has two or three suppliers for each particular type of raw material, and is constantly on the lookout for alternative cheaper sources of raw material.

For Carotech, the main raw material for palm-based tocotrienols is CPO. CPO makes up almost 80% of the total raw material costs. Carotech is thus heavily dependent on CPO as a source of raw material. There can thus be no assurance that Carotech will continue to enjoy assured supplies of CPO in quantities adequate for its production, or that such supplies will be at prices and/or on terms and conditions that are acceptable to Carotech.

However, Carotech believes that the sourcing of raw material should not be a major problem for palm tocotrienols producers such as Carotech as palm oil is abundantly available in Malaysia. Malaysia produced 13.4 million tonnes of palm oil in 2003. This represents almost 50% of the world's palm oil output, or 12% of the world's oils and fats output. About 60% of Malaysia's cultivated land area is for oil palms. In the last 20 years, the production of palm oil has been steady and only in rare situation has that production declined, which is in the year 1998 due to the El Nino phenomenon. Even then, the impact was minimal.

(Main Source: IMR Report)

Though there can be no assurance that fluctuations in CPO prices would not have a materially adverse effect on the Group's operations, revenue and profitability, given that methyl ester is the Company's principal by-product and is sold at a slight premium to the CPO price, any fluctuation of CPO prices may be mitigated as the price of the end-product and raw material goes in tandem.

4.20 FUTURE CAPITAL INJECTIONS

The directors of the Company believe that the net proceeds from the Public Issue, together with cash flow generated from the Group's operations and other existing sources of funds, will be sufficient to meet the projected working capital and other cash requirements.

However, there is no assurance that future events may not cause the Group to seek additional capital sooner. If additional capital is required, there can be no assurance that it will be available, or if available, that it will be on terms satisfactory or favourable to the Group. The issue of additional equity or other convertible securities by the Company may result in the dilution of the interests of the then shareholders of the Company.

4. RISK FACTORS (CONTINUED)

4.21 CHANGES TO GENERAL ECONOMIC, POLITICAL, LEGISLATIVE, BUSINESS AND/OR CREDIT CONDITIONS

As with any other business, the Group's business is subject to the overall economic, socio-economic, political, legislative, business and/or credit condition both domestically and internationally. The Group currently operates or exports to countries such as the Philippines, Cambodia, Ghana, Nigeria, Myanmar and Vietnam. Adverse developments in economic, socio-economic, political, legislative, business and/or credit conditions in Malaysia and/or elsewhere (in particular the key export markets of the Group) may materially and adversely affect the business, operations, results and financial conditions of the Group. There can be no assurance that the Group's performance or financial condition will not be affected by any change in any such condition and changes in export markets.

4.22 FORWARD LOOKING STATEMENTS

Certain statements in this prospectus are based on historical data which may not be reflective of the future results, and others are forward-looking in nature which are subject to uncertainties and contingencies. All forward-looking statements are based on estimates and assumptions made by the directors of the Company, and although believed to be reasonable, are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward-looking statements. Although the Group believes that the expectations reflected in such forward-looking statements are reasonable at this time, there can be no assurance that such expectations will prove to have been correct.

4.23 DELAY IN OR FAILURE OF THE LISTING

The Listing exercise is exposed to the risk that it may be delayed or failed should any of the following events, which may not be exhaustive, occur:

(a) identified investors fail to subscribe for the portion of the Issue Shares or fail to purchase the portion of the Offer Shares to be placed to them despite having given undertakings to subscribe or purchase; or

(b) the Company being unable to meet the public spread requirement, that is, at least 25% of the issued and paid-up share capital of the Company must be held by a minimum number of 1,000 public shareholders holding at least 100 shares each.

Although the directors of the Company will endeavour to ensure compliance by the Company of the Listing Requirements and the applicable regulations for the Listing, including (inter alia) the public spread requirement imposed by Bursa Securities for a successful Listing, no assurance can be given that these events will not occur and cause a delay in or abortion of the Listing.

