

**THIS ABRIDGED PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately. All enquiries concerning the Rights Issue of Warrants (as defined herein), which is the subject of this Abridged Prospectus, should be addressed to the Share Registrar of Hovid Berhad ("Hovid" or the "Company"), Tricor Investor Services Sdn Bhd, at Level 17, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur. Shareholders of Hovid whose names appear in Hovid's Record of Depositors maintained by Bursa Malaysia Depository Sdn Bhd ("Bursa Depository") at 5.00 p.m. on 10 May 2013 will be entitled to the Rights Issue of Warrants ("Entitled Shareholders").

This Abridged Prospectus, together with the Rights Subscription Form ("RSF") and the Notice of Provisional Allotment ("NPA"), are not intended to be issued, circulated or distributed in countries or jurisdictions other than Malaysia and no action has been or will be taken to ensure that the Rights Issue of Warrants complies with the laws of any countries or jurisdictions other than the laws of Malaysia. Entitled Shareholders and/or their renounees (if applicable), who are residents in countries or jurisdictions other than Malaysia, should therefore immediately consult their legal advisers as to whether the acceptance or renunciation (as the case may be) of the provisional allotment of the Warrants (as defined herein) would result in the contravention of any laws of such countries or jurisdictions. Our Company and HwangDBS Investment Bank Berhad ("HwangDBS") shall not accept any responsibility or liability whatsoever, in the event that any acceptance or renunciation of the provisional allotment of Warrants made by the Entitled Shareholders and/or their renounees (if applicable) is or shall become illegal, unenforceable, voidable or void in such countries or jurisdictions.

**FOR INFORMATION CONCERNING THE RISK FACTORS WHICH SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS, SEE "RISK FACTORS" AS SET OUT IN SECTION 5 OF THIS ABRIDGED PROSPECTUS.**

A copy of this Abridged Prospectus has been registered with the Securities Commission Malaysia ("SC"). The registration of this Abridged Prospectus should not be taken to indicate that the SC recommends the Rights Issue of Warrants or assumes responsibility for the correctness of any statement made or opinion or report expressed in this Abridged Prospectus. The SC has not, in any way, considered the merits of the securities being offered for investment. A copy of this Abridged Prospectus, together with the accompanying RSF and NPA, has also been lodged with the Registrar of Companies, who takes no responsibility for its contents.

Approval has been obtained from the shareholders of Hovid at an extraordinary general meeting held on 18 February 2013. Approval for the issue of the Warrants to non-resident shareholders pursuant to the Rights Issue of Warrants has been obtained from Bank Negara Malaysia, vide its letter dated 18 December 2012. Approval has been obtained from Bursa Malaysia Securities Berhad ("Bursa Securities"), vide its letter dated 13 December 2012, for the admission to the Official List of Bursa Securities and the listing of and quotation for all the new securities to be issued pursuant to the Rights Issue of Warrants. Admission to the Official List of Bursa Securities and quotation of the new securities are in no way reflective of the merits of the Rights Issue of Warrants.

The Directors of Hovid have seen and approved all the documentation relating to the Rights Issue of Warrants. They collectively and individually accept full responsibility for the accuracy of the information given and confirm that, after having made all reasonable enquiries and to the best of their knowledge and belief, there are no false or misleading statements or other facts which if omitted would make any statement in these documents false or misleading.

HwangDBS, being the Principal Adviser for the Rights Issue of Warrants, acknowledges that, based on all available information and to the best of its knowledge and belief, this Abridged Prospectus constitutes a full and true disclosure of all material facts concerning the Rights Issue of Warrants.

# hovid

Continuous Innovation & Quality

**HOVID BERHAD**

(Company No.: 58476-A)

(Incorporated in Malaysia under the Companies Act, 1965)

**RENOUNCEABLE RIGHTS ISSUE OF 381,040,000 FIVE (5)-YEAR WARRANTS ("WARRANTS") AT AN ISSUE PRICE OF RM0.02 FOR EACH WARRANT ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.10 EACH HELD IN HOVID BERHAD AT 5.00 P.M. ON 10 MAY 2013 ("RIGHTS ISSUE OF WARRANTS")**

**PRINCIPAL ADVISER**



**HWANGDBS INVESTMENT BANK BERHAD**

(Company No.: 14389-U)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

**IMPORTANT RELEVANT DATES:**

Entitlement Date.....	:	10 May 2013 at 5.00 p.m.
Last date and time for sale of provisional allotment.....	:	17 May 2013 at 5.00 p.m.
Last date and time for transfer of provisional allotment.....	:	22 May 2013 at 4.00 p.m.
Last date and time for acceptance and payment.....	:	28 May 2013 at 5.00 p.m.*
Last date and time for excess Warrants application and payment.....	:	28 May 2013 at 5.00 p.m.*

\* or such later date and time as the Board of Directors of Hovid may decide and announce not less than two (2) market days before the closing date

This Abridged Prospectus is dated 10 May 2013

**THE SC AND BURSA SECURITIES SHALL NOT BE LIABLE FOR ANY NON-DISCLOSURE ON THE PART OF HOVID AND TAKE NO RESPONSIBILITY FOR THE CONTENTS OF THIS ABRIDGED PROSPECTUS, MAKE NO REPRESENTATION AS TO ITS ACCURACY OR COMPLETENESS AND EXPRESSLY DISCLAIM ANY LIABILITY WHATSOEVER FOR ANY LOSS YOU MAY SUFFER ARISING FROM OR IN RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS ABRIDGED PROSPECTUS.**

**SHAREHOLDERS/INVESTORS SHOULD RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT. IN CONSIDERING THE INVESTMENT, SHAREHOLDERS/INVESTORS WHO ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN SHOULD CONSULT THEIR STOCKBROKERS, BANK MANAGERS, SOLICITORS, ACCOUNTANTS OR OTHER PROFESSIONAL ADVISERS IMMEDIATELY.**

**THE DISTRIBUTION OF THIS ABRIDGED PROSPECTUS, TOGETHER WITH THE NPA AND RSF (COLLECTIVELY THE "DOCUMENTS") ARE SUBJECT TO MALAYSIAN LAWS. HOVID AND HWANGDBS ARE NOT RESPONSIBLE FOR THE DISTRIBUTION OF THE DOCUMENTS OUTSIDE MALAYSIA. HOVID AND HWANGDBS HAVE NOT TAKEN ANY ACTION TO PERMIT AN OFFERING OF SECURITIES BASED ON THE DOCUMENTS OR THE DISTRIBUTION OF THE DOCUMENTS OUTSIDE MALAYSIA. THE DOCUMENTS MAY NOT BE USED FOR AN OFFER TO SELL OR AN INVITATION TO BUY SECURITIES IN ANY JURISDICTION OTHER THAN MALAYSIA. HOVID AND HWANGDBS REQUIRE YOU TO INFORM YOURSELF OF AND TO OBSERVE SUCH RESTRICTIONS.**

**THE DOCUMENTS HAVE BEEN PREPARED AND PUBLISHED SOLELY FOR THE RIGHTS ISSUE OF WARRANTS UNDER THE LAWS OF MALAYSIA. THE COMPANY AND PRINCIPAL ADVISER HAVE NOT AUTHORISED ANYONE TO PROVIDE SHAREHOLDERS/INVESTORS WITH INFORMATION WHICH IS NOT CONTAINED IN THIS ABRIDGED PROSPECTUS.**

**INVESTORS ARE ADVISED TO NOTE THAT RECOURSE FOR FALSE AND MISLEADING STATEMENTS OR ACTS MADE IN CONNECTION WITH THIS ABRIDGED PROSPECTUS ARE DIRECTLY AVAILABLE THROUGH SECTIONS 248, 249 AND 357 OF THE CAPITAL MARKETS AND SERVICES ACT, 2007 ("CMSA"). SECURITIES LISTED ON BURSA SECURITIES ARE OFFERED TO THE PUBLIC PREMISED ON FULL AND ACCURATE DISCLOSURE OF ALL MATERIAL INFORMATION CONCERNING THE RIGHTS ISSUE OF WARRANTS FOR WHICH ANY OF THE PERSONS SET OUT IN SECTION 236 OF THE CMSA, E.G. DIRECTORS AND ADVISERS, ARE RESPONSIBLE.**

---

**DEFINITIONS**


---

Except where the context otherwise requires or where otherwise defined herein, the following definitions shall apply throughout this Abridged Prospectus, the NPA and the RSF.

“5-day VWAMP”	: Five (5)-day volume weighted average market price
“Abridged Prospectus”	: This Abridged Prospectus dated 10 May 2013 in relation to the Rights Issue of Warrants
“BNM”	: Bank Negara Malaysia
“Board”	: Board of Directors of Hovid
“Bursa Depository”	: Bursa Malaysia Depository Sdn Bhd (Company No.: 165570-W)
“Bursa Securities”	: Bursa Malaysia Securities Berhad (Company No.: 635998-W)
“CDS”	: Central Depository System, the system established and operated by Bursa Depository for the central handling of securities deposited with Bursa Depository
“CDS Accounts”	: Accounts established by Bursa Depository for a depositor for the recording of deposit of securities and dealings in such securities by that depositor of securities
“Central Depositories Act”	: Securities Industry (Central Depositories) Act, 1991 as may be amended from time to time and any re-enactment thereof
“CMSA”	: Capital Markets and Services Act, 2007 as may be amended from time to time and any re-enactment thereof
“Code”	: The Malaysian Code on Take-Overs and Mergers, 2010
“COP”	: Colombian Peso
“Deed Poll”	: The deed poll executed by the Company on 24 April 2013 to constitute the Warrants and to govern the rights of holders of the Warrants
“DHSS”	: Ho Sue San @ David Ho Sue San
“EGM”	: Extraordinary General Meeting
“Entitled Shareholders”	: Shareholders of Hovid whose names appear in the Record of Depositors on the Entitlement Date
“Entitlement Date”	: 10 May 2013, at 5.00 p.m., being the date on which the shareholders’ names must appear in Hovid’s Record of Depositors in order to participate in the Rights Issue of Warrants
“EPS”	: Earnings per share
“Foreign Shareholders”	: Entitled Shareholders who have not provided an address in Malaysia for the service of documents to be issued for purposes of the Rights Issue of Warrants
“FPE”	: Financial period ended
“FYE”	: Financial year ended
“HKD”	: Hong Kong Dollar
“Hovid” or “Company”	: Hovid Berhad (Company No.: 58476-A)
“Hovid Group” or “Group”	: Hovid and its subsidiaries, collectively

**DEFINITIONS (Cont'd)**

“Hovid Shares” or “Shares”	: Ordinary shares of RM0.10 each in Hovid
“HwangDBS” or “Principal Adviser”	: HwangDBS Investment Bank Berhad (Company No.: 14389-U)
“INR”	: Indian Rupee
“LAT”	: Loss after taxation
“LATNCI”	: Loss after taxation and non-controlling interest
“LBT”	: Loss before taxation
“Listing Requirements”	: Main Market Listing Requirements issued by Bursa Securities and all amendments thereto
“LPD”	: 22 April 2013, being the latest practicable date prior to the issuance of this Abridged Prospectus
“LPS”	: Loss per share
“Market Day”	: Any day between Monday and Friday (both inclusive) which is not a market holiday or a public holiday and on which Bursa Securities is open for the trading of securities
“N/A”	: Not applicable
“NA”	: Net assets
“NPA”	: Notice of Provisional Allotment
“NTA”	: Net tangible assets
“Official List”	: Means a list specifying all securities listed on the Main Market of Bursa Securities
“PAT”	: Profit after taxation
“PATNCI”	: Profit after taxation and non-controlling interest
“PBT”	: Profit before taxation
“PHP”	: Philippine Peso
“Price-Fixing Date”	: 24 April 2013, being the date on which we determined and announced the exercise price of the Warrants
“Rights Issue of Warrants”	: Renounceable rights issue of 381,040,000 Warrants to the shareholders of Hovid on the basis of one (1) Warrant for every two (2) Hovid Shares held on the Entitlement Date
“Record of Depositors” or “ROD”	: A record provided by Bursa Depository to the Company under Chapter 24 of the Rules of Bursa Depository
“R&D”	: Research and development
“RM” and “sen”	: Ringgit Malaysia and sen respectively
“RSF”	: Rights Subscription Form
“Rules of Bursa Depository”	: Shall have the meaning given in Section 2 of the Central Depositories Act
“SC”	: Securities Commission Malaysia

**DEFINITIONS (Cont'd)**

---

“Undertaking”	: Letter of unconditional and irrevocable undertaking dated 22 April 2013 from DHSS to subscribe in full for his entitlement under the Rights Issue of Warrants, as well as the entire balance of the “open-portion” of Warrants to the extent they are not taken up or not validly taken up by other Entitled Shareholders and/or their renounees under the Rights Issue of Warrants (including after excess applications)
“USD”	: United States of America Dollar
“Warrants”	: 381,040,000 five (5)-year warrants to be issued pursuant to the Rights Issue of Warrants
“Warrants 2008/2013”	: Warrants 2008/2013 of the Company which expired on 25 January 2013

Reference to “we”, “us”, “our” and “ourselves” are to our Company, and where the context otherwise requires, our subsidiaries. All references to “you” are to the Entitled Shareholders. Words denoting the singular shall, where applicable, include the plural and vice versa and words denoting the masculine gender shall, where applicable, include the feminine and/or neuter gender and vice versa. References to persons shall include corporations.

Any reference to a time of day in this Abridged Prospectus shall be a reference to Malaysian time, unless otherwise stated.

Any discrepancy in the tables included in this Abridged Prospectus between the amounts listed, actual figures and the totals thereof are due to rounding.

This Abridged Prospectus may include forward-looking statements which involve known or unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements reflect the current views with respect to future events and do not guarantee future performance.

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**

---

**TABLE OF CONTENTS**


---

	<b>PAGE</b>
<b>CORPORATE INFORMATION</b>	vi
<b>LETTER TO SHAREHOLDERS OF HOVID CONTAINING:</b>	
<b>1. INTRODUCTION</b>	1
<b>2. DETAILS OF THE RIGHTS ISSUE OF WARRANTS</b>	2
2.1 Details of the Rights Issue of Warrants	2
2.2 Basis of determining the issue price and exercise price of the Warrants	4
2.3 Ranking of the new Hovid Shares arising from the exercise of the Warrants	4
2.4 Salient terms of the Warrants	5
2.5 Major shareholder's Undertaking	7
2.6 Other corporate exercises	8
<b>3. PROCEDURES FOR APPLICATION AND PAYMENT</b>	8
3.1 General	8
3.2 NPA	8
3.3 Procedures for full acceptance by the Entitled Shareholders	8
3.4 Procedures for part acceptance by the Entitled Shareholders	10
3.5 Procedures for sale/transfer of provisional allotment of Warrants	10
3.6 Procedures for acceptance by renouncees	11
3.7 Procedures for excess Warrants application	11
3.8 Form of issuance	12
3.9 Laws of foreign jurisdictions	13
<b>4. RATIONALE AND UTILISATION OF PROCEEDS</b>	14
4.1 Rationale	14
4.2 Utilisation of proceeds	15
<b>5. RISKS FACTORS</b>	15
5.1 Risks relating to our Group	15
5.2 Risks relating to the Rights Issue of Warrants	20
<b>6. GENERAL OVERVIEW OF THE ECONOMY AND INDUSTRY AND PROSPECTS OF OUR GROUP</b>	21
6.1 Overview of the economy and industry	21
6.2 Prospects of our Group	27
<b>7. FINANCIAL EFFECTS</b>	27
7.1 Share capital	27
7.2 NA and gearing	28
7.3 Earnings and EPS	29
<b>8. WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITIES AND MATERIAL COMMITMENTS</b>	29
8.1 Working capital	29
8.2 Borrowings	29
8.3 Contingent liabilities	30
8.4 Material commitments	30
<b>9. TERMS AND CONDITIONS</b>	30
<b>10. FURTHER INFORMATION</b>	30

---

**TABLE OF CONTENTS (Cont'd)**

---

	<b>PAGE</b>	
<b>APPENDICES</b>		
<b>I</b>	CERTIFIED TRUE EXTRACT OF THE ORDINARY RESOLUTION IN RESPECT OF THE RIGHTS ISSUE OF WARRANTS PASSED AT THE EGM OF HOVID ON 18 FEBRUARY 2013	31
<b>II</b>	INFORMATION ON HOVID	32
<b>III</b>	PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF HOVID AS AT 30 JUNE 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON	42
<b>IV</b>	AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON	50
<b>V</b>	UNAUDITED CONSOLIDATED QUARTERLY REPORT OF HOVID FOR THE SIX (6)-MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2012	152
<b>VI</b>	DIRECTORS' REPORT	166
<b>VII</b>	FURTHER INFORMATION	167

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**

## CORPORATE INFORMATION



Continuous Innovation &amp; Quality

**HOVID BERHAD**

(Company No.: 58476-A)

(Incorporated in Malaysia under the Companies Act, 1965)

**BOARD OF DIRECTORS**

<b>Name</b>	<b>Age</b>	<b>Address</b>	<b>Profession</b>	<b>Nationality</b>
Ho Sue San @ David Ho Sue San (Chairman and Managing Director)	63	51, Jalan Chin Hwa Chateau Garden 30250 Ipoh Perak Darul Ridzuan	Managing Director	Malaysian
Leong Kwok Yee (Independent Non-Executive Director)	62	AA-19-01 Block A 10 Mont Kiara Jalan Kiara 1, Mont Kiara 50480 Kuala Lumpur	Chartered Accountant	Australian
YM Raja Shamsul Kamal Bin Raja Shahruzzaman (Independent Non-Executive Director)	52	1, Jalan 4/6 40000 Shah Alam Selangor Darul Ehsan	Director	Malaysian
Chuah Chaw Teo (Independent Non-Executive Director)	61	4, Persiaran 8 Arena Kepayang Putra Fair Park 31400 Ipoh Perak Darul Ridzuan	Chemist	Malaysian
Liong Kam Hon (Executive Director)	67	32, Hala Perajurit 6 Taman Perak 31400 Ipoh Perak Darul Ridzuan	Director	Malaysian
Dato' Che Mohd Zin Bin Che Awang (Independent Non-Executive Director)	63	65 Jalan SS3/53 Taman Subang 47300 Petaling Jaya Selangor Darul Ehsan	Retired Government Pharmacist	Malaysian

**AUDIT COMMITTEE**

<b>Name</b>	<b>Directorship</b>	<b>Designation</b>
Leong Kwok Yee	Independent Non-Executive Director	Chairman
YM Raja Shamsul Kamal Bin Raja Shahruzzaman	Independent Non-Executive Director	Member
Chuah Chaw Teo	Independent Non-Executive Director	Member
Dato' Che Mohd Zin Bin Che Awang	Independent Non-Executive Director	Member



**CORPORATE INFORMATION (Cont'd)**

---

**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 OFFICE**

No. 121, Jalan Tunku Abdul Rahman  
30010 Ipoh  
Perak Darul Ridzuan  
Tel: 05-506 0690  
Fax: 05-506 1215

**CORPORATE OFFICE**

No. 121, Jalan Tunku Abdul Rahman  
30010 Ipoh  
Perak Darul Ridzuan  
Tel: 05-506 0690  
Fax: 05-506 1215  
Email: info@hovid.com  
Website: www.hovid.com

**AUDITORS/REPORTING  
ACCOUNTANTS FOR THE RIGHTS  
ISSUE OF WARRANTS**

SJ Grant Thornton (AF:0737)  
Level 11, Sheraton Imperial Court  
Jalan Sultan Ismail  
50250 Kuala Lumpur, Malaysia.  
Tel: 03-2692 4022  
Fax: 03-2691 5229

**SOLICITORS FOR THE RIGHTS  
ISSUE OF WARRANTS**

Ben & Partners  
7-2, Level 2, Block D2  
Dataran Prima  
Jalan PJU 1/39  
47301 Petaling Jaya  
Selangor Darul Ehsan  
Tel: 03-7805 2922  
Fax: 03-7805 3922

**SHARE REGISTRAR**

Tricor Investor Services Sdn Bhd  
Level 17, The Gardens North Tower  
Mid Valley City  
Lingkaran Syed Putra  
59200 Kuala Lumpur  
Tel: 03-2264 3883  
Fax: 03-2282 1886

**PRINCIPAL BANKERS**

United Overseas Bank (Malaysia) Bhd  
No. 2, Jalan Dato' Seri Ahmad Said  
30450 Ipoh  
Perak Darul Ridzuan  
Tel: 05-254 0008  
Fax: 05-242 4371

**CORPORATE INFORMATION (Cont'd)**

---

Public Bank Berhad  
No. 7-13, Jalan Dato' Maharajalela  
30000 Ipoh  
Perak Darul Ridzuan  
Tel: 05-253 1049  
Fax: 05-242 3758

Hong Leong Bank Berhad  
No. 1, Persiaran Greentown 2  
Greentown Business Centre  
30450 Ipoh  
Perak Darul Ridzuan  
Tel: 05-253 0046  
Fax: 05-255 5251

**PRINCIPAL ADVISER**

HwangDBS Investment Bank Berhad  
Suite 23-01, Menara Keck Seng  
203, Jalan Bukit Bintang  
55100 Kuala Lumpur  
Tel: 03-9195 6888  
Fax: 03-9195 6900

**STOCK EXCHANGE LISTING**

Main Board of Bursa Securities

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**



Continuous Innovation & Quality

**HOVID BERHAD**

(Company No.: 58476-A)

(Incorporated in Malaysia under the Companies Act, 1965)

**Registered Office:**

No. 121, Jalan Tunku Abdul Rahman  
30010 Ipoh  
Perak Darul Ridzuan

10 May 2013

**Directors:**

Ho Sue San @ David Ho Sue San	(Chairman and Managing Director)
Leong Kwok Yee	(Independent Non-Executive Director)
YM Raja Shamsul Kamal Bin Raja Shahruzzaman	(Independent Non-Executive Director)
Chuah Chaw Teo	(Independent Non-Executive Director)
Liong Kam Hon	(Executive Director)
Dato' Che Mohd Zin Bin Che Awang	(Independent Non-Executive Director)

**To: The Shareholders of Hovid Berhad**

Dear Sir/Madam,

**RENOUNCEABLE RIGHTS ISSUE OF 381,040,000 WARRANTS AT AN ISSUE PRICE OF RM0.02 FOR EACH WARRANT ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.10 EACH HELD IN HOVID BERHAD AT 5.00 P.M. ON 10 MAY 2013**

**1. INTRODUCTION**

On 4 October 2012, HwangDBS, on behalf of the Board, announced that the Company proposes to undertake the Rights Issue of Warrants.