4.24 UNDERWRITING

Up to 8,350,000 of the Issue Shares are to be underwritten by the Underwriters. The underwriting commission is payable by the Company at a rate of 1.5% of the Issue Price of RM1.76 per Share for the Issue Shares made available for the Malaysian public and any Issue Shares reserved for the eligible directors, employees and other persons contributing to the success of the Group that are not subscribed and therefore underwritten by the Underwriters. However, the agreement of the Underwriters to underwrite up to 8,350,000 of the Issue Shares should not be taken as an indication of the merits or assurance of the value of the Issue Shares.

In the event of a shortfall in the subscription of the Issue Shares, the Underwriters will have to subscribe for all the under-subscribed Shares as agreed in the Underwriting Agreement. Should the amount of Shares subscribed for by the Underwriters be of a significant quantum, the Underwriters may end up being a substantial shareholder of Hovid (i.e. holding 5% or more of the aggregate of the nominal amount of all the voting shares in the Company). This may result in non-compliance of the public shareholding spread requirements of Bursa Securities and could adversely affect the success of the Listing.

4. RISK FACTORS (CONTINUED)

The Underwriting Agreement also provides for circumstances, as highlighted in **Section 3.9**, in which the Underwriters may be entitled, on or prior to the closing date of the application for the Issue Shares, to be released or discharged from its obligations under the Underwriting Agreement. The Underwriters' aforesaid right to be discharged from their obligations may result in the Issue Shares not being underwritten and this could adversely affect the success of the Listing.

The 24,177,000 Offer Shares and 4,450,000 Issue Shares available for application or subscription by Bumiputera investors nominated and approved by the MITI are not underwritten. Similarly, if these Offer Shares and Issue Shares are not applied for or subscribed in full, the Listing Exercise may be delayed or jeopardised.

4.25 BORROWINGS

The Group currently has bank borrowings, and may from time to time obtain credit facilities from banks and financiers to finance its operations and business activities. Interest may be charged on these credit facilities by the banks and financiers. Fluctuations of these interest rates may have a material effect on the Group's profitability. These credit facilities may also be subject to terms and conditions which may limit the Group's operating and financial flexibility. Any act or omission by the Group that breaches such terms and conditions may give rise to rights by the banks or financiers to terminate the relevant credit facilities and/or enforce any security granted, in relation to those credit facilities, and which may also cause cross-defaults of other facilities. There can be no assurance that such breaches will not have any adverse impact on the Group's operational and financial results.

The Group is not presently in breach of any such term or condition of any credit facility, and will at all times take all reasonable efforts to observe such terms and conditions.

4.26 CUSTOMERS AND PRODUCT DISTRIBUTION

The Group manufactures and sells more than 300 different types of drugs, health and dietary supplements as well as herbal tea. The product categories are divided into ethical pharmaceutical, dietary supplements, injections and consumer products. The Group has a diversified customer base. For instance, domestically, the Group is serving more than 5,000 customers from the pharmaceutical (clinics, pharmacies, hospitals, Ministry of Health ("MOH"), dental) and consumer (medical halls, wholesalers, supermarkets, retail, mini markets) segments. As such the Board of the Company are of the opinion that there is a minimal risk of dependency on major customers.

Generic manufacturers are not likely to be able to depend on large and dominant distributors who, generally, distribute drugs of multinational companies only. Thus, generic manufacturers have to establish their own network of distributors, which in turn have to compete with the large and dominant distributors. To mitigate this, the Group has established a strong distribution network to cover the whole of Malaysia and various other countries. H Pharmacy is the trading and marketing arm for the Group's products in the Malaysian market. It has six (6) distribution warehouses located in Kuala Lumpur, Ipoh, Penang, Johor, Sabah and Sarawak with a sales force of more than 70 personnel. It also operates two (2) retail outlets in Ipoh to cater for end users' needs.

For the overseas market, the Group markets and promotes its products via exclusive distributorship arrangements, with the exception of the Philippines, where H Inc operates. In each major export market, the Group has appointed an exclusive distributor, carefully selected to create brand awareness and instil brand quality on its products.