On 14 December 2012, HwangDBS, on behalf of the Board, announced that Bursa Securities has vide its letter dated 13 December 2012 approved the following:

- admission to the Official List, listing of and quotation for up to 571,560,000 Warrants to be issued pursuant to the Rights Issue of Warrants; and
- listing of and quotation for up to 571,560,000 new Hovid Shares to be issued pursuant to the exercise of the Warrants,

subject to, *inter-alia* the following conditions:

Conditions Imposed	Status of Compliance
Hovid and HwangDBS must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Rights Issue of Warrants.	To be complied.
Hovid and HwangDBS to inform Bursa Securities upon the completion of the Rights Issue of Warrants.	To be complied.

Conditions Imposed	Status of Compliance
Hovid to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Rights Issue of Warrants is completed.	To be complied.
Hovid to furnish Bursa Securities on a quarterly basis a summary of the total number of shares listed pursuant to the exercise of Warrants as at the end of each quarter together with a detailed computation of listing fees payable.	To be complied by Hovid on a quarterly basis.
BNM's approval for the issuance of the Warrants to the non-resident entitled shareholders of the Company pursuant to the Rights Issue of Warrants (to furnish a copy of the said approval letter to Bursa Securities).	Complied.
To incorporate Bursa Securities' comments in respect of the draft circular to shareholders provided in the attachment of Bursa Securities' approval letter dated 13 December 2012.	Complied.

On 18 December 2012, HwangDBS, on behalf of the Board, announced that BNM, vide its letter dated 18 December 2012, approved the issuance of the Warrants pursuant to the Rights Issue of Warrants to non-resident shareholders of Hovid, without imposing any condition.

The shareholders of Hovid approved the Rights Issue of Warrants at the EGM held on 18 February 2013. A certified true extract of the ordinary resolution approving the Rights Issue of Warrants passed by the shareholders of Hovid at the aforesaid EGM is set out in Appendix I of this Abridged Prospectus.

On 24 April 2013, HwangDBS, on behalf of the Board, announced that the exercise price of the Warrants has been fixed at RM0.18.

On 25 April 2013, HwangDBS, on behalf of the Board, announced that the Entitlement Date has been fixed on 10 May 2013 at 5.00 p.m.

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

## 2. DETAILS OF THE RIGHTS ISSUE OF WARRANTS

### 2.1 Details of the Rights Issue of Warrants

The Rights Issue of Warrants entails a renounceable rights issue of 381,040,000 Warrants on the basis of one (1) Warrant for every two (2) Hovid Shares held by the Entitled Shareholders at the Entitlement Date at an issue price of RM0.02 per Warrant.

Based on the issued and paid-up share capital of Hovid as at the LPD of RM76,208,000 comprising 762,080,000 Hovid Shares, the number of Warrants to be issued pursuant to the Rights Issue of Warrants is 381,040,000. Accordingly, the number of new Hovid Shares to be issued assuming full exercise of the Warrants is 381,040,000.

The Rights Issue of Warrants is renounceable in full or in part. Accordingly, Entitled Shareholders can subscribe for or renounce their entitlements to the Warrants in full or in part.

In order to raise the required funds as detailed in Section 4.2 of this Abridged Prospectus, the Company proposes to undertake the Rights Issue of Warrants on a full subscription basis and have procured the Undertaking as detailed in Section 2.5 of this Abridged Prospectus.

As such, the Rights Issue of Warrants will not be undertaken on a minimum level of subscription basis.

The issue price for the Warrants of RM0.02 each is payable in full upon acceptance.

In determining your entitlement to the Rights Issue of Warrants, fractional entitlements, if any, will be disregarded and will be dealt with in such manner as the Board in its absolute discretion deems fit and expedient in the best interest of the Company.

The Rights Issue of Warrants is not undertaken on a minimum level of subscription basis. Any Warrant not taken up or allotted for any reasons, if any, will be made available for application under the excess Warrants application.

The Board reserves the right to allot the excess Warrants, if any, applied for under Part I(b) of the RSF in such manner as it deems fit and expedient in the best interest of the Company subject always to such allocation being made on a fair and equitable basis, and that the intention of the Board set out in Section 2.1(i) - (v) below is achieved. The Board also reserves the right not to accept or to accept any excess Warrants application, in full or in part, without assigning any reason thereof. It is the intention of the Board to allot the excess Warrants, if any, on a fair and equitable basis and in the following order of priority, where applicable:

- (i) firstly, to minimise the incidence of odd lots;
- (ii) secondly, for allocation to Entitled Shareholders who have applied for excess Warrants on a pro-rata basis and in board lot, calculated based on their respective shareholdings in Hovid as at the Entitlement Date;
- (iii) thirdly, for allocation to Entitled Shareholders who have applied for excess Warrants on a pro-rata basis and in board lot, calculated based on the quantum of their respective excess Warrants application;
- (iv) fourthly, for allocation to renounees who have applied for excess Warrants on a pro-rata basis and in board lot, calculated based on the quantum of their respective excess Warrants application; and
- (v) lastly, in the event that there are still unsubscribed Warrants after allocating all the excess Warrants, the remaining unsubscribed Warrants will be subscribed by the major shareholder of Hovid, DHSS, who has given the Undertaking.

As you are an Entitled Shareholder to the Rights Issue of Warrants, you will have enclosed with this Abridged Prospectus, the NPA in respect of the number of Warrants for which you are entitled to subscribe for under the terms of the Rights Issue of Warrants.

As the Warrants are prescribed securities under the CDS, they will be subject to the provisions of the Central Depositories Act and the Rules of Bursa Depository. No physical warrants certificate will be issued to the Entitled Shareholders and/or their renounees. Accordingly, the Warrants to be issued will be allotted and credited directly into the respective CDS Accounts of the Entitled Shareholders and/or their renounees who have successfully subscribed for the Warrants.

Within eight (8) Market Days from the last date for acceptance and payment of the Rights Issue of Warrants, or such other period as may be prescribed or allowed by Bursa Securities, Hovid must:

- (i) issue and allot the Warrants;
- (ii) despatch notices of allotment to the allottees; and
- (iii) apply for the quotation of the Warrants on the Main Market of Bursa Securities.

In respect of any exercise of the Warrants, within eight (8) Market Days after the date of receipt of the exercise form together with the requisite payment or such other period as may be prescribed or allowed by Bursa Securities, Hovid must:

- (i) issue and/or allot the Hovid Shares arising from the exercise of the Warrants;
- (ii) despatch a notice of allotment to the holder of the Warrants; and
- (iii) apply for the quotation of such new Hovid Shares to be issued arising from the exercise of the Warrants on the Main Market of Bursa Securities.

No physical share certificate will be issued to those holders exercising their respective rights for the new Hovid Shares to be issued upon exercise of the Warrants.

The Warrants will be issued in registered form and constituted by the Deed Poll duly executed by Hovid.

## **2.2 Basis of determining the issue price and exercise price of the Warrants**

The issue price of RM0.02 for each Warrant was determined by the Board after taking into consideration, *inter alia*, the funds to be raised from the Rights Issue of Warrants, the market price as well as the historical volatility of the Hovid Shares.

The theoretical fair value of the Warrants as at the LPD is approximately RM0.11 per Warrant, which was determined using the Black-Scholes Option Pricing Model. The issue price of RM0.02 per Warrant represents a discount of approximately 81.82% from this theoretical fair value of the Warrants. Notwithstanding the rationale of the Rights Issue of Warrants to raise proceeds for working capital requirements, the discount of the issue price from the theoretical fair value of the Warrants is also intended to reward the existing shareholders of the Company and at the same time, raise sufficient funds to defray the expenses incidental to the Rights Issue of Warrants.

The Board has on 24 April 2013 resolved to fix the exercise price of the Warrants at RM0.18 after taking into consideration, *inter-alia*, the 5-day VWAMP of Hovid Shares up to and including 23 April 2013, being the Market Day immediately preceding the Price-Fixing Date, and the then prevailing market conditions. The exercise price represents a discount of approximately 21.74% to the 5-day VWAMP of Hovid Shares up to and including 23 April 2013, being the Market Day immediately preceding the Price-Fixing Date, of approximately RM0.23.

## **2.3 Ranking of the new Hovid Shares arising from the exercise of the Warrants**

The holders of the Warrants will not be entitled to any voting rights or participation in any form of distribution and/or offer of further securities in Hovid until and unless such holders of the Warrants exercise their Warrants into new Hovid Shares.

The new Hovid Shares to be issued arising from the exercise of the Warrants will, upon allotment and issuance, rank *pari passu* in all respects with the then existing Hovid Shares, save and except that the new Hovid Shares will not be entitled to any dividends, rights, allotments and/or other forms of distribution that may be declared, made or paid where the entitlement date precedes the date of allotment and issuance of the new Hovid Shares arising from the exercise of the Warrants.

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**

## 2.4 Salient terms of the Warrants

The salient terms of the Warrants are as follows:

<b>Terms</b>	<b>Details</b>
Issuer	: Hovid.
Issue size	: 381,040,000 Warrants.
Issue price	: RM0.02 per Warrant.
Form and denomination	: The Warrants shall be issued in registered form and constituted by the Deed Poll.
Board lot	: For purpose of trading on Bursa Securities, a board lot of the Warrants shall be 100 units of the Warrants, or such denomination as determined by Bursa Securities.
Exercise rights	: Each Warrant entitles the registered holder to subscribe for one (1) new Share at any time during the exercise period and at the exercise price subject to adjustments in accordance with the provisions of the Deed Poll.
Exercise period	: The Warrants may be exercised at any time commencing on and including the date of issue of the Warrants until 5.00 p.m. on the Expiry Date (as defined below), but excluding the five (5) clear Market Days prior to a book closure date or entitlement date announced by the Company <sup>(1)</sup> and those days during that period on which the Record of Depositors and/or the Warrants register is or are closed. Any Warrant not exercised during the exercise period will thereafter lapse and cease to be valid for any purpose and will be deemed to have lapsed.
	<p><b>Note:</b></p> <p>(1) <i>This is to ensure that there is sufficient time for the holders of the Warrants who exercise their Warrants to be issued with new Shares and be entitled to participate in any potential dividends, rights, allotments and/or other forms of distribution that may be declared, made or paid by the Company.</i></p>
Expiry Date	: A date being five (5) years from and including the date of issue of the Warrants, provided that if such day falls on a day which is not a Market Day, then on the preceding Market Day.
Exercise price	: The exercise price of the Warrants has been fixed at RM0.18. The registered holder of the Warrants shall pay cash equivalent to the exercise price for each Warrant held when subscribing for the new Hovid Share.
	The exercise price is subject to adjustments in accordance with the provisions of the Deed Poll.
Mode of exercise	: The registered holder of the Warrants shall pay cash for the exercise price when exercising the Warrants for new Shares.
Rights of Warrants	: The holders of the Warrants are not entitled to any voting rights or to participate in any distribution and/or offer of further securities in the Company until and unless such holder of the Warrants are issued with new Shares arising from their exercise of the Warrants.

- Ranking of the new Shares arising from the exercise of the Warrants : The new Shares to be issued upon exercise of the Warrants shall, upon allotment and issue, be of the same class and rank *pari passu* in all respects with the then existing Shares, save and except that they shall not be entitled to any dividends, rights, allotments and/or other distributions which may be declared, made or paid to the shareholders of the Company, the entitlement date of which is prior to the date of allotment of the new Shares arising from the exercise of the Warrants.
- Adjustments to the exercise price and/or number of Warrants : The exercise price and number of Warrants in issue may be adjusted from time to time in accordance with the provisions of the Deed Poll.
- Rights of the holders of the Warrants in the event of winding-up, compromise and/or arrangement : Where a resolution has been passed by the Company for a members' voluntary winding-up or there is a compromise or arrangement, whether or not for the purpose of or in connection with a scheme for the reconstruction of the Company or the amalgamation of the Company with one (1) or more companies:
- (a) for the purpose of such a winding-up, compromise or arrangement (other than consolidation, amalgamation or merger in which the Company is the continuing corporation) to which the holders of the Warrants or some person designated by them for such purposes by special resolution, shall be a party, the terms of such winding-up, compromise or arrangement shall be binding on all the holders of the Warrants; and
- (b) in any other case, every holder of the Warrants shall be entitled at any time within six (6) weeks after the passing of such resolution or the granting of the court order, by irrevocable surrender of his Warrants together with payment of the relevant subscription monies, elect to be treated as if he had immediately prior to the commencement of such winding-up, compromise or arrangement exercised the subscription rights represented by such Warrants and be entitled to receive out of the assets which would be available in liquidation if he had on such date been the holder of the new Shares to which he would have become entitled pursuant to such exercise and the liquidator of the Company shall give effect to such election accordingly.
- Listing : The approval from Bursa Securities for the admission of the Warrants to the Official List of Bursa Securities and for the listing of and quotation for the Warrants on the Main Market of Bursa Securities as well as the listing of the new Shares to be issued pursuant to the exercise of the Warrants has been obtained, vide its letter dated 13 December 2012.
- Transferability : The Warrants shall be transferable in the manner provided under the Central Depositories Act and the Rules of Bursa Depository.
- Deed Poll : The Warrants will be constituted by the Deed Poll.
- Governing law : Laws and regulations of Malaysia.



## 2.5 Major shareholder's Undertaking

As at the LPD, the major shareholder of Hovid, DHSS has given a written unconditional and irrevocable undertaking to subscribe for:

- (i) his rights entitlement under the Rights Issue of Warrants as at the Entitlement Date ("**Entitlement Undertaking**"); and
- (ii) subscribe for such number of the remaining "open-portion" of Warrants to the extent they are not taken up or not validly taken up by other Entitled Shareholders and/or their renounees under the Rights Issue of Warrants (including after excess applications) ("**Additional Undertaking**").

The Entitlement Undertaking and Additional Undertaking are collectively referred to as the "**Undertaking**".

DHSS has further confirmed that he has sufficient financial resources to take up the Warrants, which he has undertaken to subscribe for. HwangDBS has verified, to the extent possible, that he has sufficient financial resources to fulfil the Undertaking.

In view of the Undertaking, the Board is certain that the full subscription basis will be met. Accordingly, no underwriting arrangement has been made for the Rights Issue of Warrants.

For illustrative purposes, based on the shareholdings of DHSS as at the LPD and the Undertaking, the number of Warrants that DHSS may subscribe pursuant to the Rights Issue of Warrants is as follows:

Shareholder	Shareholdings as at the LPD		Entitlement to Warrants as at the LPD		Total undertakings including remaining "open-portion" of Warrants as at the LPD		
	No. of Shares	%	No. of Warrants	%	No. of Warrants	% <sup>(1)</sup>	<sup>(3)</sup> RM
DHSS	313,041,400	41.08	156,520,700	<sup>(1)</sup> 41.08	<sup>(2)</sup> 381,040,000	<sup>(1)</sup> 100.00	7,620,800

**Notes:**

- (1) Based on the 381,040,000 Warrants issued pursuant to the Rights Issue of Warrants.
- (2) Assuming that DHSS is the only subscriber for the Rights Issue of Warrants.
- (3) Based on the issue price of RM0.02 per Warrant.

As at the LPD, DHSS holds 41.08% of the equity interest in Hovid. Assuming that DHSS is the only subscriber for the Rights Issue of Warrants, his shareholdings in Hovid could potentially increase as follows:

Shareholder	Shareholdings as at the LPD		After the Rights Issue of Warrants		Assuming full exercise of Warrants	
	No. of Shares	% held	No. of Shares	% held	No. of Shares	<sup>(1)</sup> % held
DHSS	313,041,400	41.08	313,041,400	41.08	694,081,400	60.72

**Note:**

- (1) Based on the enlarged share capital of 1,143,120,000 Hovid Shares assuming full exercise of the Warrants pursuant to the Undertaking.

There will not be any implication of the Code as the subscriptions of Warrants are not subscriptions of voting shares or voting rights.

In the future, if DHSS decides to exercise the Warrants and it results in the triggering of the Code, he may seek an exemption under the Code from the SC before he exercises his Warrants, if he so chooses.

## 2.6 Other corporate exercises

Save for the Rights Issue of Warrants which was approved by the shareholders at the EGM, there are no other corporate exercises by the Company which have been announced but yet to be implemented prior to the printing of this Abridged Prospectus.

## 3. PROCEDURES FOR APPLICATION AND PAYMENT

### 3.1 General

As you are an Entitled Shareholder, your CDS Account will be duly credited with the provisionally allotted Warrants, which you are entitled to subscribe for in full or in part under the terms of the Rights Issue of Warrants. You will find enclosed with this Abridged Prospectus, a NPA notifying you of the crediting of such provisionally allotted Warrants into your CDS Account and a RSF to enable you to subscribe for such provisionally allotted Warrants, as well as to apply for excess Warrants, if you choose to do so.

### 3.2 NPA

The provisional allotment of the Warrants are prescribed securities pursuant to Section 14(5) of the Central Depositories Act and therefore, all dealings in the provisional allotment of the Warrants will be by book entry through CDS Accounts and will be governed by the Central Depositories Act and the Rules of Bursa Depository. Entitled Shareholders and/or their renounees (if applicable) are required to have valid and subsisting CDS Accounts when making their applications.

### 3.3 Procedures for full acceptance by the Entitled Shareholders

Acceptance and payment for the Warrants provisionally allotted to the Entitled Shareholders and/or their renounees (if applicable) must be made on the RSF and must be completed in accordance with the notes and instructions contained therein. Acceptances which do not strictly conform to the terms of this Abridged Prospectus or the RSF or the notes and instructions contained therein or which are illegible may not be accepted at the absolute discretion of the Board.

**FULL INSTRUCTIONS FOR THE ACCEPTANCE OF AND PAYMENT FOR THE WARRANTS PROVISIONALLY ALLOTTED TO THE ENTITLED SHAREHOLDERS AND/OR THEIR RENOUNCEES (IF APPLICABLE) AND THE PROCEDURES TO BE FOLLOWED SHOULD THE ENTITLED SHAREHOLDERS WISH TO SELL OR TRANSFER ALL OR ANY PART OF THEIR PROVISIONAL ENTITLEMENTS ARE SET OUT IN THIS ABRIDGED PROSPECTUS AND THE ACCOMPANYING RSF.**

**ENTITLED SHAREHOLDERS AND/OR THEIR RENOUNCEES (IF APPLICABLE) ARE ADVISED TO READ THIS ABRIDGED PROSPECTUS, THE ACCOMPANYING RSF AND THE NOTES AND INSTRUCTIONS CONTAINED THEREIN CAREFULLY.**

Entitled Shareholders and/or their renounees (if applicable) who wish to accept their provisional allotment in full are required to complete Parts I(a) and II of the RSF in accordance with the notes and instructions contained in the RSF. Each completed and signed RSF together with the relevant payment must be sent to our Share Registrar in the envelope provided (at your own risk) by **ORDINARY POST** or **DELIVERED BY HAND** at the following address:

**Tricor Investor Services Sdn Bhd**  
Level 17, The Gardens North Tower  
Mid Valley City  
Lingkaran Syed Putra  
59200 Kuala Lumpur  
Tel: 03-2264 3883  
Fax: 03- 2282 1886

so as to arrive not later than the last date and time for acceptance and payment as set out on the Cover Page of this Abridged Prospectus.

Entitled Shareholders who lose, misplace or for any other reasons require another copy of the RSF, may obtain additional copies from their stockbroker, our Share Registrar at the address stated above, our Registered Office or the website of Bursa Securities (<http://www.bursamalaysia.com>).