4.27 OUTBREAK OF DISEASES

The outbreak of diseases, such as SARS and the avian flu in recent years, has had an adverse impact on both the economic and social conditions in Malaysia. Recommendations to postpone travel were issued by the WHO against various countries and territories around the world. Any future outbreak of diseases could seriously undermine human lives and the local and cross-border business activities in affected areas. The effect includes substantial decrease in the number of tourists, business exchange events and social functions and the slackening of the economy.

4. RISK FACTORS (CONTINUED)

There is no assurance that the overall economic performance of the affected countries and territories will improve shortly even after the outbreak of disease has receded and thus the Group's business could be adversely affected. There is also no assurance that the Group's employees will not be infected, in which event the Group's production facilities might need to be quarantined. If any of these events eventuate, the Group's business and/or operations could be adversely affected.

4.28 PRODUCT LIABILITY

Researching, developing, manufacturing and marketing pharmaceutical products entail significant product liability risk. Liability may arise if any drug developed or manufactured by the Group causes adverse effects or injury or is found unsuitable for consumption or application. While the Group has product liability insurance of up to RM2,500,000 per event or in aggregate only, there is no assurance that such insurance is sufficient, will be renewed or will respond to all liabilities.

4.29 ENVIRONMENTAL RISKS

As a licensed manufacturer, the Group is subject to certain environmental legislation and regulations imposed by the Malaysian Department of Environment. The primary legislation relating to the environment in Malaysia is Environmental Quality Act 1974, while regulations promulgated thereunder include the Environmental Quality (Sewage and Industrial Effluents) Regulations 1979 and Environmental Quality (Scheduled Wastes) Regulations 1989, which regulate, inter alia, industrial effluents and water discharge from factories as a result of manufacturing processes.

The Board of the Company are of the opinion that the existing operations of the Company are in strict compliance with the present environmental laws and regulations. As the Company has achieved cGMP status, each production process carried out by the Company is in accordance with the cGMP guidelines.

However, there is no guarantee that such laws and regulations will not be amended or changed by the Government in the future, in light of the increasing importance of environmental awareness in Malaysia and around the world. This may lead to the Group incurring additional expenses to modify its manufacturing processes and facilities, which may in turn affect the operations and financial performance of the Group.

4.30 LEGAL UNCERTAINTIES CONCERNING THE BUSINESS, OPERATIONS OR CONTRACTUAL AGREEMENTS

The Company has entered into various agreements and arrangements in relation to its business and operations. These include distribution agreements, manufacturing agreements, secrecy agreements, tenancy agreements and other agreements related to the business of the Company. These agreements were prepared in-house and where necessary, referred to external lawyers. Although the Board of the Company is of the opinion that these contractual agreements have been in compliance with the relevant laws and regulations of Malaysia and other countries of whose laws and regulations the Company may be subject to, there is no assurance that these contractual agreements may be subject to legal uncertainties, resulting in either the Company, the Group or the other contracting parties bringing legal action against the other in respect thereof.

Nevertheless, the Company seeks to mitigate this risk by actively seeking legal advice as and when necessary on any new agreements or arrangements that are not common to its operations or are not in the ordinary course of its business.

4.31 REGULATORY RISKS

Apart from the general company, contract and commercial laws, the business of the Group is also subject to many specific regulations in Malaysia, such as the Sale of Drugs Act 1952, the Industrial Co-ordination Act 1974 and the Palm Oil Board of Malaysia Act 1998, pursuant to which the Company and/or its subsidiaries are licensed.

Although the Group continuously ensures that it is in compliance with regulations in Malaysia and other relevant countries, there can be no assurance that future regulatory policy changes will not affect the operations of the Group.

4. RISK FACTORS (CONTINUED)

4.32 DEPENDENCY ON PARTICULAR SUPPLIERS/CUSTOMERS AND FAILURE OF ONGOING RELATIONSHIPS

The Company enters into contracts with its customers and distributors, most of which are of an open-ended nature or subject to yearly renewals, for the sale and purchase of products manufactured by the Group. Some distributors are given performance targets by the Company, and these arrangements may be terminated upon fulfillment of those targets. As such, some of the Group's customers also make up the distribution channels for the Group's products. These customers remain the authorised distributors for the Group's products until these contracts are terminated by either the Group or the customer itself.