One (1) RSF can only be used for acceptance of the provisionally allotted Warrants standing to the credit of one (1) CDS Account belonging to an Entitled Shareholder. Separate RSFs must be used for the acceptance of provisionally allotted Warrants standing to the credit of more than one (1) CDS Account. If successful, the Warrants subscribed for will be credited into your CDS Accounts as stated in the completed RSFs.

A reply envelope is enclosed in this Abridged Prospectus. To facilitate the processing of the RSFs by our Share Registrar, Entitled Shareholders are advised to use (1) one reply envelope for each completed RSF.

The minimum number of Warrants that can be accepted is one (1) Warrant. Fractions of Warrants will be disregarded and shall be dealt with in such manner as the Board in its absolute discretion deems fit and expedient in the best interest of the Company.

If acceptance and payment for the Warrants provisionally allotted to any Entitled Shareholder and/or their renounees (if applicable) are not received by our Share Registrar by the last date and time for acceptance and payment as set out on the Cover Page of this Abridged Prospectus, such provisional allotment of Warrants will be deemed to have been declined and will be cancelled. Proof of time of postage shall not constitute proof of time of receipt by our Share Registrar.

The Board will then have the right to allot such Warrants, which have not been taken up, to applicants applying for excess Warrants on a fair and equitable basis and in such manner as the Board in its absolute discretion deems fit and expedient in the best interest of the Company, and such that the incidence of odd lots will be minimised. The Board reserves the right not to accept any application or to accept any application in part only without assigning any reason thereof.

**EACH COMPLETED RSF MUST BE ACCOMPANIED BY THE APPROPRIATE REMITTANCE MADE IN RM FOR THE FULL AMOUNT PAYABLE IN THE FORM OF BANKER'S DRAFTS OR CASHIER'S ORDERS OR MONEY ORDERS OR POSTAL ORDERS DRAWN ON A BANK OR POST OFFICE IN MALAYSIA AND MUST BE MADE PAYABLE TO "HOVID BERHAD WARRANTS A/C" CROSSED "ACCOUNT PAYEE ONLY" AND ENDORSED ON THE REVERSE SIDE WITH THE NAME AND CDS ACCOUNT NUMBER OF THE APPLICANT IN BLOCK LETTERS SO AS TO BE RECEIVED BY OUR SHARE REGISTRAR.**

**APPLICATIONS ACCOMPANIED BY PAYMENTS OTHER THAN IN THE MANNER STATED ABOVE OR WITH EXCESS OR INSUFFICIENT REMITTANCES MAY OR MAY NOT BE ACCEPTED AT THE ABSOLUTE DISCRETION OF THE BOARD. DETAILS OF THE REMITTANCES MUST BE FILLED IN THE APPROPRIATE BOXES PROVIDED IN THE RSF.**

**NO ACKNOWLEDGEMENT OF THE RECEIPT OF THE RSF OR APPLICATION MONIES IN RESPECT OF THE RIGHTS ISSUE OF WARRANTS WILL BE MADE BY THE COMPANY OR OUR SHARE REGISTRAR. HOWEVER, NOTICES OF ALLOTMENT WILL BE DESPATCHED BY ORDINARY POST TO THE SUCCESSFUL APPLICANTS AT THE ADDRESS SHOWN IN THE RECORD OF DEPOSITORS PROVIDED BY BURSA DEPOSITORY AT THE APPLICANTS' OWN RISK WITHIN EIGHT (8) MARKET DAYS FROM THE LAST DATE OF ACCEPTANCE AND PAYMENT FOR THE WARRANTS OR SUCH OTHER PERIOD AS MAY BE PRESCRIBED BY BURSA SECURITIES.**

**APPLICATIONS SHALL NOT BE DEEMED TO HAVE BEEN ACCEPTED BY REASON OF THE REMITTANCE BEING PRESENTED FOR PAYMENT.**

**ENTITLED SHAREHOLDERS AND/OR THEIR RENOUNCEES (IF APPLICABLE) SHOULD NOTE THAT THE RSF AND REMITTANCES SO LODGED WITH OUR SHARE REGISTRAR SHALL BE IRREVOCABLE AND CANNOT BE WITHDRAWN.**

**WHERE AN APPLICATION IS NOT ACCEPTED OR IS ACCEPTED IN PART ONLY, THE FULL AMOUNT OR THE BALANCE OF THE APPLICATION MONIES, AS THE CASE MAY BE, SHALL BE REFUNDED WITHOUT INTEREST AND SHALL BE DESPATCHED TO THE APPLICANT BY ORDINARY POST TO THE ADDRESS AS SHOWN ON THE RECORD OF DEPOSITORS PROVIDED BY BURSA DEPOSITORY AT THE APPLICANT'S OWN RISK WITHIN FIFTEEN (15) MARKET DAYS FROM THE LAST DATE FOR ACCEPTANCE OF AND PAYMENT FOR THE WARRANTS.**

### **3.4 Procedures for part acceptance by the Entitled Shareholders**

Entitled Shareholders and/or their renounees (if applicable) are entitled to accept part of their provisional allotment. The minimum amount of Warrants that can be accepted is one (1) Warrant.

Entitled Shareholders and/or their renounees (if applicable) are required to fill and complete Part I(a) of the RSF by specifying the amount of Warrants which they are accepting and Part II of the RSF and deliver the completed and signed RSF together with the relevant payment to our Share Registrar, in the same manner as set out in Section 3.3 of this Abridged Prospectus.

**ENTITLED SHAREHOLDERS AND/OR THEIR RENOUNCEES (IF APPLICABLE) ARE ADVISED TO READ AND ADHERE TO THE RSF AND THE NOTES AND INSTRUCTIONS CONTAINED THEREIN.**

The portion of the provisional allotment of Warrants that has not been accepted will be allotted to any other persons allowed under any law, regulations or rules to accept the transfer of the provisional allotment of Warrants and the balance, if any, will be allotted to applicants applying for the excess Warrants on a fair and equitable basis in such manner as the Board in its absolute discretion deems fit and expedient in the best interest of the Company, such that the incidence of odd lots will be minimised.

### **3.5 Procedures for sale/transfer of provisional allotment of Warrants**

As the provisional allotment of Warrants are prescribed securities, Entitled Shareholders and/or their renounees (if applicable) who wish to sell or transfer all or part of their entitlement to the provisional allotment of the Warrants to one (1) or more persons through their stockbroker for the period up to the last date and time for sale or transfer of such provisional allotment of Warrants, may do so without first having to request for a split of the provisional allotment of Warrants standing to the credit of their CDS Account. To sell all or part of their provisional allotment of Warrants, they may sell such provisional allotment of Warrants on the open market of Bursa Securities or transfer such provisional allotment of Warrants to such persons as may be allowed pursuant to the Rules of Bursa Depository. If the Entitled Shareholders and/or their renounees (if applicable) have sold or transferred only part of the provisional allotment of Warrants, the Entitled Shareholders and/or their renounees (if applicable) may still accept the balance of the provisional allotment of Warrants by completing Parts I(a) and II of the RSF and deliver the completed RSF together with the relevant payment to our Share Registrar in the manner as set out in Section 3.3 of this Abridged Prospectus.

In selling or transferring all or part of their provisional allotment of Warrants, the Entitled Shareholders and/or their renounees (if applicable) need not deliver any document to their stockbrokers. The Entitled Shareholders and/or their renounees (if applicable) are however advised to ensure that they have sufficient provisional allotment of Warrants standing to the credit of their CDS Accounts that are available for settlement of the sale or transfer.

### 3.6 Procedures for acceptance by renounees

A renounee who wishes to accept the provisionally allotted Warrants must obtain a copy of the RSF from their stockbrokers, our Share Registrar, our Registered Office or the website of Bursa Securities (<http://www.bursamalaysia.com>), complete the RSF and submit the same together with the remittance to our Share Registrar in accordance with the notes and instructions printed therein.

The procedure and payment for the acceptance of the provisional allotment of Warrants by the renounee is the same as that which is applicable to the Entitled Shareholders as described in Section 3.3 of this Abridged Prospectus.

**RENOONEES ARE ADVISED TO READ, UNDERSTAND AND CONSIDER CAREFULLY THE CONTENTS OF THIS ABRIDGED PROSPECTUS AND ADHERE TO THE NOTES AND INSTRUCTIONS CONTAINED IN THIS ABRIDGED PROSPECTUS AND THE RSF.**

### 3.7 Procedures for excess Warrants application

Entitled Shareholders and/or their renounees (if applicable) who accept the provisionally allotted Warrants may apply for additional Warrants in excess of their entitlement by completing Part I(b) of the RSF (in addition to Parts I(a) and II) and forwarding it with a **separate remittance made in RM** for the full amount payable for the excess Warrants applied for, to our Share Registrar so as to arrive not later than the last date and time for acceptance and payment as set out on the Cover Page of this Abridged Prospectus.

**PAYMENT FOR THE EXCESS WARRANTS APPLIED FOR SHOULD BE MADE IN THE SAME MANNER DESCRIBED IN SECTION 3.3 OF THIS ABRIDGED PROSPECTUS, EXCEPT THAT THE BANKER'S DRAFTS OR CASHIER'S ORDERS OR MONEY ORDERS OR POSTAL ORDERS DRAWN ON A BANK OR POST OFFICE IN MALAYSIA SHOULD BE MADE PAYABLE TO "HOVID BERHAD EXCESS WARRANTS A/C". THE BANKER'S DRAFTS OR CASHIER'S ORDERS OR MONEY ORDERS OR POSTAL ORDERS SHOULD BE CROSSED "ACCOUNT PAYEE ONLY" AND ENDORSED ON THE REVERSE SIDE WITH THE NAME AND CDS ACCOUNT NUMBER OF THE APPLICANT IN BLOCK LETTERS TO BE RECEIVED BY OUR SHARE REGISTRAR NOT LATER THAN THE LAST DATE AND TIME FOR ACCEPTANCE AND PAYMENT AS SET OUT ON THE COVER PAGE OF THIS ABRIDGED PROSPECTUS.**

The basis of allocation for excess Warrants will be determined after the last day of application and payment for excess Warrants. The Board reserves the right to allot the excess Warrants, if any, applied for under Part I(b) of the RSF in such manner as it deems fit and expedient in the best interest of the Company subject always to such allocation being made on a fair and equitable basis, and that the intention of the Board set out in Section 3.7(i) – (v) below is achieved. The Board also reserves the right not to accept or to accept any excess Warrants application, in full or in part, without assigning any reason thereof. It is the intention of the Board to allot the excess Warrants, if any, on a fair and equitable basis and in the following order of priority, where applicable:

- (i) firstly, to minimise the incidence of odd lots;
- (ii) secondly, for allocation to Entitled Shareholders who have applied for excess Warrants on a pro-rata basis and in board lot, calculated based on their respective shareholdings in Hovid as at the Entitlement Date;
- (iii) thirdly, for allocation to Entitled Shareholders who have applied for excess Warrants on a pro-rata basis and in board lot, calculated based on the quantum of their respective excess Warrants application;
- (iv) fourthly, for allocation to renounees who have applied for excess Warrants on a pro-rata basis and in board lot, calculated based on the quantum of their respective excess Warrants application; and

- (v) lastly, in the event that there are still unsubscribed Warrants after allocating all the excess Warrants, the remaining unsubscribed Warrants will be subscribed by the major shareholder of Hovid, DHSS, who has given the Undertaking.

**NO ACKNOWLEDGEMENT OF RECEIPT OF RSF OR APPLICATION MONIES IN RESPECT OF THE EXCESS WARRANTS APPLICATIONS WILL BE MADE BY THE COMPANY OR OUR SHARE REGISTRAR. NOTICES OF ALLOTMENT WILL BE DESPATCHED BY ORDINARY POST TO THE ADDRESS SHOWN IN THE RECORD OF DEPOSITORS OF BURSA DEPOSITORY AT THE APPLICANTS' OWN RISK WITHIN EIGHT (8) MARKET DAYS FROM THE LAST DATE AND TIME FOR APPLICATION AND PAYMENT FOR THE EXCESS WARRANTS OR SUCH OTHER PERIOD AS MAY BE PRESCRIBED BY BURSA SECURITIES.**

**APPLICANTS ARE NOT ALLOWED TO WITHDRAW THE RSF AND PAYMENT ONCE THEY HAVE BEEN LODGED WITH OUR SHARE REGISTRAR.**

**WHERE AN APPLICATION FOR THE EXCESS WARRANTS IS NOT ACCEPTED OR IS ACCEPTED IN PART ONLY, THE FULL AMOUNT OR THE BALANCE OF THE APPLICATION MONIES, AS THE CASE MAY BE, SHALL BE REFUNDED WITHOUT INTEREST AND SHALL BE DESPATCHED TO THE APPLICANT BY ORDINARY POST TO THE ADDRESS SHOWN ON THE RECORD OF DEPOSITORS PROVIDED BY BURSA DEPOSITORY AT THE APPLICANT'S OWN RISK WITHIN FIFTEEN (15) MARKET DAYS FROM THE LAST DATE FOR APPLICATION OF AND PAYMENT FOR THE EXCESS WARRANTS.**

### **3.8 Form of issuance**

Bursa Securities has already prescribed the Hovid Shares listed on the Main Market of Bursa Securities to be deposited with Bursa Depository. Accordingly, the Warrants are prescribed securities and as such, all dealings in the Warrants will be subject to the Central Depositories Act and the Rules of Bursa Depository.

Failure to comply with the specific instructions for applications or inaccuracy in the CDS Account number may result in the application being rejected. No physical warrants certificate will be issued to you under the Rights Issue of Warrants. A notice of allotment will be despatched to the respective Entitled Shareholders and/or their renounees (as the case may be) by ordinary post to the address shown on our Record of Depositors provided by Bursa Depository at their own risk within eight (8) Market Days from the last date for acceptance of and payment for the Rights Issue of Warrants or such other period as may be prescribed by Bursa Securities.

Where the Warrants are provisionally allotted to Entitled Shareholders in respect of their existing Hovid Shares standing to the credit to their CDS Account on the Entitlement Date, the acceptance by Entitlement Shareholders of the provisional allotment of Warrants shall mean that they consent to receive such provisional allotment of Warrants as prescribed or deposited securities which will be credited directly into their CDS Account.

Any person who has purchased the provisional allotment of Warrants or to whom the provisional allotment of Warrants has been transferred and intends to subscribe for the Rights Issue of Warrants must state his/her CDS Account number in the space provided in the RSF. The Warrants will be credited directly as prescribed or deposited securities into his/her CDS Account upon allotment and issuance.

The excess Warrants, if allotted to the successful applicant who applies for the excess Warrants, will be credited directly as prescribed securities into the CDS Account of the successful applicant. The allocation of the excess Warrants will be made on a fair and equitable basis in such manner as the Board in its absolute discretion deems fit and expedient in the best interest of the Company, such that the incidence of odd lots will be minimised, as disclosed in Section 3.7 of this Abridged Prospectus.

### 3.9 Laws of foreign jurisdictions

This Abridged Prospectus, the NPA and the RSF have not been and will not be made to comply with the laws of any foreign jurisdictions, and have not been and will not be lodged, registered or approved pursuant to or under any legislation of or with or by any regulatory authorities or other relevant bodies of any foreign jurisdictions. The Rights Issue of Warrants will not be made or offered in any foreign jurisdictions.

Entitled Shareholders and/or their renounees (if applicable) may only accept or renounce (as the case may be) all or any part of their entitlement and exercise any other rights in respect of the Rights Issue of Warrants to the extent that it would be lawful to do so, and we, our Directors and officers, HwangDBS and other experts would not, in connection with the Rights Issue of Warrants, be in breach of the laws of any jurisdictions to which they are or may be subject. We, our Directors and officers, HwangDBS and other experts shall not accept any responsibility or liability in the event that any acceptance or renunciation made by any Entitled Shareholders and/or their renounees (if applicable) is or shall become unlawful, unenforceable, voidable or void in any such jurisdictions.

Accordingly, this Abridged Prospectus together with the accompanying documents will not be sent to the Foreign Shareholders and/or their renounees (if applicable) who do not have a registered address in Malaysia. However, such Foreign Shareholders and/or their renounees (if applicable) may collect the Abridged Prospectus including the accompanying documents from our Share Registrar, in which event our Share Registrar shall be entitled to request for such evidence as it deems necessary to satisfy itself as to the identity and authority of the person collecting the aforesaid documents.

Entitled Shareholders and/or their renounees (if applicable) will be responsible for payment of any issue, transfer or any other taxes or other requisite payments due in such jurisdiction and Hovid, our Directors and officers, HwangDBS and other experts shall be entitled to be fully indemnified and held harmless by such applicants for any issue, transfer or other taxes or duties as such person may be required to pay. They will have no claims whatsoever against Hovid, our Directors and officers, HwangDBS and other experts in respect of their rights and entitlements under the Rights Issue of Warrants. Such applicants should consult their professional advisers as to whether they require any governmental, exchange control or other consents or need to comply with any other applicable legal requirements to enable them to accept the Rights Issue of Warrants.

By signing the RSF, the Entitled Shareholders and/or their renounees (if applicable) are deemed to have represented, acknowledged and declared in favour of (and which representations, acknowledgements and declarations will be relied upon by) us, our Directors and officers, HwangDBS and other experts that:

- (i) our Company would not, by acting on the acceptance or renunciation in connection with the Rights Issue of Warrants, be in breach of the laws of any jurisdiction to which the Entitled Shareholders and/or their renounees (if applicable) are or may be subject to;
- (ii) the Entitled Shareholders and/or their renounees (if applicable) have complied with the laws to which they are or may be subject to in connection with the acceptance or renunciation;
- (iii) the Entitled Shareholders and/or their renounees (if applicable) are not nominees or agents of any person in respect of whom our Company would, by acting on the acceptance or renunciation, be in breach of the laws of any jurisdiction to which that person is or may be subject to;
- (iv) the Entitled Shareholders and/or their renounees (if applicable) are aware that the Warrants can only be transferred, sold or otherwise disposed of, or charged, hypothecated or pledged in accordance with all applicable laws in Malaysia;

- (v) the Entitled Shareholder and/or his renounees has obtained a copy of this Abridged Prospectus and has had access to such financial and other information and has been provided the opportunity to ask such questions to the representatives of the parties and receive answers thereto as the Entitled Shareholder and/or his renounees deem necessary in connection with the Entitled Shareholder and/or his renounee's decision to subscribe for or purchase the Warrants; and
- (vi) the Entitled Shareholders and/or their renounees (if applicable) have sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing or purchasing the Warrants, are and will be able, and are prepared to bear the economic and financial risks of investing in and holding the Warrants.

Persons receiving this Abridged Prospectus, the NPA and the RSF (including without limitation custodians, nominees and trustees) must not, in connection with the offer, distribute or send the documents into any foreign jurisdiction where to do so would or might contravene local securities, exchange control or relevant laws or regulations. If this Abridged Prospectus, the NPA and the RSF are received by any persons in such jurisdiction, or by the agent or nominee of such a person, he must not seek to accept the offer unless he has complied with and observed the laws of the relevant jurisdiction in connection therewith.

Any person who does forward this Abridged Prospectus, the NPA and the RSF to any such jurisdiction, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this section and Hovid reserves the right to reject a purported acceptance of the Warrants from any such application by Foreign Shareholders and/or their renounees (if applicable) in any jurisdiction other than Malaysia.

Hovid reserves the right, in its absolute discretion, to treat any acceptance of the Warrants as invalid if it believes that such acceptance may violate any applicable legal or regulatory requirements in Malaysia.

#### **4. RATIONALE AND UTILISATION OF PROCEEDS**

##### **4.1 Rationale**

The Rights Issue of Warrants is intended to provide Entitled Shareholders with an option to further increase their participation in the equity of the Company at a pre-determined price during the exercise period of the Warrants.

The Rights Issue of Warrants will enable the Company to raise immediate gross proceeds of RM7.62 million from the issuance of the Warrants for working capital requirements and defraying of expenses incidental to the Rights Issue of Warrants. Moreover, if and when the Warrants are exercised, such funds will be used to finance the working capital requirements of the Group, and further strengthen the equity base of the Company.

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**



## 4.2 Utilisation of proceeds

Based on the issue price of RM0.02 per Warrant, the Rights Issue of Warrants will enable the Hovid Group to raise gross proceeds of RM7.62 million for working capital requirements of the Hovid Group and defraying expenses incidental to the Rights Issue of Warrants. The proceeds to be raised from the exercise of the Warrants, if any, will also be utilised as working capital. The utilisation of proceeds is set out below:

	RM'000	Expected timeframe for utilisation of proceeds
Working capital		
• Payment for raw materials <sup>(1)</sup>	7,071	Within six (6) months from the date of listing of the Warrants
Estimated expenses for the Rights Issue of Warrants <sup>(2)</sup>	550	Within one (1) month from the date of listing of the Warrants
<b>Total proceeds</b>	<b>7,621</b>	

### Notes:

- (1) *These proceeds shall be utilised for the Group's working capital requirements, i.e. payment for raw materials. Raw materials include active ingredients such as Methyldopa, Clopidogrel and Amoxicillin, and excipients such as Lactose Monohydrate, Sorbitol and Glucose. The raw materials are principally sourced from China, Malaysia and India.*
- (2) *The estimated expenses relating to the Rights Issue of Warrants comprise, amongst others, the professional fees, fees payable to the relevant authorities, expenses to convene the EGM, printing, advertisement expenses and other miscellaneous expenses. If the actual expenses incurred are higher than budgeted, the deficit will be funded from the portion allocated for the Group's working capital. Conversely, any surplus of funds following payment of expenses will be utilised as working capital for the Group.*

The exact quantum of proceeds that may be raised by the Company from the exercise of the Warrants would depend on the actual number of the Warrants exercised. The proceeds from the exercise of the Warrants will be received on an "as and when basis" over the tenure of the Warrants.

Based on the exercise price of RM0.18 per Warrant, the Company will raise gross proceeds of approximately RM68.59 million assuming full exercise of the Warrants. Any proceeds arising from the exercise of the Warrants in the future shall be utilised for working capital of the Group, which principally includes funding operating expenditures for day-to-day operations. The Board has yet to assess the amount that may be allocated for the various types of working capital requirements, the quantum of which depends on the level of activities of the Group and the demand for the Group's products.

## 5. RISK FACTORS

Entitled Shareholders and/or their renounees (if applicable) should carefully consider, in addition to the other information contained herein, the following risk factors (which may not be exhaustive) before subscribing for the Warrants.

### 5.1 Risks relating to our Group

#### 5.1.1 Operating risks

Our Group is exposed to the risks of fire breakouts and electricity supply disruptions at our premises, which may disrupt or otherwise adversely affect the operations of our Group. In this regard, our Group has installed fire detection systems at our 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 such risks. Our Group has not, to date, experienced any major fire breakouts and electricity supply disruptions at our premises.

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

However, it should also be noted that in the context of our Group's insurance coverage, though the assets located at our 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 our Group's operations, the financial costs of which may exceed the book value of our Group's assets, despite any claim which our Group may have for insurance compensation to the amount of the book value of the said assets. In order to further mitigate such risks, our Group also has in place consequential loss insurance.

#### **5.1.2 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 materials are suitable and fit 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, our Group has two (2) or three (3) suppliers for each particular type of raw material, and is constantly on the lookout for alternative cheaper sources of raw material. Our Group has not, to date, experienced any major disruption to the supply of raw materials.

#### **5.1.3 Competitive risks**

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 manufacturers from China and India 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. Our Group strives to stay ahead constantly by having an ongoing new product portfolio with new products coming into the market constantly and consistently by our continuous efforts and initiatives in developing new products via our on-going R&D programmes, application research and clinical trials. Our Group is working towards a quicker time-to-market for the to-be-expired patented products to achieve better margins and increase market share.

#### **5.1.4 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 our 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 our Group's products being rendered obsolete and unmarketable.

Our Group has on-going R&D programmes, application research and clinical trials with the purpose of developing products 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 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 testing 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, our Group believes that our current range of products and applications are stable and have been well-accepted by our customers as evidenced by the increased demand of our products from year to year, 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 our Group's existing range of products/applications. The future growth of our Group is nevertheless dependent upon, to a certain extent, the successful development of new products/applications.

Our Group collaborates with a number of research institutes worldwide for the development of new applications. There is no assurance that our Group would be able to maintain our business relationships with these research institutes or our 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 our Group's relationships with these research institutes deteriorate, our Group's business and future prospects would be adversely affected. However, due to our long standing relationship with these research institutes such as Universiti Sains Malaysia (since year 1992) and The Ohio State University (since year 2006), our Group believes that our relationships with these research institutes are strong and the risk of the relationship deteriorating in the near future is low.

#### **5.1.5 Protection of our Group's technology and intellectual property rights**

Our Group's business model is a hybrid business model with focus on the development of generic drugs as well as our creation of innovative and patented products, hence, intellectual property rights are crucial to our Group's success.

To align with our business model, the capability to develop generic drugs and to be the first generic in the market will be one of the determining factors of our success. To achieve that, our Group has embarked on efforts of patent circumvention. There can be no assurance that there will be no risk of patent infringement challenge from patent owners. Our Directors believe that such effort and attempt of patent circumvention is unavoidable in the generic business but nonetheless, active preventive measures will be taken to reduce the exposure of such risks. The active preventive measures include up to date patent searches, regular patent analysis and review, vigilant monitoring of the patent landscape, and patent invalidation litigation in related jurisdictions. Our Group has not, to date, experienced any successful patent infringement challenge from patent owners.

In regards to our business of an innovator of certain pharmaceutical products, our Group's success is dependent upon our ability to protect the intellectual property rights that it currently enjoys. Accordingly, there can be no assurance that our Group will be able to continue to protect our 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 our Group's business, operating results and financial conditions.

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

Although our 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 our Group's rights to use those third party intellectual property rights, and, in the event of any dispute in this regard, that our 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 our 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 our Group. This will aid a third party in exploiting the inventions in a jurisdiction in which there is no or limited patent protection.

The Group has taken active steps in the protection of our trademarks and patents such as the screening of intellectual property gazettes to facilitate necessary opposition processes and the monitoring of trademark and patent renewal to ensure preservation and maintenance of our trademarks and patents, and if the need arises, our Group is prepared to initiate legal proceedings against parties deemed to have infringed upon our Group's proprietary rights.

#### **5.1.6 Regulatory risks**

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. Meanwhile, apart from the general company, contract and commercial laws, our business is also subject to many specific regulations in Malaysia, such as the Sale of Drugs Act, 1952, Dangerous Drugs Act, Medicines (Advertisement and Sale) Act, 1956 and the Industrial Co-ordination Act, 1974 pursuant to which our Company and/or our subsidiaries are licensees.

Our Group has a regulatory compliance team that constantly monitors compliance of our products with the regulations and keeps abreast of such developments. The vast experience in the regulatory compliance team has been obtained from registering our Group's products in more than 30 countries worldwide. Although our Group continuously ensures that we are 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 our Group.

#### **5.1.7 Dependence on directors, key management and technical personnel**

Our Group's future performance depends to a significant extent on the continued efforts and abilities, as well as the networking, of our directors, key management and technical personnel. The loss of the services of any key individuals may have a material and adverse effect on our Group. Our Group also depends on our ability to attract and retain sufficient skilled employees.

Our Group is led by DHSS, who is the Chairman and Managing Director of our Group. He has valuable experience in the pharmaceutical, nutraceutical and cosmeceutical industry. He also heads the R&D function of our Group. His experience and expertise is one of the primary reasons for the success of our Group. If he were to cease to be involved in the management of our Group's business, our Group's business and profitability could be adversely affected.

Meanwhile, our Group is supported by a team of experienced employees. The success of our Group today is also very much attributable to this team of people, in particular the founders. Any loss of these personnel may have an initial adverse impact on the operations and future expansion of our Group.

Realising the above, our Group has been investing in on-going programmes to train and equip employees as well as provide a good working environment for them. Our Group is also continuously grooming the junior members of the management team for increased responsibilities and exposure.

### **5.1.8 Dependence on particular suppliers/customers and failure of ongoing relationships**

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

However, our Board 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 our Group because the customer's or distributor's own customers or end-users may be dependent on our Group's products. In order for our Group's customer or distributor to switch to alternative raw materials and/or products, new formulations, registrations, marketing and/or evaluations may be required. Nevertheless, these factors will not stop a customer or distributor from switching to alternative vendors, raw materials and/or products if they so desire.

Our Company does not have any contract with our suppliers of raw materials. Our Group normally buys at the relevant spot rates or forward buys for three (3) to twelve (12) months depending on source and requirements. Our Board is of the opinion that our Group does not depend on a single or a limited group of suppliers as the sourcing of raw materials should not be a major problem for generic drug manufacturers such as Hovid as most of the chemical entities acquired are commodities in nature.

### **5.1.9 Borrowing risks**

Our Group currently has bank borrowings, and may from time to time obtain additional credit facilities from banks and financiers to finance our operations and business activities. Fluctuations of interest rates charged by the banks and financiers on these credit facilities may have a material effect on our Group's profitability. These credit facilities may also be subject to terms and conditions which may limit our Group's operating and financial flexibility. Any act or omission by our 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 our Group's operational and financial results. Our Group has borrowings in foreign currencies too to provide a hedge to the operational inflow of funds in foreign currencies. Any significant fluctuations in these foreign currencies may have a material effect on our Group's profitability.

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

### **5.1.10 Foreign exchange risks**

A substantial amount of our Group's revenue is currently generated from export of our products. As such, our Group may be potentially exposed to foreign exchange risks. Our Group's exposure to foreign exchange risk arises from import of raw materials and export of finished goods that are generally denominated in USD. However, the availability of both inflow and outflow of USD arising from the normal business transactions of our Group provides a natural hedge to reduce our foreign exchange risk.

### **5.1.11 Economic, political and regulatory risks**

Our Group's business, prospects, financial conditions and level of profitability may be affected by the development of the economic, political and regulatory environment in Malaysia and the countries in which our Group operates. Any adverse development in political situation, economic uncertainties or changes in the regulatory environment could materially and adversely affect the financial performance of our Group. These risks include, among others, risks of war, global economic downturn, changes in interest rates and unfavourable changes in government policies such as introduction of new regulations, import duties and tariffs.

Whilst our Group practices prudent financial management and efficient operating procedures, there is no assurance that adverse regulatory, political and economic developments, which are beyond our Group's control will not materially affect our Group.

## **5.2 Risks relating to the Rights Issue of Warrants**

### **5.2.1 Market risks**

The performance of the market price of the Warrants will be influenced by various factors, including market sentiments, volatility of the stock exchange, future profitability of our Group as well as the performance of the industries in which our Group's business operates or is dependent upon. The performance of the local bourse is very much dependent on external factors such as the performance of regional and world bourses and the inflow and outflow of foreign funds. Sentiments are largely driven by internal factors such as the economic or political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of the trading volumes witnessed on Bursa Securities, thus adding risk to the market price of the Warrants. No assurance can be given that the market price of the Warrants upon or subsequent to listing of the Warrants will be at a level that meets the specific investment objectives of any holder of the Warrants.

### **5.2.2 Share price**

As at the LPD, the last transacted share price of Hovid Shares was RM0.23 while the exercise price of the Warrants has been fixed at RM0.18 per Warrant. Shareholders should be aware of the risk of capital loss should they subscribe for and exercise the Warrants at a premium to the market price. Shareholders are advised to consult their respective stockbroker, bank manager, solicitor, accountant or other professional adviser for investment advice in relation to the Rights Issue of Warrants.

### **5.2.3 Delay in or failure of the Rights Issue of Warrants**

There may be a delay in or abortion of the listing of the Warrants on the occurrence of, amongst others, the following events:

- (a) *force majeure* events or circumstances including acts of government, acts of God (including the occurrence of a tsunami and/or earthquakes and/or volcanic eruptions), acts of terrorism, strikes, national disorder, declaration of a state of emergency or diseases, which are beyond the control of our Company, arising prior to the completion of the Rights Issue of Warrants; or
- (b) the major shareholder of our Company, who has given the Undertaking fail to or do not fulfil his obligations pursuant to the Undertaking.

Although we will endeavour to secure the listing of the Warrants and ensure that our Group complies with the relevant Listing Requirements for the successful listing of the Warrants, there can be no assurance that the above events will not occur and cause a delay in or abortion of the listing of the Warrants. If the listing of the Warrants does not take place, all monies paid in respect of all applications will be returned in full without any interest and if such monies are not repaid within 14 days after we become liable, we will repay such monies with interest at the rate of 10% per annum or such other rate as may be prescribed by the SC in accordance with Section 243(2) of the CMSA.

### **5.2.4 Potential dilution**

Entitled Shareholders who do not or are not able to accept their provisional allotment of Warrants and exercise such Warrants will see their proportionate ownership and voting interests in our Company reduced, and the percentage of their shareholdings in our Company's enlarged issued and paid-up share capital will also be reduced accordingly.

## 5.2.5 Forward-looking statements

This Abridged Prospectus includes forward-looking statements. All statements other than statements of historical facts included in this Abridged Prospectus, including without limitation, those regarding our financial position, business strategies, plans and objectives of our management for our future operations, are forward-looking statements. You can identify some of these statements by forward-looking terms such as “expect”, “believe”, “plan”, “estimate”, “anticipate”, “may”, “will”, “would”, and “could” or similar words. However, you should note that these words are not the exclusive means of identifying forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our Group’s actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

## 6. GENERAL OVERVIEW OF THE ECONOMY AND INDUSTRY AND PROSPECTS OF OUR GROUP

The performance of our Group’s business is closely linked to the manufacturing and pharmaceutical industries, the general overview and outlook of which are as follows:

### 6.1 Overview of the economy and industry

#### Overview of the Malaysian economy

The Malaysian economy performed better than expected in 2012, recording a strong growth of 5.6%. The overall growth performance was driven by higher growth in domestic demand, which outweighed the negative impact from the weak external environment. Domestic demand recorded the highest rate of expansion over the recent decade, underpinned by higher consumption and investment spending. Despite the uncertainties in the external environment, domestic consumer confidence picked up amidst positive income growth, continued strength in the labour market, the low inflation environment and supportive financing conditions.

Investment activity was a key driver of the domestic economy during the year, with increased capital spending by both the private and public sectors. Private investment was particularly robust, recording a double-digit growth of 22%. The share of private investment rose to 15.5% of gross domestic product (“GDP”) in 2012, the highest since 1998. This was led by strong capital spending in the consumer-related services sectors, domestic-oriented manufacturing sectors and the implementation of major infrastructure projects. Public investment also registered a strong growth of 17.1%, driven by higher capital spending by public enterprises. In addition, the strong investment performance was also attributed to the commencement and progress of several infrastructure projects, including those under the Economic Transformation Programme (“ETP”), and the steady improvement in the investment climate.

Private consumption registered a firm growth of 7.7% in 2012. The strong performance was attributed to favourable income growth, Government transfers to low- and middle-income households, and supportive financing conditions. In the public sector, public consumption recorded a moderate growth of 5% amidst continued fiscal consolidation efforts during the year.

On the supply side, all economic sectors continued to expand in 2012. The construction sector benefited from the strong expansion in investment activity, registering its highest pace of growth since 1995. While the growth of export-oriented activities was dampened by the slowdown in external demand, the growth of domestic-related activities, particularly in the services and manufacturing sectors, was supported by the strong performance of domestic demand.

Labour market conditions remained stable in 2012 with continued gains in employment, observed mostly in the services and agriculture sectors. However, total retrenchments increased due mainly to higher layoffs in the manufacturing sector.

During the year, the unemployment rate declined marginally to 3%. Headline inflation, as measured by the annual percentage change in the Consumer Price Index (“CPI”), averaged 1.6% in 2012 (2011: 3.2%). Inflation was lower than expected, on account of the slower rate of price increases in the food and non-alcoholic beverages and transport categories. Food items, which have been the main drivers of inflation in recent years, registered more moderate price increases following modest external price pressures and significant improvements in domestic food supplies. The magnitude of the adjustments to administered prices was also lower than in the previous year. Core inflation, an indicator of demand-driven price pressures, moderated to 2.4% in 2012 (2011: 2.7%).

Malaysia’s external position remained resilient in 2012 despite the challenging external environment. The overall balance of payments remained strong as the current account surplus was more than adequate to meet the net outflows in the financial account. Reflecting the cyclical and structural adjustments taking place in both the global and domestic economy, the current account surplus was lower at RM60 billion in 2012 (2011: RM97.1 billion) due mainly to a smaller goods surplus and larger deficits in the services and income accounts.

The moderation in the goods surplus was a result of robust import growth, following the improvement in domestic demand, amid lower export growth caused by the weak external demand and lower commodity prices. The services account registered a larger deficit due to higher payments for imported transportation services and lower net travel receipts, while the larger net income payment reflected the higher income accrued to foreign companies operating in Malaysia.

On the financial account, Malaysia continued to experience two-way capital flows, with foreign inflows attracted by the resilient growth prospects. Despite significant global uncertainties, foreign direct investment inflows were sustained and remained broad-based, with significant inflows into high-growth areas, such as the oil and gas sector and the communication services sub-sector. Some of the funds were also channelled into projects under the ETP. Direct investment abroad, were largely undertaken by companies in the services and oil and gas sectors, and continued to be channelled into the regional economies, reflecting the deepening economic integration in Asia.

Malaysia’s external debt declined to RM252.8 billion (USD81.7 billion) as at end-2012 (2011: RM257.4 billion), equivalent to 28% of gross national income (“GNI”) (2011: 30% of GNI). During the year, the medium- and long-term external debt of the private sector increased. This, however, was largely offset by the net repayment of public sector medium- and long-term external debt and the net repayment of short-term interbank borrowings. The appreciation of the RM against some of the major currencies during the year also contributed to the lower value of external debt in RM terms. Overall, Malaysia’s external debt profile continued to be skewed towards a longer maturity structure, with medium- and long-term debt accounting for 63.2% of total external debt. The external debt continues to be well supported by the country’s strong economic fundamentals.

Net international reserves increased by RM3.9 billion to RM427.2 billion (equivalent to USD139.7 billion), as at 31 December 2012. As at 28 February 2013, the reserves level amounted to RM429 billion (equivalent to USD140.3 billion), which is adequate to finance 9.5 months of retained imports and is 4.6 times the short-term external debt. The international reserves held by BNM remain usable and unencumbered.

*(Source: Executive Summary, Bank Negara Malaysia Annual Report 2012, BNM)*

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**



### Outlook for the Malaysian Economy

The Malaysian economy is expected to remain on a steady growth path, with an expansion of 5-6% in 2013. Economic activity will be anchored by the continued resilience of domestic demand, and supported by a gradual improvement in the external sector. Private investment is expected to remain robust, driven by capacity expansion by the domestic-oriented firms and the continued implementation of projects with long gestation periods. Investments by the external-oriented businesses is also expected to be higher amid the gradual improvement in external demand, while private consumption is projected to grow at a more moderate rate in the second half of the year, although it will continue to be well supported by sustained income growth and positive labour market conditions.

Government spending is expected to record a lower growth given the ongoing consolidation of the Government's fiscal position and as the role of the private sector gains greater significance. In line with the more favourable external sector, gross exports are projected to record a higher growth in 2013 supported by the export of manufactured products. Gross imports are expected to moderate, in tandem with the projected trend in domestic demand. Overall, this is expected to result in a lower negative contribution to real GDP from net exports. As import growth continues to outpace export growth amid the continued deficit in the income account and in current transfers, the current account surplus, while still remaining significant is expected to narrow further in 2013.

On the supply side, all major economic sectors are expected to record continued expansion in 2013. The services and manufacturing sectors are expected to be the key contributors to overall growth, driven by the continued resilience of domestic demand and supported by higher international trade activity. Growth in the construction sector is projected to remain strong, supported by the implementation of major infrastructure projects. In the commodities sector, the growth of agriculture is expected to improve due to the higher output of crude palm oil and food commodities while the mining sector is expected to strengthen following the higher production of natural gas, crude oil and condensates.

Headline inflation is expected to average 2-3% in 2013. This inflation projection takes into account the expected higher global prices of selected food commodities and the adjustments to domestic administered prices. Demand-driven price pressures are expected to be moderate. The wider forecast range reflects the greater uncertainty in the external and domestic environment.

Overall, the growth prospects of the Malaysian economy will continue to be underpinned by the strength of its fundamentals. Of importance, labour market conditions will remain favourable, with the unemployment rate projected to remain low at 3.1% of the labour force in 2013. In addition, the financial system continues to demonstrate resilience against the challenging external environment, with financial intermediation expected to continue to provide strong support to domestic economic activity. The introduction of macroprudential and other policy measures have helped to manage the risks from the increase in household indebtedness. Malaysia's favourable external position is to remain intact, with international reserves at healthy levels and a low external debt that is within prudent limits.

Given the challenging external environment, there, however, remain risks to the economic outlook. The potential re-emergence of instability in the euro area and slower growth in Malaysia's major trading partners would affect the Malaysian economy. While pressures from global commodity prices have receded, upside risks from non-fundamental factors, such as adverse weather conditions and geopolitical developments, could push commodity prices higher and adversely affect the growth prospects of economies that are major trading partners of Malaysia. Potential upside to the domestic economy could emerge if the recovery in the advanced economies turns out to be better than expected.

*(Source: Executive Summary, Bank Negara Malaysia Annual Report 2012, BNM)*

*The Malaysian manufacturing sector*

The manufacturing sector expanded by 4.8%, with both the export- and domestic-oriented industries registering better growth. In the export-oriented industry, production in the electrical and electronics (“E&E”) cluster, particularly in semiconductors, normalised, following the major disruptions arising from the natural disasters in Japan and Thailand in 2011. The continued demand for chemicals and petroleum products, mainly from the region, contributed to the expansion of output of the primary-related cluster. The improvement in the domestic-oriented industries was due to the better performance of the construction- and consumer-related clusters, driven by higher domestic construction activity and robust private consumption.