As such, there is a risk that by depending on certain customers, and to a certain extent, distributors, while not entering into long-term contracts with these customers and distributors, the Group may experience lower sales in the event there occurs a failure in any of these relationships.

However, the Board of the Company is of the opinion that if a customer or distributor is doing well sales-wise, it is unlikely for that customer or distributor to terminate its contract with the Group because the customer's or distributor's own customers or end-users would already be dependent on the Group's products. In order for the Group's customer or distributor to switch to alternative raw materials and/or products, new formulations, registrations, marketing and/or evaluations will be required. Furthermore, the Board of the Company is of the opinion that most of its customers or end-users are repeat customers or end-users, and will continue to be customers or end-users until there is a negative development relating to these products, e.g. proven to be harmful or other negative effects are proven, or products come on the market that are more effective or with less side effects.

The Company does not have any contracts with its suppliers of raw materials. The Group normally buys at the relevant spot rates or forward buys for 3 to 6 months depending on requirements. The Board of the Company is of the opinion that the Group does not depend on a single or a limited group of suppliers as the sourcing of raw material should not be a major problem for palm tocotrienols producers such as Carotech as palm oil is abundantly available in Malaysia or for generic drug manufacturers such as Hovid as most of the chemical entities acquired are commodities in nature.

4.33 RISKS ASSOCIATED WITH ANY FOREIGN OPERATIONS WHICH MAY INCLUDE CURRENCY FLUCTUATIONS, TRADE RESTRICTIONS, SOVEREIGNTY, POLITICAL AND ECONOMIC RISKS

H Inc, HYH Sg and C Inc are currently operating in the Philippines, Singapore and US, respectively. The establishment of these foreign subsidiaries, as well as any future foreign subsidiaries or representative office is to principally facilitate the expansion of the Group's overseas markets, as well as to assist in the obtaining of relevant regulatory approvals and product registrations in the Philippines, Singapore, US and other relevant countries. However, such foreign operations could give rise to certain business risks, which would not be apparent should the Group only maintain domestic operations. Some of these risks include, but are not limited to, the following:

- Currency fluctuations;
- Trade restrictions as a result of conflict of laws, which may lead to legal uncertainties and time delays associated with tariffs, procurement of business and export licences and other restrictions;
- Inadequate protection of intellectual property; and
- Regulatory requirements of different countries.

There is no assurance that any adverse developments or changes in these factors would not have an adverse impact on the Group's ability to compete in international markets. However, as H Inc, HYH Sg and C Inc effectively operate as the Group's cost centre in the respective countries and are the Company's subsidiaries, the Board of the Company is of the opinion that the Company is able to address any risks or situation faced by these companies as and when these occur.

4. RISK FACTORS (CONTINUED)

4.34 LOW CAPITAL EXPENDITURE REQUIREMENTS

The capital expenditure requirements to set up a similar manufacturing plant as Carotech may be considered low for the large players of the oleochemical and pharmaceutical industries. There can no assurance that these large players will not venture into tocotrienols and carotenoids extraction in the future. Carotino Sdn Bhd and Supervitamins Sdn Bhd have already expressed their intent to do so.

Whilst the intellectual property rights of Carotech may afford some protection against competitors adopting a similar extraction processes, there can be no assurance that these competitors will not discover or invent an alternative or better method of extracting tocotrienols and carotenoids.

4.35 POTENTIAL COMPETITION FROM MANAGING DIRECTOR

Under the terms of the contract of employment of the Managing Director of Carotech, DH is granted royalty-free non-exclusive licence over all intellectual property rights of the Carotech Group that are discovered, filed, invented or otherwise acquired by the Carotech Group during his term of the contract of employment. The licence granted to DH can only be assigned or sub-licensed by him to an entity controlled by him. However, DH is not allowed to use the sub-licence of the intellectual property to compete with the Carotech Group during his employment and for a period of two (2) years thereafter.