Higher capital spending was widespread across the economic sectors, particularly in the services, manufacturing and mining sectors, driven by strong domestic consumption activity, resilient regional demand and firm crude oil prices. Contributing further to the strong investment performance was the commencement and continued progress of several infrastructure projects, including those under the ETP and the regional growth corridors. The investment performance during the year also reflected the steady improvement in the investment climate, following the introduction of measures to further enhance the conditions for doing business in Malaysia.

Private investment recorded a double-digit growth of 22%, attributable to capital spending in the consumer-oriented services sectors, domestic-oriented manufacturing sectors, and the implementation of major infrastructure projects, particularly in the mining sector. In the manufacturing sector, investment was attributable mainly to capacity expansion by the domestic-oriented firms, particularly in the consumer-related clusters. Investment by the export-oriented manufacturing firms reflected the implementation of approved manufacturing projects in the primary-related clusters, and investments in new technology for product diversification and in new growth areas, namely medical and telecommunications equipment. Investment was also supplemented by investments in automation to enhance productivity and upgrade technology to mitigate the impact of high energy prices and labour costs.

Public investment recorded a strong growth of 17.1%, driven by higher capital spending by public enterprises in the oil and gas sector, and the transportation, utilities, and telecommunications services sub-sectors. Overall, growth of gross fixed capital formation (“GFCF”) was broad-based, with higher growth in both investment in structures and machinery and equipment (46.5% and 45% share to GFCF respectively).

In addition, capital spending in machinery and equipment grew by 15.5% in 2012 (2011: 4.2%), as reflected in the increase in the import of capital goods. The import of capital goods expanded by 20.5% in 2012 (2011: 8.7%), supported by the import of machinery for manufacturing (2012: 22.3%; 2011: 3.3%), telecommunications equipment (2012: 16.4%; 2011: 12.3%), mining and construction equipment (2012: 20.5%; 2011: 35.2%) and transport equipment (2012: 43.1%; 2011: 14.9%). Despite the more adverse external environment, foreign direct investment continued to register a sizeable net inflow, albeit to a lesser extent. The inflows were broad-based, and were channelled into both the domestic- and export-oriented sectors.

*(Source: Economic Developments in 2012, Bank Negara Malaysia Annual Report 2012, BNM)*

On the supply side, all the major economic sectors are expected to record continued expansion in 2013. The services and manufacturing sectors are expected to be the key contributors to overall growth, driven by the continued resilience of domestic demand and supported by the gradual improvement in the global economic environment, which will augur well for international trade activity.

The domestic-oriented industries within the manufacturing sector, in particular the consumer-related cluster, such as food and transportation, are likely to benefit from the continued growth of private consumption. The construction-related manufacturing cluster is also expected to perform well.

The performance of the export-oriented manufacturing industries such as the E&E and primary-related clusters are expected to improve in tandem with the gradual recovery in the advanced economies and the sustained growth in the regional economies. The E&E cluster will continue to be supported by demand for products in the consumer and telecommunication segments. In the primary-related cluster, growth is projected to be supported by firm demand from the regional countries, particularly for resource-based products such as refined petroleum products, chemicals and chemical products as well as rubber products. The higher volume of trade and the better overall performance of the manufacturing sector will also benefit the trade- and manufacturing-related services sub-sectors, such as wholesale trade, transport and storage and utilities.

In the manufacturing sector, investment will be driven by the domestic-oriented and primary-related manufacturing clusters. Investment in the construction-related cluster, especially in steel and cement, will be driven by the demand from strong construction activity, while the expansion of firms in the consumer-related clusters, such as food and beverages and motor vehicles, will be underpinned by the steady growth of domestic consumption. In addition, regional demand and initiatives to deepen Malaysia's downstream petrochemical industry are expected to support the implementation of projects in the primary-related manufacturing cluster. Capacity expansion in the E&E industry will be supported by the gradual improvement in external demand and the diversification into new products and new growth areas, notably the medical devices industry and niche E&E components. Furthermore, initiatives by firms to automate and to invest in new machinery are expected to continue in 2013 as firms respond to rising costs and the implementation of the minimum wage policy. These developments are expected to spur the manufacturing industry into producing higher value-added goods.

*(Source: Outlook and Policy in 2013, Bank Negara Malaysia Annual Report 2012, BNM)*

#### The Malaysian pharmaceutical sector

Towards providing quality healthcare services, the Government has allocated RM16.8 billion in 2012. Among others, this allocation will be utilised for the construction of new hospitals in Sri Aman, Sarawak, Rembau, Negeri Sembilan and Kuala Krai, Kelantan as well as for upgrading hospitals in Ipoh, Perak, Mersing, Johor and Putrajaya. Work on these hospitals is currently at various stages of implementation and is expected to be completed by 2015. Meanwhile, another 81 rural health clinics will be upgraded while 70 new 1 Malaysia clinics will be launched in 2012. Work in 13 rural health clinics has been completed while another 18 1 Malaysia clinics have been established. To ensure the comfort of about 3,000 outpatients seeking treatment daily in the Kuala Lumpur Hospital and to upgrade the existing facilities in the hospital, the 2012 Budget also allocated RM300 million to the country's premier hospital. Of this, RM50 million will be utilised for the construction of a new outpatient block, which will commence in 2013 and is expected to be completed by 2015.

Growth of the other services subsector is expected to increase 4.3% in 2012 (2011: 4.7%) led by higher private education and healthcare activities. In healthcare services, the Malaysia Healthcare Travel Council ("MHTC") is working closely with private healthcare providers to promote healthcare tourism. This is expected to increase receipts from foreign patients by 7.2% to RM548 million in 2012 (2011: 34.8%; RM511 million). MHTC will undertake further measures to strengthen the healthcare tourism industry such as organising the first Malaysia International Healthcare Travel Expo, establishing MHTC offices abroad and enhancing its portal to be more interactive and informative.

The Government will continue to provide quality health services for the rakyat. Allocation for the health subsector is the second largest at RM1.9 billion or 3.9% of total development expenditure (2011: RM2.2 billion; 4.8%). Provision is for building, upgrading and maintenance of hospitals and health clinics; purchase of medical and health equipment; improving hospital information and technology system as well as skills training. Major ongoing projects include the construction, upgrading or expansion of hospitals in Kota Kinabalu, Seremban, Kangar, Cheras, Bera, Rompin, Tampin and Tampoi. Access to rural health care services will be further strengthened through the improvement of health and dental facilities nationwide.

*(Source: Chapters 1, 3 and 4, Economic Report 2012/2013, Ministry of Finance)*

The global healthcare industry is among the most dynamic and rapidly growing industries in the world economy. Spurred by demographic shifts such as extended longevity and a rise in lifestyle diseases such as hypertension and cardiovascular ailments, cancer and diabetes, national healthcare costs are increasing dramatically. At the same time, the health industry has become a powerful engine of economic growth.

For pharmaceuticals, the Performance Management and Delivery Unit (“**PEMANDU**”) is targeting a 22% GNI growth rate that will deliver RM16.6 billion GNI by 2020. This is driven by higher exports of generic pharmaceuticals and enhanced generics and increased clinical research in Malaysia. The impetus for this aggressive growth is two-fold. First, PEMANDU believes that significant extra capacity in the domestic pharmaceuticals industry can be re-focused on higher value manufacturing. Second, PEMANDU believes that through investment in research and development, original research and product innovation, it can create a sustainable and thriving pharmaceutical industry.

By 2020, PEMANDU aspires to generate RM35.3 billion incremental GNI from the entry point projects (“**EPP**”) and business opportunities on top of baseline growth, welcome one million health travellers and conduct 1,000 clinical trials, all of which will result in approximately 181,000 new jobs. This includes about RM400 million of GNI from the multiplier effect created by EPPs from other sectors. The largest source of the multiplier effect on the Healthcare National Key Economic Areas (“**NKEA**”) is the Tourism NKEA, which is estimated to contribute to 38% of the multiplier effect. This includes, for example, benefits to the Healthcare NKEA from a growth in medical tourism.

*(Source: Chapter 16, Economic Transformation Programme, Performance Management and Delivery Unit, Prime Minister's Department)*

The pharmaceutical industry is an important component of the healthcare sector in Malaysia. The industry has high growth potential, both in the domestic and export markets, in view of its present strength in the production of generic drugs. There are also vast opportunities to capitalise on the country's diversified natural flora and fauna to develop resource-based and biogeneric drugs.

During the period of the Third Industrial Master Plan, 2006-2020, further development of the industry will be driven by rising wealth, increased longevity of the population, greater awareness of healthcare and better access to medicines. The industry is expected to focus on the production of high-margin niche products, add value to the existing products through improved drug delivery technologies, and increasingly move into biopharmaceuticals and branded generics, including bio-generics (biologic drugs, for which patents have expired).

Patents of many drugs made by the United States of America and European companies have either expired or will be expiring during the next few years. It is estimated that the patent expiry will involve about USD100 billion worth of branded drugs of the major pharmaceutical companies. This will create market opportunities for generics worldwide, which are expected to grow at an average annual rate of 10%. The expected increases in the Government purchase of generic drugs, as a measure to contain healthcare costs, together with the anticipated expiry of several branded drugs, offers vast opportunities for the production of patent expired generic drugs, for both the local and export markets.

*(Source: Chapter 15, The Third Industrial Market Plan, Ministry of International Trade and Industry)*

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**

## 6.2 Prospects of our Group

Hovid intends to build a new pharmaceutical plant as part of its efforts to enhance its production capacity. The proposed new pharmaceutical plant is intended to meet the demand for the products of the Company and accelerate the time-to-market of its products, as well as to align the Group's capabilities with market demand. The plant, which may involve an outlay of approximately RM30 million, would be expected to increase Hovid's capacity by around 30%. The size of the proposed new pharmaceutical plant will be around 2,600 square metres and is to be situated in Chemor, Perak. Principal products to be manufactured will be tablets such as antidiabetic, antihypertensives, health supplements, anticonvulsants, anti-inflammatory etc. The products will be principally marketed in Malaysia, existing overseas market and new target markets such as Australia and other developed countries. The project will be funded through bank financing and internally generated funds. We intend to begin construction tentatively in January 2014 and completion is estimated to be within 18 months.

The Group also intends to continue with its efforts in R&D activities. These R&D activities are not only focused on developing off-patent drugs to broaden the Group's product lines, but also in relation to the development of drug delivery technologies including modified-release dosage forms and oral systems for enhancing the bioavailability of nutraceutical and dietary supplements.

The Group has continued to expand its presence and product portfolio in other countries such as the Philippines, Cambodia, Singapore, Myanmar, Brunei, United Arab Emirates, Oman, Kuwait, Nigeria, Kenya, Mozambique, Malawi, Uganda and Ethiopia. Further, Hovid as a manufacturer that commits to Halal standard intends to continue penetrating Halal markets globally and strive to boost its market share in these countries.

The Group's strategy is to continue growing its sales volume of its currently marketed products, realise its investment in R&D, and supplement its internal growth with business developments to maintain its competitiveness in the pharmaceutical market. Whilst the economic environment is expected to remain challenging, the Group will continue to seize strategic opportunities and navigate challenges, grow pipelines, and focus on delivering sustainable revenue and earnings, to grow the pharmaceutical business of the Group further.

## 7. FINANCIAL EFFECTS

### 7.1 Share capital

The proforma effect of the Rights Issue of Warrants on the issued and paid-up share capital of the Company is as follows:

	No. of Shares	RM
As at the LPD	762,080,000	76,208,000
To be issued assuming full exercise of the Warrants	381,040,000	38,104,000
Enlarged issued and paid-up share capital	1,143,120,000	114,312,000

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**

## 7.2 NA and gearing

Based on the audited consolidated statement of financial position of Hovid as at 30 June 2012 and on the assumption that the Rights Issue of Warrants had been effected on that date, the proforma effect of the Rights Issue of Warrants on the NA per Share and gearing of the Group are as follows:

	Audited as at 30 June 2012 RM'000	(I) Adjusted as all the Warrants 2008/2013 expired unexercised RM'000	(II) After (I) and the Rights Issue of Warrants RM'000	(III) After (II) and assuming full exercise of Warrants RM'000
Share capital	76,208	76,208	76,208	<sup>(3)</sup> 114,312
Share premium	90	90	90	<sup>(3)</sup> 37,644
Revaluation and exchange fluctuation reserve	4,025	4,025	4,025	4,025
Retained earnings	19,459	26,463	26,463	26,463
Warrant reserve	7,004	-	<sup>(2)</sup> 7,071	-
NA	106,786	106,786	113,857	182,444
NA per Share (RM)	0.14	0.14	0.15	0.16
Interest-bearing borrowings	48,937	48,937	48,937	48,937
Gearing ratio (times)	0.46	0.46	0.43	0.27

### Notes:

(1) Adjusted due to the expiration of the Warrants 2008/2013 on 25 January 2013.

(2) Based on the issue price of RM0.02 per Warrant and net of estimated expenses for the Rights Issue of Warrants amounting to approximately RM550,000.

(3) Based on the exercise price of RM0.18 per Warrant, RM0.08 will be accounted to the share premium account while the remaining RM0.10, being the par value of each Hovid Share will be accounted to share capital. In addition, the issue price of RM0.02 per Warrant pursuant to the Rights Issue of Warrants (net of estimated expenses for the Rights Issue of Warrants) will also be accounted to the share premium account after the full exercise of the Warrants.

### 7.3 Earnings and EPS

The Rights Issue of Warrants will not have any immediate material impact on the earnings of Hovid Group. The potential effect of the exercise of the Warrants on the future earnings and EPS of the Group will depend upon, amongst others, the number of Warrants exercised at any point in time and the utilisation of proceeds arising from the exercise of the Warrants. Although the exercise of the Warrants into new Shares is expected to immediately dilute the EPS of the Group as a result of the increase in the Company's issued and paid-up share capital, nevertheless, the effect of any exercise of Warrants on the EPS would be dependent on the returns generated by Hovid Group from the utilisation of such proceeds arising from the exercise of the Warrants.

## 8. WORKING CAPITAL, BORROWINGS, CONTINGENT LIABILITIES AND MATERIAL COMMITMENTS

### 8.1 Working capital

Our Board is of the opinion that after taking into account the amount to be raised from the Rights Issue of Warrants, the banking facilities available to our Group and current funds available, our Group will have sufficient working capital for a period of twelve (12) months from the date of this Abridged Prospectus.

### 8.2 Borrowings

As at the LPD, we have total borrowings of approximately RM18.90 million. All the borrowings are interest bearing and comprise the following:

	Fixed interest rate facilities	Variable interest rate facilities	Total
	RM'000	RM'000	RM'000
<b>Domestic borrowings</b>			
Short term (payable within 12 months)	10,311	1,703	12,014
Long term (payable after 12 months)	1,636	2,751	4,387
	11,947	4,454	16,401
<b>Foreign borrowings</b>			
Short term (payable within 12 months)	24	2,179	2,203
Long term (payable after 12 months)	300	-	300
	324	2,179	2,503
<b>Total borrowings</b>	<b>12,271</b>	<b>6,633</b>	<b>18,904</b>

The foreign borrowings above are denominated in various currencies, but expressed in RM terms based on the corresponding exchange rates:

Currency	Amount of debt denominated in foreign currencies '000	Exchange rate	Amount of debt denominated in RM '000
USD	51	3.064	157
PHP	4,384	0.0738	324
INR	36,505	0.0554	2,022
<b>Total</b>			<b>2,503</b>

There has been no event of default in respect of any borrowings from the financial institutions pertaining to payments of either interest or principal sum throughout the past one (1) financial year and the subsequent financial period thereof as at the LPD.

**8.3 Contingent liabilities**

As at the LPD, the Board, after having made all reasonable enquiries, is not aware of any contingent liabilities incurred or known to be incurred by Hovid Group, which upon becoming enforceable may have a material effect on the business or financial position of the Group.

**8.4 Material commitments**

Save as disclosed below, as at the LPD, the Board, after having made all reasonable enquiries, is not aware of any material commitments incurred or known to be incurred by Hovid Group, which may have a material effect on the business or financial position of the Group:

	<b>RM'000</b>
<b>Authorised and contracted</b>	
Plant and equipment	142
<b>Authorised but not contracted</b>	
Buildings and equipment	37,500

**9. TERMS AND CONDITIONS**

The issue of the Warrants pursuant to the Rights Issue of Warrants is governed by the terms and conditions set out in this Abridged Prospectus and the accompanying RSF, NPA and the Deed Poll.

**10. FURTHER INFORMATION**

Shareholders are requested to refer to the attached Appendices for further information.

Yours faithfully,  
for and on behalf of the Board  
**HOVID BERHAD**



**HO SUE SAN @ DAVID HO SUE SAN**  
Chairman and Managing Director

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**



**CERTIFIED TRUE EXTRACT OF THE ORDINARY RESOLUTION IN RESPECT OF THE RIGHTS ISSUE OF WARRANTS PASSED AT THE EGM OF HOVID ON 18 FEBRUARY 2013**

**HOVID BERHAD (58476-A)**  
(Incorporated in Malaysia)

CERTIFIED EXTRACT OF MINUTES OF THE COMPANY'S EXTRAORDINARY GENERAL MEETING HELD ON MONDAY, 18 FEBRUARY 2013.

**ORDINARY RESOLUTION**

**PROPOSED RENOUNCEABLE RIGHTS ISSUE OF UP TO 571,560,000 FIVE (5)-YEAR WARRANTS 2013/2018 ("WARRANTS") AT AN ISSUE PRICE OF RM0.02 FOR EACH WARRANT ON THE BASIS OF ONE (1) WARRANT FOR EVERY TWO (2) EXISTING ORDINARY SHARES OF RM0.10 EACH IN HOVID ("HOVID SHARES") HELD ON AN ENTITLEMENT DATE TO BE DETERMINED LATER ("PROPOSED RIGHTS ISSUE OF WARRANTS")**

"THAT, subject to the approvals of all relevant authorities, the Board of Directors of Hovid ("Board") be and is hereby authorised to issue up to 571,560,000 Warrants in Hovid to the shareholders of the Company whose names appear on the Record of Depositors of the Company as at the close of business on an entitlement date to be determined later by the Board ("Entitlement Date"), on the basis of one (1) Warrant for every two (2) existing Hovid Shares held on such date at an issue price of RM0.02 per Warrant;

THAT, approval be and is hereby given to the Board to create and issue the Warrants based on the indicative principal terms of the Warrants as set out in the circular to the shareholders of the Company dated 24 December 2012 and the terms and conditions of a deed poll to be executed by the Company ("Deed Poll");

THAT, approval be and is hereby given to the Board to allot and issue such number of new Hovid Shares credited as fully paid-up arising from the exercise of the Warrants during the exercise period of the Warrants in accordance with the terms of the Deed Poll;

THAT, such further new Hovid Shares to be issued arising from the exercisc of the Warrants shall upon allotment and issue, rank *pari passu* in all respects with the then existing issued and fully paid-up ordinary shares of RM0.10 each in the Company except that they shall not be entitled to any dividends, rights, allotments and/or other distributions that may be declared, made or paid prior to the relevant allotment date of the said new Hovid Shares;

THAT, the Board be and is hereby entitled to deal with all or any fractional entitlements of the Warrants that may arise from the Proposed Rights Issue of Warrants, in such manner as the Board deems fit and expedient in the best interest of the Company;

THAT, the Board be and is hereby authorised to do all acts and things as they may consider necessary or expedient in the best interest of the Company (including fixing the final exercise price of the Warrants) with full powers to assent to any conditions, modifications, variations and/or amendments as may be required, or imposed by the relevant authorities, and to take all steps and to enter into all such agreement, undertaking, indemnity, transfer, assignment and guarantee with any parties or persons and to carry out any other matters as may be required to implement, finalise and give full effect to and complete the Proposed Rights Issue of Warrants;

AND THAT, the Board be and is hereby authorised to enter into and execute the Deed Poll constituting the Warrants and to do all acts, deeds and things as it may deem fit or expedient in order to implement, finalise and give effect to the aforesaid Deed Poll."

CERTIFIED TRUE COPY



HO SUE SAN @ DAVID HO SUE SAN  
(Chairman and Managing Director)



NG JUET SEAM (MAICSA 7005639)  
(Secretary)

Dated: 18 February 2013  
cph

**1. HISTORY AND BUSINESS**

We were incorporated on 20 May 1980 under the name of Ho Yan Hor (Kausing Brand) Medical Hall Sdn Bhd. We 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. We were converted into a public company under our present name on 5 December 2003 and were listed on the Second Board of Bursa Securities on 5 April 2005. Subsequently, we transferred to the Main Board of Bursa Securities on 20 June 2006.

We are principally engaged in the manufacture of pharmaceutical and herbal products while the principal activities of our subsidiaries are set out in Section 6 of this Appendix.

**2. SHARE CAPITAL**

Our authorised share capital and the issued and paid-up share capital as at the LPD are as follows:

	<b>No. of Hovid Shares</b>	<b>Par value RM</b>	<b>Amount RM</b>
Authorised	2,000,000,000	0.10	200,000,000
Issued and fully paid-up	762,080,000	0.10	76,208,000

**3. CHANGES IN THE ISSUED AND PAID-UP SHARE CAPITAL**

There were no changes in the issued and paid-up share capital of Hovid for the last three (3) years up to the LPD.