There can be no assurance that, with such a sub-licence, DH (or an entity controlled by him) will not become a competitor of the Carotech Group. DH will have full knowledge about all aspects of the Group, including its markets, technology, production and applications. The Directors hope to avoid such a situation from arising by continuing to employ DH as the Managing Director of the Group for as long as possible. However, there can be no assurance that DH will continue to be so employed.

In addition, the Directors of the Company intend to further increase the competitive advantages of the Carotech Group while DH is employed as the Managing Director to increase the barrier to entry for a new entrant. In the event DH is no longer employed as the Managing Director of the Carotech Group, the Directors of the Company will have two (2) years to further strengthen and increase its market position / share to increase its competitive advantage.

4.36 RISKS RELATING TO FINANCIAL PERFORMANCE WHICH MAY INCLUDE, BUT NOT BE LIMITED TO –

i) Covenants under Borrowing Facility Agreements which Limit the Corporation's/ Group's Operating and Financial Flexibilities;

ii) Foreseeable Capital Commitments; and

iii) Indebtedness.

As at 31 January 2005, the Group has banking facilities with more than eight (8) banks, and has total bank borrowings of approximately RM80.2 million (comprising approximately RM59.5 million in short term borrowings, and approximately RM20.7 million in long term borrowings). The capital commitments of the Group as at 31 January 2005 stood at RM21.2 million.

These banking facilities mainly comprise of overdraft, term loans and multi-option trade lines. Although these bank facility agreements do not contain any covenants under these bank facilities which would limit the Group's operating and financial flexibilities, there is no guarantee that any future bank facility agreements would not contain such covenants.

Furthermore, any significant fluctuation in interest rates may increase the cost of borrowings for the Group. As such, there is no assurance that the financial performance of the Group will not be adversely affected by such an adverse change. The Directors of the Company are of the opinion that any fluctuation in the interest rates will have a minimal impact on the financial performance of the Group, as approximately 41% of the borrowings will be repaid upon receipt of the funds from the Public Issues in both the Hovid and Carotech listings.

The Group also intends to fund some of the capital commitments through internally generated cash flows and bank borrowings, and has further proposed to utilise approximately RM26.0 million and RM24.1 million respectively, of the funds to be raised from the Public Issue of Hovid and Carotech to repay the bank borrowings and reduce the working capital facilities respectively.

4. RISK FACTORS (CONTINUED)

4.37 DELAY IN OR FAILURE OF THE PROPOSED LISTING OF CAROTECH

The Proposed Listing of Carotech is exposed to the risk that it may be delayed or failed should any of the following events, which may not be exhaustive, occur:

(a) identified investors fail to subscribe for the portion of the public issue shares or fail to purchase the portion of the public issue shares to be placed to them despite having given irrevocable undertakings to subscribe or purchase;

(b) Carotech being unable to meet the public spread requirement, that is, at least 25% of the issued and paid-up share capital of the Company must be held by a minimum number of 200 public shareholders holding at least 100 shares each; or

(c) the unsubscribed portion of the shares reserved for eligible directors and employees of Carotech Group, Hovid Group and persons who have contributed to the success of Carotech Group have been underwritten. However, under certain circumstances, the underwriter may be entitled, on or prior to the closing date of the public issue, to release or discharge its obligation under the underwriting agreement, which would result in the said shares not being underwritten.

Although the directors of the Company will endeavour to ensure compliance by Carotech of the Listing Requirements and the applicable regulations and conditions imposed by the relevant regulatory authorities for the Proposed Listing of Carotech, no assurance can be given that these events will not occur and cause a delay in or failure of the Proposed Listing of Carotech.

Notwithstanding the above, should there be an adverse change in the condition (financial or otherwise) of Carotech and/or national or worldwide economy, or market risk, the Board of Directors may decide to delay or abort the Proposed Listing of Carotech.

There can be no assurance that the market price of the Issue Shares will not be affected by the delay in or failure of the Proposed Listing of Carotech.

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