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**

**4. SUBSTANTIAL SHAREHOLDERS**

The proforma effects of the Rights Issue of Warrants on the shareholdings of our substantial shareholders as at the LPD are set out as follows:

**Scenario 1 – Assuming all shareholders subscribe for their respective entitlements under the Rights Issue of Warrants**

	As at the LPD				(I) After the Rights Issue of Warrants			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
DHSS	313,041,400	41.08	-	-	313,041,400	41.08	-	-

	(II) After (I) and assuming full exercise of the Warrants			
	Direct		Indirect	
	No. of Shares	%	No. of Shares	%
DHSS	469,562,100	41.08	-	-

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

Scenario 2 – Assuming none of the Entitled Shareholders and their renounees subscribe for their entitlement under the Rights Issue of Warrants other than DHSS who subscribes for his entitlement under the Rights Issue of Warrants as well as the entire balance of the “open-portion” of Warrants which are not subscribed for by the other Entitled Shareholders and their renounees

	As at the LPD				(i) After the Rights Issue of Warrants			
	Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%
DHSS	313,041,400	41.08	-	-	313,041,400	41.08	-	-

	(ii) After (i) and assuming full exercise of the Warrants			
	Direct		Indirect	
	No. of Shares	%	No. of Shares	%
DHSS	694,081,400	60.72	-	-

**Note:**

(1) Based on the enlarged share capital of 1,143,120,000 Hovid Shares assuming full exercise of Warrants pursuant to the Undertaking.

THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

## INFORMATION ON HOVID (Cont'd)

## APPENDIX II

## 5. BOARD OF DIRECTORS

The particulars of our Directors are set out in the Corporate Information section of this Abridged Prospectus. The proforma effects of the Rights Issue of Warrants on the shareholdings of our Directors based on the Register of Directors' Shareholdings as at the LPD are set out as follows:

**Scenario 1 – Assuming all shareholders subscribe for their respective entitlements under the Rights Issue of Warrants**

	(i)				(ii)							
	Existing as at the LPD		After the Rights Issue of Warrants		After (i) and assuming full exercise of the Warrants		After (i) and assuming full exercise of the Warrants					
	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect				
No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%			
DHSS	313,041,400	41.08	-	-	313,041,400	41.08	-	-	469,562,100	41.08	-	-
Liong Kam Hon	7,895,360	1.04	-	-	7,895,360	1.04	-	-	11,843,040	1.04	-	-
Chuah Chaw Teo	-	-	-	-	-	-	-	-	-	-	-	-
Leong Kwok Yee	290,400	0.04	-	-	290,400	0.04	-	-	435,600	0.04	-	-
YM Raja Shamsul	-	-	-	-	-	-	-	-	-	-	-	-
Kamal Bin Raja	-	-	-	-	-	-	-	-	-	-	-	-
Shahrzaman	-	-	-	-	-	-	-	-	-	-	-	-
Dato' Che Mohd	-	-	-	-	-	-	-	-	-	-	-	-
Zin Bin Che Awang	-	-	-	-	-	-	-	-	-	-	-	-

## INFORMATION ON HOVID (Cont'd)

## APPENDIX II

Scenario 2 – Assuming none of the Entitled Shareholders and their renounees subscribe for their entitlement under the Rights Issue of Warrants other than DHSS who subscribes for his entitlement under the Rights Issue of Warrants as well as the entire balance of the “open-portion” of Warrants which are not subscribed for by the other Entitled Shareholders and their renounees

	Existing as at the LPD				(i) After the Rights Issue of Warrants				(ii) After (i) and assuming full exercise of the Warrants			
	Direct		Indirect		Direct		Indirect		Direct		Indirect	
	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	(1) %	No. of Shares	%
DHSS	313,041,400	41.08	-	-	313,041,400	41.08	-	-	694,081,400	60.72	-	-
Liong Kam Hon	7,895,360	1.04	-	-	7,895,360	1.04	-	-	7,895,360	0.69	-	-
Chuah Chaw Teo	-	-	-	-	-	-	-	-	-	-	-	-
Leong Kwok Yee	290,400	0.04	-	-	290,400	0.04	-	-	290,400	0.03	-	-
YM Raja Shamsul	-	-	-	-	-	-	-	-	-	-	-	-
Kamal Bin Raja	-	-	-	-	-	-	-	-	-	-	-	-
Shahrzaman	-	-	-	-	-	-	-	-	-	-	-	-
Dato' Che Mohd	-	-	-	-	-	-	-	-	-	-	-	-
Zin Bin Che Awang	-	-	-	-	-	-	-	-	-	-	-	-

**Note:**

(1) Based on the enlarged share capital of 1,143,120,000 Hovid Shares assuming full exercise of Warrants pursuant to the Undertaking.

## 6. SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Our subsidiaries as at the LPD are as follows:

Name of company	Date and place of incorporation	Issued and paid-up capital	Effective equity interest %	Principal activities
Hovid Pharmacy Sdn Bhd	16.06.1981 Malaysia	RM1,212,200	100.00	Trading of medical supplies and pharmaceutical products.
Hovid Inc.	22.03.2002 Philippines	PHP10,223,800	100.00	Trading of goods such as medical supplies, consumer goods, wholesale/importation and distribution of pharmaceutical products.
Hovid Marketing Sdn Bhd	12.02.1998 Malaysia	RM1,500,000	100.00	Marketing of health and wellness products via the multi-level network marketing direct interest model.
Javid Sdn Bhd	21.02.1997 Malaysia	RM100	100.00	Dealing in all kinds of pharmaceutical, medicated herbs and nutritional products. As at the LPD, the company is currently inactive.
Hovid Nutriworld Sdn Bhd	31.10.2005 Malaysia	RM250,000	100.00	Electronic commerce of pharmaceutical products.
Hovid Limited	16.03.2001 Hong Kong	HKD1,000,000	60.00	Trading of pharmaceutical products.
Hovid Life Science Pte Ltd	04.05.2006 India	INR100,000	100.00	Inactive.
Hovid International Limited	11.05.2007 British Virgin Islands	USD1,000	100.00	Inactive.

Name of company	Date and place of incorporation	Issued and paid-up capital	Effective equity interest %	Principal activities
Hovid Research Sdn Bhd	28.01.2008 Malaysia	RM100,000	100.00	Establishing, maintaining and operating laboratories and shops, for the purpose of carrying on chemical, physical and other research and developments in medicine, chemistry, industry and other unrelated or related fields.
Best Practice International Sdn. Bhd.	05.03.2009 Malaysia	RM2	100.00	The company has yet to commence business.
Agrovid S.A.S	11.08.2008 Republic of Colombia	COP2,413,000,000	92.83	Engaged in agro-industrial exploitation of productive species and cultivation and commercialisation of agriculture crops and livestock. As at the LPD, the company is currently inactive.
Biodeal Pharmaceuticals Private Limited	30.12.2005 India	INR250,000,000	51.00	Manufacturing of pharmaceutical and consumer products.
Hovid (Hong Kong) Limited	25.09.2012 Hong Kong	HKD1	100.00	Trading of pharmaceutical products. As at the LPD, the company is currently inactive.

As at the LPD, Hovid does not have any associate companies or jointly controlled entities.

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**



## 7. PROFIT RECORD

The summary of our audited consolidated financial results for the FYE 30 June 2010, FYE 30 June 2011, FYE 30 June 2012 and the unaudited consolidated financial results for the six (6)-month FPE 31 December 2012 are set out below:

	Audited			Unaudited
	FYE 30 June 2010 RM'000	FYE 30 June 2011 RM'000	FYE 30 June 2012 RM'000	Six (6)- month FPE 31 December 2012 RM'000
Revenue	365,166	153,456	164,808	86,011
Gross (loss)/profit	(22,371)	54,207	60,992	30,884
Other income	13,042	7,299	2,921	444
Operating (loss)/profit	(97,678)	6,936	31,362	16,061
Share of loss in an associate, net of tax	-	(9,108)	(9,106)	-
(Loss)/Earnings before interest, taxation, depreciation and amortisation	(57,894)	11,180	29,484	16,061
Add/(less):				
Finance costs	(17,512)	(6,551)	(3,193)	(1,365)
Finance income	861	1,561	1,647	-
Depreciation	(22,520)	(7,831)	(5,188)	(2,678)
Amortisation	(613)	(531)	(494)	(260)
(Loss)/Profit before tax	(97,678)	(2,172)	22,256	11,758
Income tax expense	6,883	(3,945)	(6,498)	(2,428)
<b>(Loss)/Profit attributable to:</b>				
Owners of the Company	(52,907)	(6,051)	15,682	9,149
Non-controlling interests	(37,888)	(66)	76	181
(LAT)/PAT	(90,795)	(6,117)	15,758	9,330
Gross (loss)/profit margin (%)	(6.13)	35.32	37.01	35.91
(LATNCI)/PATNCI margin (%)	(14.49)	(3.94)	9.52	10.64
No. of shares in issue ('000)	762,080	762,080	762,080	762,080
Weighted average number of shares:				
- Basic ('000)	762,080	762,080	762,080	762,080
- Diluted ('000)	1,143,120	1,143,120	1,143,120	1,143,120
(LPS)/EPS (sen)	(6.94)	(0.79)	2.06	1.20
Diluted net (LPS)/EPS (sen)	(4.63)	(0.53)	1.37	0.80
Gross dividend per share (sen)	-	-	4.50 <sup>(1)</sup>	-

**Note:**

- (1) On 23 December 2011, the Company paid a tax exempt dividend by way of dividend-in-specie on the basis of 25 ordinary share of RM0.10 each in Carotech Berhad ("**Carotech**") for every 100 ordinary shares held in the Company amounting to RM8,573,000 ("**Dividend-in-Specie**").

**FYE 30 JUNE 2010**

For the FYE 30 June 2010, the Group achieved revenue of RM365.2 million against RM248.6 million in the preceding financial year, representing a growth of about 46.9%. The growth was largely attributed to higher sales of biodiesel which arose from a full-year production capacity run at Carotech's Lumut facility, and the increased demand in phytonutrient products.

However, the Group suffered a LAT of RM90.8 million against a PAT of RM6.8 million in the previous financial year. The LAT was largely attributed to the allowance for slow moving inventories of RM97.7 million and impairment of plant and machineries of RM12.8 million in Carotech and its subsidiaries ("**Carotech Group**"), negated to some extent by an unrealised foreign exchange gain of RM13.0 million.

**FYE 30 JUNE 2011**

During the FYE 30 June 2011, Hovid disposed part of its quoted shares in Carotech. Arising from the disposals, Carotech ceased to be a subsidiary of the Hovid Group (the equity interest in Carotech was reduced from 58.19% to 38.45% in the FYE 30 June 2011).

Further, on 23 December 2011, subsequent to the completion of the Dividend-in-Specie, the interest in Carotech was further diluted from an associate to a simple investment.

The Group recorded revenue of RM153.5 million for the FYE 30 June 2011, a decrease of 58.0% or RM211.7 million compared to the revenue of RM365.2 million for the preceding financial year. The significant decrease arose from Carotech's revenue not being consolidated with effect from September 2010, when it was no longer a subsidiary of the Hovid Group. Carotech was a subsidiary of the Hovid Group until the end of August 2010 and became an associate company from September 2010 to 23 December 2011. Thereafter it became a simple investment in the books of Hovid. Accordingly, for the FYE 30 June 2011, the results of Carotech was consolidated for two (2) months as a subsidiary up to August 2010 and equity accounted for the rest of the financial year.

The Group suffered a LAT of RM6.1 million for the FYE 30 June 2011 against a LAT of RM90.8 million in the previous FYE. Although Carotech was no longer consolidated with the Hovid Group, as detailed above, the Group still reported a loss for the financial year largely due to the unfavourable results of the Carotech Group.

**FYE 30 JUNE 2012**

For the FYE 30 June 2012, the results of Carotech were equity accounted until 23 December 2011, which was the completion date of the Dividend-in-Specie.

During the FYE 30 June 2012, the Group achieved revenue of RM164.8 million, an increase of 7.4% compared to the revenue of RM153.5 million for the preceding FYE. The increase in revenue was due to the commissioning of additional production capacity during the fourth quarter to meet the increasing demand from customers.

Non-recurring gain in the current year amounted to RM3.8 million and it was made up of the reversal of impairment loss on receivables and gain from the deemed disposal of shares in Carotech pursuant to the Dividend-in-Specie net of the goodwill impairment in a subsidiary.

Taking into account the non-recurring items, the Group's PBT for the year was RM22.3 million, compared to a LBT of RM2.2 million in the previous financial year. PBT was higher for the FYE 30 June 2012 largely due to the higher revenue and also due to the fact that the results of Carotech were only equity accounted until 23 December 2011, which was the completion date of the Dividend-in-Specie, as compared to the previous financial year.

#### **SIX (6)-MONTH FPE 31 DECEMBER 2012 (Unaudited)**

For the six (6)-month FPE 31 December 2012, the Group achieved revenue of RM86.0 million against RM77.6 million in the preceding six (6)-month FPE 31 December 2011, representing a growth of about 10.8%. The increase in revenue was mainly due to the increased demand from customers.

The Group's PBT for the FPE 31 December 2012 was RM11.8 million, compared to a PBT of RM14.8 million in the previous corresponding financial period. Although there was an increase in revenue, PBT was lower for the six (6)-month FPE 31 December 2012 mainly due to a lower profit margin arising from increase in staff costs, operational expenses and promotional discounts given.

### **8. HISTORICAL SHARE PRICES**

The monthly highest and lowest market prices of Hovid Shares traded on Bursa Securities for the past twelve (12) months preceding the date of this Abridged Prospectus are as follows:

	<b>High RM</b>	<b>Low RM</b>
<b>2012</b>		
May	0.23	0.21
June	0.23	0.21
July	0.22	0.21
August	0.22	0.20
September	0.21	0.20
October	0.25	0.20
November	0.28	0.24
December	0.27	0.25
<b>2013</b>		
January	0.27	0.24
February	0.24	0.22
March	0.25	0.22
April	0.25	0.23
Last transacted price of Hovid Shares on 3 October 2012 ( <i>being the Market Day immediately prior to the announcement of the Rights Issue of Warrants</i> )		RM0.21
Last transacted price of Hovid Shares on the LPD		RM0.23
Last transacted price of Hovid Shares on 7 May 2013 ( <i>being the Market Day immediately prior to the ex-date in respect of the Rights Issue of Warrants</i> )		RM0.24

(*Source: Bloomberg*)

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF HOVID AS AT 30 JUNE 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON**



An instinct for growth™

**REPORTING ACCOUNTANTS' LETTER ON THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Prepared for inclusion in the Abridged Prospectus)

Date: 25 April 2013

The Board of Directors  
Hovid Berhad  
No.121, Jalan Tunku Abdul Rahman  
30010 Ipoh  
Perak Darul Ridzuan

**SJ Grant Thornton** (AF:0737)

Level 11 Sheraton Imperial Court  
Jalan Sultan Ismail  
50250 Kuala Lumpur, Malaysia

T +603 2692 4022

F +603 2691 5229

www.gt.com.my

Dear Sirs,

**HOVID BERHAD AND ITS SUBSIDIARIES  
PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2012**

We have reviewed the Proforma Consolidated Statements of Financial Position of Hovid Berhad ("Hovid" or "the Company") and its subsidiaries ("Hovid Group" or "the Group"), as at 30 June 2012 together with the accompanying notes thereto, for which the Board of Directors of Hovid is solely responsible as set out in the accompanying statement which we have stamped for the purpose of identification.

The Proforma Consolidated Statements of Financial Position have been prepared for illustrative purpose only for inclusion in the Abridged Prospectus to be dated 10 May 2013 in connection with the renounceable rights issue of 381,040,000 five (5) - year warrants ("Warrants") at an issue price of RM0.02 for each Warrant on the basis of one (1) Warrant for every two (2) existing ordinary shares of RM0.10 each held in Hovid ("Hovid Shares") ("Rights Issue of Warrants").

The Proforma Consolidated Statements of Financial Position, because of its nature, may not give a true picture of Hovid Group's actual financial position. Further, such information do not purport to predict Hovid Group's future financial position.

It is the sole responsibility of the Board of Directors of Hovid to prepare the Proforma Consolidated Statements of Financial Position for Hovid Group. Our responsibility is to form an opinion on the Proforma Consolidated Statements of Financial Position and our report is given to you solely for this and no other purpose.

In providing this opinion, we are not responsible in updating or refreshing any reports or opinions previously issued by us on any financial information used in the compilation of the Proforma Consolidated Statements of Financial Position, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the date of their issue.

Our work, which involved no independent examination of any of the underlying financial information, is primarily comparing the Proforma Consolidated Statements of Financial Position with the audited financial statements of Hovid Group as at 30 June 2012, considering the evidence supporting the adjustments and discussing the Proforma Consolidated Statements of Financial Position with the Directors of Hovid.

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF HOVID AS AT 30 JUNE 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

---



In our opinion, the Proforma Consolidated Statements of Financial Position together with the accompanying notes which are provided solely for illustrative purposes only,

- (a) have been properly compiled on a basis of preparation as stated in the notes thereto; such basis is consistent with the accounting policies normally adopted by the Hovid Group;
- (b) the adjustments are appropriate for the purposes of the Proforma Consolidated Statements of Financial Position; and
- (c) the audited financial statements used in the preparation of the Proforma Consolidated Statements of Financial Position were prepared in accordance with the approved Financial Reporting Standards as defined in the Financial Reporting Act 1997 and in a manner consistent with both the format of the financial statements and the accounting policies of Hovid Group.

This letter is not to be reproduced, referred to in any other document, or used or relied upon for any other purpose without our prior written consent.

Yours faithfully,

**SJ GRANT THORNTON**  
NO. AF: 0737  
CHARTERED ACCOUNTANTS

**NG CHEE HOONG**  
APPROVAL NO: 2278/10/14 (J)  
PARTNER OF THE FIRM

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF HOVID AS AT 30 JUNE 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

**HOVID BERHAD**  
**(Company No: 58476-A)**  
**(Incorporated in Malaysia)**  
**AND ITS SUBSIDIARIES**

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2012**

The Proforma Consolidated Statements of Financial Position of Hovid Group as at 30 June 2012 as set out below are provided for illustrative purposes only to show the effects of the Rights Issue of Warrants on the assumption that these transactions had been effected on that date and should be read in conjunction with the notes in this section:

	Note	Audited as at 30 June 2012 RM'000	Proforma I RM'000	Proforma II RM'000	Proforma III RM'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment		91,054	91,054	91,054	91,054
Intangible assets		19,663	19,663	19,663	19,663
Investment properties		1,680	1,680	1,680	1,680
Deferred tax assets		186	186	186	186
<b>Total non-current assets</b>		<b>112,583</b>	<b>112,583</b>	<b>112,583</b>	<b>112,583</b>
<b>Current assets</b>					
Inventories		29,543	29,543	29,543	29,543
Receivables, deposits and prepayments		44,843	44,843	44,843	44,843
Cash and deposits	3	23,207	23,207	30,278	98,865
<b>Total current assets</b>		<b>97,593</b>	<b>97,593</b>	<b>104,664</b>	<b>173,251</b>
<b>Total assets</b>		<b>210,176</b>	<b>210,176</b>	<b>217,247</b>	<b>285,834</b>
<b>Equity and Liabilities</b>					
<b>Equity</b>					
Share capital	4	76,208	76,208	76,208	114,312
Share premium	5	90	90	90	37,644
Exchange fluctuation reserve		(683)	(683)	(683)	(683)
Revaluation reserve		4,708	4,708	4,708	4,708
Warrant reserve	6	7,004	-	7,071	-
Retained earnings	7	19,459	26,463	26,463	26,463
<b>Total equity attributable to owners of the Company</b>		<b>106,786</b>	<b>106,786</b>	<b>113,857</b>	<b>182,444</b>
<b>Non-controlling interests</b>		<b>4,485</b>	<b>4,485</b>	<b>4,485</b>	<b>4,485</b>
<b>Total equity</b>		<b>111,271</b>	<b>111,271</b>	<b>118,342</b>	<b>186,929</b>

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF HOVID AS AT 30 JUNE 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

**HOVID BERHAD  
(Company No: 58476-A)  
(Incorporated in Malaysia)  
AND ITS SUBSIDIARIES**

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2012 (CONT'D)**

The Proforma Consolidated Statements of Financial Position of Hovid Group as at 30 June 2012 as set out below are provided for illustrative purposes only to show the effects of the Rights Issue of Warrants on the assumption that these transactions had been effected on that date and should be read in conjunction with the notes in this section:

	Audited as at 30 June 2012 RM'000	Proforma I RM'000	Proforma II RM'000	Proforma III RM'000
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Deferred tax liabilities	11,514	11,514	11,514	11,514
Provision for retirement benefits	1,385	1,385	1,385	1,385
Loans and borrowings	6,231	6,231	6,231	6,231
Long-term advances	6,041	6,041	6,041	6,041
<b>Total non-current liabilities</b>	<b>25,171</b>	<b>25,171</b>	<b>25,171</b>	<b>25,171</b>
<b>Current liabilities</b>				
Loans and borrowings	36,944	36,944	36,944	36,944
Payables and accruals	34,027	34,027	34,027	34,027
Tax payable	2,763	2,763	2,763	2,763
<b>Total current liabilities</b>	<b>73,734</b>	<b>73,734</b>	<b>73,734</b>	<b>73,734</b>
<b>Total liabilities</b>	<b>98,905</b>	<b>98,905</b>	<b>98,905</b>	<b>98,905</b>
<b>Total equity and liabilities</b>	<b>210,176</b>	<b>210,176</b>	<b>217,247</b>	<b>285,834</b>
Number of ordinary shares of RM0.10 each ('000)	762,080	762,080	762,080	1,143,120
Net assets per share attributable to owners of the Company (RM)	0.14	0.14	0.15	0.16

Stamped for the purpose of identification on:

**25 APR 2013**

SJ Grant Thornton

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF HOVID AS AT 30 JUNE 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

**HOVID BERHAD  
(Company No: 58476-A)  
(Incorporated in Malaysia)  
AND ITS SUBSIDIARIES**

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2012 (CONT'D)**

**NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**1. BASIS OF PREPARATION**

The Proforma Consolidated Statements of Financial Position have been prepared for illustrative purposes only show the effect of the transactions as mentioned in Note 2 below on the assumption that these transactions had been effected on that date and are based on the audited financial statements of Hovid Group as at 30 June 2012.

The Proforma Consolidated Statements of Financial Position of Hovid Group have been prepared based on the accounting policies adopted by the Group as disclosed in the audited financial statements for the financial year ended 30 June 2012.

**2. EFFECTS ON THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**2.1 Proforma I**

Proforma I incorporates the effect of Warrants 2008/2013 expired unexercised.

**2.2 Proforma II**

Proforma II incorporates the effect of the Proforma I and Rights Issue of Warrants.

The estimated expenses in relation to the Rights Issue of Warrants of RM550,000 will be debited into warrant reserve account.

**2.3 Proforma III**

Proforma III incorporates the effect of Proforma II and assuming full exercise of 381,040,000 Warrants at an indicative exercise price of RM0.18 per Warrant.

Stamped for the purpose of identification on:

**25 APR 2013**

**SJ Grant Thornton**



**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF HOVID AS AT 30 JUNE 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

**HOVID BERHAD  
(Company No: 58476-A)  
(Incorporated in Malaysia)  
AND ITS SUBSIDIARIES**

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2012 (CONT'D)**

**NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

**3. CASH AND DEPOSITS**

The movement of the cash and deposits is as follows:

	RM'000
Audited as at 30 June 2012	23,207
Non-exercise of Warrants 2008/2013	-
As per Proforma I	23,207
Proceeds from Rights Issue of Warrants	7,621
Estimated expenses pursuant to the Rights Issue of Warrants	(550)
As per Proforma II	30,278
Assuming full exercise of Warrants	68,587
As per Proforma III	98,865

**4. SHARE CAPITAL**

The movement of the issued and paid-up share capital is as follows:

	Number of shares '000	Amount RM'000
Audited as at 30 June 2012/As per Proforma I and II	762,080	76,208
Assuming full exercise of Warrants	381,040	38,104
As per Proforma III	1,143,120	114,312

Stamped for the purpose of identification on: <b>25 APR 2013</b> SJ Grant Thornton
--

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF HOVID AS AT 30 JUNE 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

**HOVID BERHAD  
(Company No: 58476-A)  
(Incorporated in Malaysia)  
AND ITS SUBSIDIARIES**

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2012 (CONT'D)**

**NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

**5. SHARE PREMIUM**

The movement of the share premium account is as follows:

	RM'000
Audited as at 30 June 2012	90
Non-exercise of Warrants 2008/2013	-
	<hr/>
As per Proforma I and II	90
Assuming full exercise of Warrants	37,554
	<hr/>
As per Proforma III	<u>37,644</u>

This is non-distributable reserve.

**6. WARRANT RESERVE**

The movement of the warrant reserve is as follows:

	RM'000
Audited as at 30 June 2012	7,004
Non-exercise of Warrants 2008/2013	
- Transfer to retained earnings account	<u>(7,004)</u>
As per Proforma 1	-
Proceeds from Rights Issue of Warrants	7,621
Estimated expenses for Rights Issue of Warrants	<u>(550)</u>
As per Proforma II	7,071
Assuming full exercise of Warrants	<u>(7,071)</u>
As per Proforma III	<u>-</u>

Stamped for the purpose of identification on:  
**25 APR 2013**  
SJ Grant Thornton

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF HOVID AS AT 30 JUNE 2012 TOGETHER WITH THE REPORTING ACCOUNTANTS' LETTER THEREON (Cont'd)**

**HOVID BERHAD  
(Company No: 58476-A)  
(Incorporated in Malaysia)  
AND ITS SUBSIDIARIES**

**PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2012 (CONT'D)**

**NOTES TO THE PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

**7. RETAINED EARNINGS**

The movement of the retained earnings are as follows:

	<b>RM'000</b>
Audited as at 30 June 2012	19,459
Non-exercise of Warrants 2008/2013	
- Transfer from warrant reserve account	<u>7,004</u>
As per Proforma I, II and III	<u><u>26,463</u></u>

**8. UTILISATION**

The utilisation proceeds from the Rights Issue of Warrants is in the following manner:

	<b>RM'000</b>
Working capital	7,071
Estimated expenses for the Rights Issue of Warrants	<u>550</u>
	<u><u>7,621</u></u>

Stamped for the purpose of identification on: <b>25 APR 2013</b> SJ Grant Thornton
--

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR  
ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON**

---

CERTIFIED TRUE COPY



.....  
NG CHEE HOONG  
*Partner*

**HOVID BERHAD**  
Company No: 58476-A  
(Incorporated in Malaysia)  
**and its subsidiaries**

**REPORTS AND FINANCIAL STATEMENTS**  
**30 JUNE 2012**

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**HOVID BERHAD**  
(Incorporated in Malaysia)  
and its subsidiaries

**DIRECTORS' REPORT**

The Directors have pleasure in submitting their report together with the audited financial statements of the Group and of the Company for the year ended 30 June 2012.

**PRINCIPAL ACTIVITIES**

The principal activity of the Company is the manufacture of pharmaceutical and herbal products. The principal activities of the subsidiaries are shown in Note 7. There have been no significant changes in the nature of these activities during the financial year.

**FINANCIAL RESULTS**

	<b>GROUP</b> RM'000	<b>COMPANY</b> RM'000
Profit for the year attributable to:		
Owners of the Company	15,682	13,046
Non-controlling interests	76	-
	<u>15,758</u>	<u>13,046</u>

**RESERVES AND PROVISIONS**

There were no material transfers to or from reserves or provisions during the financial year except as disclosed in the financial statements.

**DIVIDEND**

On 23 December 2011, the Company paid a tax exempt dividend by way of dividend-in-specie on the basis of 25 ordinary share of RM0.10 each in Carotech Berhad for every 100 ordinary shares held in the Company amounting to RM8,573,000.

The Directors do not recommend any final dividend payment for the financial year.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**DIRECTORS**

Directors who served since the date of the last report are:

Ho Sue San @ David Ho Sue San  
 Leong Kwok Yee  
 YM Raja Shamsul Kamal Bin Raja Shahruzzaman  
 Chuah Chaw Teo  
 Liong Kam Hon  
 Dato' Che Mohd Zin Bin Che Awang (appointed on 1 March 2012)

**DIRECTORS' INTERESTS**

The interests and deemed interests in the shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	<----- Number of ordinary shares of RM0.10 each ----->			
	Balance at 1.7.2011	Bought	Sold	Balance at 30.6.2012
<b>Shareholdings in Hovid Berhad (the Company)</b>				
<b>Direct interests:</b>				
Ho Sue San @ David Ho Sue San	336,439,880	-	-	336,439,880
Liong Kam Hon	7,895,360	-	-	7,895,360
Leong Kwok Yee	290,400	-	-	290,400

	<- *Number of warrants over ordinary shares of RM0.10 each ->			
	Balance at 1.7.2011	Bought	Sold	Balance at 30.6.2012
<b>Warrant holdings in Hovid Berhad (the Company)</b>				
<b>Direct interests:</b>				
Ho Sue San @ David Ho Sue San	198,925,400	-	-	198,925,400
Liong Kam Hon	3,947,680	-	-	3,947,680
Leong Kwok Yee	145,200	-	-	145,200

\* Each warrant carries the entitlement, at any time during the exercise period to subscribe for one new ordinary share at the exercise price, unless otherwise adjusted pursuant to the provisions of the Deed Poll.

None of the other Directors in office as at the end of the financial year had any interest in the shares of the Company or its related companies during and as at the end of the financial year.

By virtue of Ho Sue San @ David Ho Sue San's interest in the shares of the Company, he is also deemed interested in the shares of the subsidiaries during the financial year to the extent that the Company has an interest.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)****DIRECTORS' BENEFITS**

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, other than certain Directors who have significant financial interests in companies which traded with certain companies in the Group in the ordinary course of business as disclosed in Note 33.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

**ISSUE OF SHARES AND DEBENTURES**

There were no shares or debentures issued by the Company during the financial year.

**WARRANTS**

On 29 January 2008, the Company issued renounceable rights issue of 381,040,000 Warrants 2008/2013 ("Warrants") on the basis of one warrant for every two existing ordinary shares of RM0.10 each held in the Company at an issue price of RM0.02 per warrant, for cash of RM7,004,000, net of warrant issue expenses.

The Warrants are constituted by a Deed Poll, which was executed on 17 December 2007 ("Deed Poll").

The salient terms of the Warrants are as follows:

- (a) The issue date of the Warrants is 29 January 2008 and the expiry date is 28 January 2013. Any Warrants not exercised during the exercise period will lapse and cease to be valid for any purpose;
- (b) Each Warrant shall entitle the registered holder during the exercise period to subscribe for one new ordinary share of RM0.10 each in the Company at an exercise price of RM0.37 per warrant unless otherwise adjusted pursuant to the provisions of the Deed Poll; and
- (c) The new ordinary shares of RM0.10 each to be issued pursuant to the exercise of the Warrants shall upon allotment and issue, rank pari passu in all respects with the existing ordinary shares of RM0.10 each save and except that they will not be entitled to any rights, allotments, dividends and/or other distributions declared, where the entitlement date precedes the relevant dates of allotment of such ordinary shares of RM0.10 each.

No shares have been issued during the financial year by virtue of the exercise of Warrants to take up unissued shares of the Company. As of the end of the financial year, 381,040,000 warrants remained unexercised.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

---

**OPTIONS GRANTED OVER UNISSUED SHARES**

No options were granted to any person to take up unissued shares of the Company during the financial year.

**OTHER STATUTORY INFORMATION**

Before the Statements of Comprehensive Income and Statements of Financial Position of the Group and of the Company were made out, the Directors took reasonable steps:

- (i) to ascertain that action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
- (ii) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including their values as shown in the accounting records of the Group and of the Company have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

- (i) which would render the amounts written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent, or
- (ii) which would render the values attributed to the current assets in the financial statements of the Group and of the Company misleading, or
- (iii) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or
- (iv) not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements of the Group and of the Company misleading.

At the date of this report, there does not exist:

- (i) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liabilities of any other person, or
- (ii) any contingent liability of the Group and of the Company which has arisen since the end of the financial year.

In the opinion of the Directors:

- (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due;
- (ii) the results of operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and





**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**HOVID BERHAD**  
(Incorporated in Malaysia)

**and its subsidiaries**

**STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2012**

	Note	GROUP		COMPANY	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	4	91,054	91,618	58,317	55,690
Intangible assets	5	19,663	24,160	20,152	20,206
Investment properties	6	1,680	850	-	-
Investment in subsidiaries	7	-	-	15,885	21,139
Investment in an associate	8	-	14,033	-	14,033
Other investment	9	-	-	-	-
Deferred tax assets	10	186	125	-	-
<b>Total non-current assets</b>		<b>112,583</b>	<b>130,786</b>	<b>94,354</b>	<b>111,068</b>
<b>Current assets</b>					
Inventories	11	29,543	23,688	17,272	13,079
Receivables, deposits and prepayments	12	44,843	37,755	57,920	47,085
Cash and deposits	13	23,207	8,769	16,354	3,530
<b>Total current assets</b>		<b>97,593</b>	<b>70,212</b>	<b>91,546</b>	<b>63,694</b>
<b>Total assets</b>		<b>210,176</b>	<b>200,998</b>	<b>185,900</b>	<b>174,762</b>
<b>Equity and liabilities</b>					
<b>Equity</b>					
Share capital	14	76,208	76,208	76,208	76,208
Share premium	14	90	90	90	90
Reserves	14	11,029	11,672	11,346	11,346
Retained earnings	14	19,459	12,350	16,983	12,510
<b>Total equity attributable to owners of the Company</b>		<b>106,786</b>	<b>100,320</b>	<b>104,627</b>	<b>100,154</b>
<b>Non-controlling interests</b>		<b>4,485</b>	<b>5,180</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>		<b>111,271</b>	<b>105,500</b>	<b>104,627</b>	<b>100,154</b>

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2012 (continued)**

	Note	GROUP		COMPANY	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Deferred tax liabilities	10	11,514	11,346	10,553	9,832
Provision for retirement benefits	15	1,385	1,199	1,385	1,199
Loans and borrowings	16	6,231	10,576	3,732	6,230
Long-term advances	17	6,041	6,348	-	-
<b>Total non-current liabilities</b>		<u>25,171</u>	<u>29,469</u>	<u>15,670</u>	<u>17,261</u>
<b>Current liabilities</b>					
Loans and borrowings	16	36,944	39,027	34,000	35,048
Payables and accruals	18	34,027	25,262	28,806	20,344
Tax payable		2,763	1,740	2,797	1,955
<b>Total current liabilities</b>		<u>73,734</u>	<u>66,029</u>	<u>65,603</u>	<u>57,347</u>
<b>Total liabilities</b>		<u>98,905</u>	<u>95,498</u>	<u>81,273</u>	<u>74,608</u>
<b>Total equity and liabilities</b>		<u>210,176</u>	<u>200,998</u>	<u>185,900</u>	<u>174,762</u>

The notes on pages 17 to 96 are an integral part of these financial statements.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**HOVID BERHAD**  
(Incorporated in Malaysia)

and its subsidiaries

**STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2012**

	Note	GROUP		COMPANY	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Revenue	19	164,808	153,456	126,606	110,957
Advertisement and promotions		(4,481)	(2,972)	(3,149)	(1,700)
Amortisation of intangible assets	5	(494)	(531)	(494)	(527)
Changes in inventories of work-in-progress and finished goods		2,036	(3,159)	622	388
Depreciation of property, plant and equipment	4(i)	(5,188)	(7,831)	(3,592)	(3,613)
Finance costs	20	(3,193)	(6,551)	(2,213)	(2,905)
Finance income	21	1,647	1,561	3,330	3,009
Gain on deemed disposal of an associate		7,684	-	-	-
Gain on disposal of a subsidiary		-	6,576	-	-
Gain on distribution of dividend-in-specie		952	-	952	-
Impairment loss on investment in an associate		-	(1,422)	-	(10,524)
Impairment loss on investment in a subsidiary		-	-	(5,604)	-
Impairment loss on available-for-sale investment		(6,412)	-	(6,412)	-
Impairment loss on receivables		(306)	(22,163)	-	-
Impairment of goodwill	5	(4,212)	-	-	-
Inventories written down		(183)	(308)	(94)	(287)
Inventories written off		(763)	(533)	(471)	(438)
Other expenses		(9,754)	(9,197)	(12,296)	(12,487)
Other income		2,921	7,299	7,709	10,507
Purchase of trading goods		(5,847)	(5,648)	-	-
Raw materials and packing materials used		(57,794)	(51,126)	(56,483)	(49,804)
Research expenditure		-	153	-	-
Reversal of impairment loss on receivables		4,397	-	4,498	-
Reversal of impairment loss on investment in an associate		1,422	-	-	-
Sales commission		(1,718)	(1,576)	-	-
Staff costs		(39,072)	(34,124)	(22,818)	(18,018)
Transportation and freight charges		(3,238)	(3,428)	(1,520)	(1,502)
Upkeep, repair and maintenance expenses		(5,687)	(4,289)	(4,865)	(3,400)
Utilities and fuel		(6,163)	(7,251)	(4,485)	(4,198)
<b>Operating profit</b>		<b>31,362</b>	<b>6,936</b>	<b>19,221</b>	<b>15,458</b>
Share of loss in an associate, net of tax		(9,106)	(9,108)	-	-
<b>Profit/(Loss) before tax</b>	22	<b>22,256</b>	<b>(2,172)</b>	<b>19,221</b>	<b>15,458</b>
Income tax expense	23	(6,498)	(3,945)	(6,175)	(3,667)
<b>Profit/(Loss) for the year</b>		<b>15,758</b>	<b>(6,117)</b>	<b>13,046</b>	<b>11,791</b>

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012  
(continued)**

	Note	GROUP		COMPANY	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>Other comprehensive (loss)/ income, net of tax</b>					
Available-for-sale investment					
- fair value loss		(2,404)	-	(2,404)	-
- impairment loss reclassified to profit or loss		2,404	-	2,404	-
Foreign exchange reserve realised on strike-off of a subsidiary	(1)		-	-	-
Foreign exchange translation differences for foreign operations		(1,453)	(298)	-	-
Realisation of other comprehensive expense on disposal of an associate		32	-	-	-
Revaluation of property, plant and equipment upon transfer to investment properties		40	-	-	-
Revaluation surplus realised on disposal of a subsidiary		-	44	-	-
Share of other comprehensive loss of an associate		(32)	-	-	-
<b>Total other comprehensive loss for the year</b>		<u>(1,414)</u>	<u>(254)</u>	<u>-</u>	<u>-</u>
<b>Total comprehensive income/(loss) for the year</b>		<u>14,344</u>	<u>(6,371)</u>	<u>13,046</u>	<u>11,791</u>
<b>Profit/(Loss) attributable to:</b>					
Owners of the Company		15,682	(6,051)	13,046	11,791
Non-controlling interests		76	(66)	-	-
<b>Profit/(Loss) for the year</b>		<u>15,758</u>	<u>(6,117)</u>	<u>13,046</u>	<u>11,791</u>
<b>Total comprehensive income/(loss) attributable to:</b>					
Owners of the Company		15,039	(6,079)	13,046	11,791
Non-controlling interests		(695)	(292)	-	-
<b>Total comprehensive income/(loss) for the year</b>		<u>14,344</u>	<u>(6,371)</u>	<u>13,046</u>	<u>11,791</u>
<b>Earnings/(loss) per share</b>					
Basic earnings/(loss) per share (sen) 24		<u>2.06</u>	<u>(0.79)</u>		
Diluted earnings/(loss) per share (sen) 24		<u>1.37</u>	<u>(0.53)</u>		

The notes on pages 17 to 96 are an integral part of these financial statements.

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**HOVID BERHAD**  
(Incorporated in Malaysia)  
and its subsidiaries

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2012**

GROUP	Attributable to owners of the Company						Non-controlling interests RM'000	Total equity RM'000
	Share capital RM'000	Share premium RM'000	Reserves RM'000	Retained earnings RM'000	Total RM'000	Distributable		
At 1 July 2010, as previously reported	76,208	90	20,640	5,268	102,206	24,429	126,635	
Effect of adopting FRS 117	-	-	3,148	1,045	4,193	3,020	7,213	
<b>At 1 July 2010, restated</b>	<b>76,208</b>	<b>90</b>	<b>23,788</b>	<b>6,313</b>	<b>106,399</b>	<b>27,449</b>	<b>133,848</b>	
Foreign exchange translation differences for foreign operations	-	-	(72)	-	(72)	(226)	(298)	
Disposal of a subsidiary	-	-	(12,044)	12,088	44	-	44	
Total other comprehensive (loss)/income	-	-	(12,116)	12,088	(28)	(226)	(254)	
Loss for the year	-	-	-	(6,051)	(6,051)	(66)	(6,117)	
Total comprehensive (loss)/income	-	-	(12,116)	6,037	(6,079)	(292)	(6,371)	
Derecognition of non-controlling interests in a subsidiary disposed	-	-	-	-	-	(21,977)	(21,977)	
<b>At 30 June 2011</b>	<b>76,208</b>	<b>90</b>	<b>11,672</b>	<b>12,350</b>	<b>100,320</b>	<b>5,180</b>	<b>105,500</b>	
	Note 14.1	Note 14.2	Note 14.3					

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012 (continued)**

GROUP	Attributable to owners of the Company						Non-controlling interests RM'000	Total equity RM'000
	Share capital RM'000	Share premium RM'000	Reserves RM'000	Retained earnings RM'000	Total RM'000	Distributable		
At 1 July 2011	76,208	90	11,672	12,350	100,320	5,180	105,500	
Share of other comprehensive loss of an associate	-	-	(32)	-	(32)	-	(32)	
Realisation of other comprehensive loss on deemed disposal of an associate	-	-	32	-	32	-	32	
Foreign exchange reserve realised on strike-off of a subsidiary	-	-	(1)	-	(1)	-	(1)	
Foreign exchange translation differences for foreign operations	-	-	(682)	-	(682)	(771)	(1,453)	
Revaluation of property, plant and equipment upon transfer to investment properties	-	-	40	-	40	-	40	
Available-for-sale investment - fair value loss	-	-	(2,404)	-	(2,404)	-	(2,404)	
- impairment loss reclassified to profit or loss	-	-	2,404	-	2,404	-	2,404	
Total other comprehensive (loss)/income	-	-	(643)	15,682	(643)	(771)	(1,414)	
Profit for the year	-	-	-	-	15,682	76	15,758	
Total comprehensive (loss)/income	-	-	(643)	15,682	15,039	(695)	14,344	

11

61

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012 (continued)**

GROUP	Attributable to owners of the Company		Non-distributable		Non-controlling interests RM'000	Total equity RM'000
	Share capital RM'000	Share premium RM'000	Reserves RM'000	Retained earnings RM'000		
Total comprehensive (loss)/income	-	-	(643)	15,682	(695)	14,344
Transaction with owners:						
Dividend	-	-	-	(8,573)	-	(8,573)
<b>At 30 June 2012</b>	<b>76,208</b>	<b>90</b>	<b>11,029</b>	<b>19,459</b>	<b>4,485</b>	<b>111,271</b>
	Note 14.1	Note 14.2	Note 14.3			

The notes on pages 17 to 96 are an integral part of these financial statements.



**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012 (continued)**

COMPANY	← Non-distributable →			Distributable		
	Note	Share capital RM'000	Share premium RM'000	Reserves RM'000	Retained earnings RM'000	Total equity RM'000
At 1 July 2010		76,208	90	11,346	719	88,363
Total comprehensive income for the year		-	-	-	11,791	11,791
At 30 June 2011/ 1 July 2011		76,208	90	11,346	12,510	100,154
Total comprehensive income for the year		-	-	-	13,046	13,046
<i>Transaction with owners:</i>						
Dividend	25	-	-	-	(8,573)	(8,573)
At 30 June 2012		76,208	90	11,346	16,983	104,627
		Note 14.1	Note 14.2	Note 14.3	Note 14.4	

The notes on pages 17 to 96 are an integral part of these financial statements.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**HOVID BERHAD**  
(Incorporated in Malaysia)  
and its subsidiaries

**STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012**

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>Cash flows from operating activities</b>				
Profit/(Loss) before tax	22,256	(2,172)	19,221	15,458
Adjustments for:				
Amortisation of intangible assets	494	531	494	527
Changes in fair value of investment properties	(150)	-	-	-
Bad debts written off	-	31	-	5
Defined benefit plan expenses for a Director	186	24	186	24
Depreciation of property, plant and equipment	5,188	7,831	3,592	3,613
Gain on disposal of property, plant and equipment	(30)	(236)	-	-
Gain on deemed disposal of an associate	(7,684)	-	-	-
Gain on disposal of a subsidiary	-	(6,576)	-	-
Gain on distribution of dividend-in-specie	(952)	-	(952)	-
Impairment loss on investment in an associate	-	1,422	-	10,524
Impairment loss on investment in a subsidiary	-	-	5,604	-
Impairment loss on available-for-sale investment	6,412	-	6,412	-
Impairment loss for goodwill	4,212	-	-	-
Impairment loss on receivables	306	22,163	-	-
Interest expense	3,193	6,551	2,213	2,905
Interest income	(1,647)	(1,561)	(3,330)	(3,009)
Inventories written down	183	308	94	287
Inventories written off	763	533	471	438
Product development expenditure written off	2,226	3,573	2,226	3,573
Property, plant and equipment written off	35	305	2	246
Preliminary expenses written off	-	1	-	-
Revaluation surplus realised on disposal of a subsidiary	-	44	-	-
Reversal of impairment loss on investment in an associate	(1,422)	-	-	-
Reversal of impairment loss on receivables	(4,397)	(91)	(4,498)	(68)
Unrealised loss/(gain) on foreign exchange	152	(5,205)	152	-
Share of loss in an associate, net of tax	9,106	9,108	-	-
<b>Operating profit before changes in working capital</b>	<b>38,430</b>	<b>36,584</b>	<b>31,887</b>	<b>34,523</b>
Change in inventories	(6,801)	218	(4,758)	(3,689)
Change in receivables, deposits and prepayments	(3,546)	2,829	(1,563)	(213)
Change in payables and accruals	7,679	(1,269)	8,127	2,468
Inter-company balances	-	-	(7,345)	(2,141)
Bankers' acceptance	(2,091)	(20,183)	(956)	(6,824)
<b>Cash generated from operations</b>	<b>33,671</b>	<b>18,179</b>	<b>25,392</b>	<b>24,124</b>
Tax paid	(4,779)	(3,827)	(4,612)	(3,860)
<b>Net cash from operating activities</b>	<b>28,892</b>	<b>14,352</b>	<b>20,780</b>	<b>20,264</b>

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012 (continued)**

	Note	GROUP		COMPANY	
		2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment	(i)	(7,691)	(3,284)	(6,745)	(2,749)
Repayments from/(Advances to) an associate		516	(516)	516	(516)
Repayments from/(Advances to) subsidiaries		-	-	1,014	(520)
Additional investment in a subsidiary		-	(117)	-	(117)
Disposal of a subsidiary, net of cash	27	-	31,602	-	-
Dividend income from subsidiaries		-	-	-	4,655
Interest received		1,647	3,083	3,330	3,009
Proceeds from disposals of property, plant and equipment		89	346	1,075	192
Proceeds from disposal of shares in a subsidiary		-	-	-	5,600
Proceeds from disposal of shares in an associate		-	7,000	-	7,000
Product development expenditure incurred		(2,435)	(3,100)	(2,666)	(3,353)
<b>Net cash (used in)/from investing activities</b>		<b>(7,874)</b>	<b>35,014</b>	<b>(3,476)</b>	<b>13,201</b>
<b>Cash flows from financing activities</b>					
Advances from/(Repayments to) subsidiaries		-	-	316	(6,641)
Interest paid		(2,737)	(7,614)	(2,193)	(2,866)
Withdrawal/(Placement) of pledged deposits with licensed banks		309	(546)	291	(518)
Repayments of finance lease liabilities		(2,216)	(2,778)	(2,068)	(2,536)
Repayments of term loans		(3,334)	(20,770)	(1,907)	(19,309)
Drawdown on term loans		-	2,600	-	-
<b>Net cash used in financing activities</b>		<b>(7,978)</b>	<b>(29,108)</b>	<b>(5,561)</b>	<b>(31,870)</b>
<b>Cash and cash equivalents</b>					
Change in cash and cash equivalents		13,040	20,258	11,743	1,595
Effect of exchange rates fluctuation on cash held		273	3	-	-
At 1 July	(ii)	1,776	(18,485)	(2,060)	(3,655)
<b>At 30 June</b>	(ii)	<b>15,089</b>	<b>1,776</b>	<b>9,683</b>	<b>(2,060)</b>

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012 (continued)**

**NOTE TO THE STATEMENTS OF CASH FLOWS**

**(i) Acquisition of property, plant and equipment**

Analysis of acquisition of property, plant and equipment:

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Finance lease liabilities	231	198	-	-
Changes in other payables	514	133	514	133
Acquisition from a related company	-	-	37	-
Cash outright acquisition	7,691	3,284	6,745	2,749
	<u>8,436</u>	<u>3,615</u>	<u>7,296</u>	<u>2,882</u>

**(ii) Cash and cash equivalents**

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

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash and bank balances	22,622	7,872	15,776	2,661
Bank overdrafts	(7,533)	(6,096)	(6,093)	(4,721)
	<u>15,089</u>	<u>1,776</u>	<u>9,683</u>	<u>(2,060)</u>

The notes on pages 17 to 96 are an integral part of these financial statements.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (*Cont'd*)**

**HOVID BERHAD**  
(Incorporated in Malaysia)

and its subsidiaries

**NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 2012**

**1. GENERAL INFORMATION**

Hovid Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of the Bursa Malaysia Securities Berhad. The principal place of business and registered office of the Company is as follows:

**Registered office/Principal place of business**

No. 121, Jalan Tunku Abdul Rahman  
30010 Ipoh  
Perak Darul Ridzuan, Malaysia.

The consolidated financial statements of the Company as at and for the year ended 30 June 2012 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities").

The Company is principally engaged in the manufacture of pharmaceutical and herbal products. The principal activities of the subsidiaries are shown in Note 7.

There have been no significant changes in the nature of these activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Board of Directors on 15 October 2012.

**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards ("FRSs") and the Companies Act, 1965 in Malaysia. The financial statements also comply with the applicable disclosure provisions of the Main Market Listing Requirements of the Bursa Malaysia Securities Berhad.

The Group and the Company have not applied the following FRSs, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the Group and the Company:

***Effective for annual periods beginning on or after 1 January 2012***

- FRS 1, *First-time Adoption of Financial Reporting Standards*  
- *Amendments relating to Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- FRS 7, *Financial Instruments: Disclosures*  
- *Amendments relating to Transfer of Financial Assets*
- FRS 112, *Income Taxes*  
- *Amendments relating to Deferred Tax: Recovery of Underlying Assets*
- FRS 124, *Related Party Disclosures* (revised)

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**2. BASIS OF PREPARATION (continued)**

**(a) Statement of compliance (continued)**

*Effective for annual periods beginning on or after 1 March 2012*

- FRS 7, *Financial Instruments: Disclosures*  
- *Amendments relating to Mandatory Effective Date of FRS 9 and Transition Disclosure*

*Effective for annual periods beginning on or after 1 July 2012*

- FRS 101, *Presentation of Financial Statements* (revised)  
- *Amendments relating to Presentation of Items of Other Comprehensive Income*

*Effective for annual periods beginning on or after 1 January 2013*

- FRS 1, *First-time Adoption of Financial Reporting Standards*  
- *Amendments relating to Government Loans and Improvements to FRSs*
- FRS 7, *Financial Instruments: Disclosures*  
- *Amendments relating to Offsetting Financial Assets and Financial Liabilities*
- FRS 10, *Consolidated Financial Statements*
- FRS 11, *Joint Arrangements*
- FRS 12, *Disclosure of Interests in Other Entities*
- FRS 13, *Fair Value Measurement*
- FRS 101, *Presentation of Financial Statements*  
- *Improvements to FRSs*
- FRS 116, *Property, Plant and Equipment*  
- *Improvements to FRSs*
- FRS 119, *Employee Benefits* (as amended in November 2011)
- FRS 127, *Separate Financial Statements* (as amended in November 2011)
- FRS 128, *Investments in Associates and Joint Ventures*
- Amendments to FRS 132, *Financial Instruments: Presentation*  
- *Improvements to FRSs*
- FRS 134, *Interim Financial Reporting*  
- *Improvements to FRSs*
- IC Interpretation 2, *Members' Shares in Co-operative Entities and Similar Instruments*  
- *Improvements to FRSs*
- IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*

*Effective for annual periods beginning on or after 1 January 2014*

- FRS 132, *Financial Instruments: Presentation*  
- *Amendments relating to Offsetting Financial Assets and Financial Liabilities*
- IC Interpretation 15, *Agreements for the Construction of Real Estate*

*Effective for annual periods beginning on or after 1 January 2015*

- FRS 9, *Financial Instruments* (International Financial Reporting Standards ("IFRS") 9 issued by the International Accounting Standards Board ("IASB") in November 2009 and October 2010)

The financial statements of the Group and of the Company for annual period beginning on 1 July 2012 will be prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS") issued by the MASB. As a result, the Group and the Company will not be adopting the above FRSs, amendments and interpretations.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)****2. BASIS OF PREPARATION (continued)****(a) Statement of compliance (continued)****MFRS**

On 19 November 2011, the MASB issued a new MASB approved accounting framework, the MFRS Framework in conjunction with its planned convergence of FRS with IFRS as issued by the IASB in 2012.

The MFRS Framework is a fully IFRS-compliant framework, equivalent to IFRSs which is mandatory for adoption by all entities other than private entities for financial periods beginning on or after 1 January 2012, with the exception for Transitioning Entities.

Transitioning Entities, being entities which are subject to the application of MFRS 141, *Agriculture* and/or IC Interpretation 15, *Agreements for the Construction of Real Estate* including a parent, significant investor and venture of such transitioning entities are given an option to defer adoption of the MFRS Framework for an additional two years. Transitioning Entities also includes those entities that consolidates, equity accounts or proportionately consolidates an entity that has chosen to continue to apply the FRS Framework for annual periods beginning on or after 1 January 2012.

Accordingly, the Group and the Company which are not Transitioning Entities will be required to apply MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards* ("MFRS 1") in their financial statements for the financial year ending 30 June 2013, being the first set of financial statements prepared in accordance with the new MFRS Framework.

The Group and the Company are currently assessing the impact of adoption of MFRS 1, including identification of the differences in existing accounting policies as compared to the new MFRSs and the use of optional exemptions as provided for in MFRS 1. As at the date of authorisation of issue of the financial statements, accounting policy decisions or elections have not been finalised. Thus, the impact of adopting the new MFRS Framework on the Group's and the Company's first set of financial statements prepared in accordance with the MFRS Framework cannot be determined and estimated reliably until the process is complete. Accordingly, the financial performance and financial position as disclosed in these financial statements for the financial year ended 30 June 2012 could be different if prepared under MFRS Framework.

**(b) Basis of measurement**

The financial statements of the Group and of the Company have been prepared on the historical cost basis, unless otherwise indicated in the summary of significant accounting policies.

**(c) Functional and presentation currency**

The financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)****2. BASIS OF PREPARATION (continued)****(d) Use of estimates and judgements**

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

The Group and the Company make estimates assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated by the Directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

**Useful lives of depreciable assets**

Property, plant and equipment are depreciated on a reducing balance basis over their estimated useful lives. Management estimates the useful lives of the property, plant and equipment to be within 5 to 999 years and reviews the useful lives of depreciable assets at each end of the reporting period. At 30 June 2012 management assesses that the useful lives represent the expected utility of the assets to the Group. Actual results, however, may vary due to change in the expected level of usage and technological developments, which may result in the adjustment to the Group's assets.

The carrying amount of the Group's property, plant and equipment at the end of the reporting period is disclosed in Note 4.

Management expects that the expected useful lives of the property, plant and equipment would not have material difference from the management's estimates and hence it would not result in material variance in the Group's profit for the financial year.

**Impairment of intangible assets**

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Group's assets within the next financial year.



**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)****2. BASIS OF PREPARATION (continued)****(d) Use of estimates and judgements (continued)****Estimation uncertainty (continued)****Impairment of intangible assets (continued)**

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

The Group has incurred an impairment loss of RM4,212,000 (2011: Nil) on goodwill in order to reduce the carrying amount of goodwill to its recoverable amount.

Further details of the carrying values, key assumptions applied in the impairment assessment of intangible assets and the assumptions are disclosed in Note 5.

**Inventories**

Inventories are measured at the lower of cost and net realisable value. In estimating net realisable values, management takes into account the most reliable evidence available at the times the estimates are made.

The carrying amount of the Group's inventories at the end of the reporting period is disclosed in Note 11.

Management expects that the expected estimation of net realisable values of inventories would not have material difference from the management's estimates and hence it would not result in material variance in the Group's profit for the financial year.

**Impairment of loans and receivables**

The Group assesses at each end of the reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience of assets with similar credit risk characteristics.

Management expects that the expected carrying amount of loans and receivables would not have material difference from the management's estimates and hence it would not result in material variance in the Group's profit for the financial year.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)****2. BASIS OF PREPARATION (continued)****(d) Use of estimates and judgements (continued)****Estimation uncertainty (continued)**Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which all the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Assumptions about generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volume, operating costs, capital expenditure, dividends and other capital management transactions. Judgement is also required about application of income tax legislation. These judgements and assumptions are subject to risks and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised in the Statement of Financial Position and the amount of unrecognised tax losses and unrecognised temporary differences.

Defined benefit liability

Management estimates the defined benefit liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of its defined benefit liability of RM1,385,000 (2011: RM1,199,000) is based on standard rates of inflation and medical cost trends. It also takes into account the Group's specific anticipation of future salary increases. Discount factors are determined close to each year end by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Estimation uncertainties exist particularly with regard to medical cost trends, which may vary significantly in future appraisals of the Group's defined benefit obligations.

The assumptions and model used for estimating fair value for defined benefit liability and the carrying amounts are disclosed in Note 15.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**2. BASIS OF PREPARATION (continued)**

**(d) Use of estimates and judgements (continued)**

**Significant management judgement**

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the financial statements.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. The Group accounts for the portions separately if the portions could be sold separately (or leased out separately under a finance lease). If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Leases

In applying the classification of leases in FRS 117, management considers it leases of plant, machinery and electrical equipment as well as motor vehicles as finance lease arrangements. In some cases, the lease transaction is not always conclusive, and management uses judgement in determining whether the lease is a finance lease arrangement that transfers substantively all the risks and rewards incidental to ownership.

Available-for-sale investment

The Group reviews its debt securities classified as available-for-sale investment at each end of the reporting period to assess whether they are impaired. The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost. During the financial year, the Group fully impaired unquoted equity instruments with significant decline in fair value.

For the financial year ended 30 June 2012, the amount of impairment loss recognised for available-for-sale investment was RM6,412,000.

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(a) Basis of consolidation**

**(i) Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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

The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Group.

**(ii) Accounting for business combinations**

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

*Acquisitions on or after 1 July 2010*

For acquisitions on or after 1 July 2010, the Group measures goodwill at the acquisition date as:

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

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

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

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

*Acquisitions between 1 July 2006 and 30 June 2010*

For acquisitions between 1 July 2006 and 30 June 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(a) Basis of consolidation (continued)****(ii) Accounting for business combinations (continued)***Acquisitions between 1 July 2006 and 30 June 2010 (continued)*

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

*Acquisitions prior to 1 July 2006*

For acquisitions prior to 1 July 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities.

Under the acquisition method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

**(iii) Non-controlling interests**

Non-controlling interests at the end of the reporting period, being the portion of the net identifiable assets of subsidiaries attributable to equity. Interest that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of comprehensive income as an allocation of the comprehensive income for the year between non-controlling interests and the owners of the Company.

Where losses applicable to the non-controlling interests exceed their interest in the equity of a subsidiary, the excess, and any further losses applicable to the non-controlling interest, are charged against the Group's interest except to the extent that the non-controlling interests have a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the non-controlling interests' share of losses previously absorbed by the Group has been recovered.

**(iv) Changes in ownership interests in subsidiaries without change in control**

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(a) Basis of consolidation (continued)****(v) Loss of control**

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

**(vi) Associates**

Associates are entities in which the Group has significant influence, but not control, over the financial and operating policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method less any impairment losses unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity accounted associates after adjustments, if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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

**(vii) Transactions eliminated on consolidation**

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

Unrealised gains arising from transaction with equity accounted associates are eliminated against the investment to the extent of the Group's interest in the associates. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (*Cont'd*)**

**3. SIGNIFICANT ACCOUNTING POLICIES (*continued*)**

**(b) Foreign currencies**

**(i) Transactions and balances**

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

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

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

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

**(ii) Operations denominated in functional currencies other than RM**

Assets and liabilities of the foreign operations are translated into RM using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during the year, in which case the exchange rates at the date of the transactions are used. Exchange differences arising, if any are recognised in other comprehensive income and accumulated in the translation reserve of the Group. Such exchange differences are recognised in profit or loss in the year in which the foreign operations are disposed of.

**(c) Financial instruments**

**(i) Initial recognition and measurement**

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

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

**(ii) Financial instrument categories and subsequent measurement**

The Group and the Company categorise financial instruments as follows:

***Financial assets***

***Loans and receivables***

Loans and receivables comprises debt instruments that are not quoted in an active market, trade and other receivables and cash and deposits.

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

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(c) Financial instruments (continued)****(ii) Financial instrument categories and subsequent measurement (continued)***Financial assets (continued)**Loans and receivables (continued)*

All financial assets except for those measured at fair value through profit or loss, are subject to review for impairment (Note 3(j)(i)).

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. All available-for-sale financial assets are measured at fair value at the end of the reporting period. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the fair value reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in the profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gains or losses previously accumulated in the fair value reserve is reclassified to the profit or loss.

*Financial liabilities*

Financial liabilities of the Group and of the Company, including borrowings are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

**(iii) Derecognition**

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

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



**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(d) Property, plant and equipment****(i) Recognition and measurement**

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

The Group revalues its property comprising of land and building every 5 years and whenever the fair value of the revalued asset is expected to differ materially from its carrying value.

Surpluses arising from revaluation are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is recognised in profit or loss.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the Group's accounting policy on borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other income" or "other expenses" respectively in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(d) Property, plant and equipment (continued)**

**(ii) Subsequent costs**

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

**(iii) Depreciation**

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

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

• Leasehold land	Over the lease term from 60 to 999 years
• Buildings	2%-10%
• Plant, machinery and electrical equipment	4%-20%
• Motor vehicles	20%
• Furniture, fittings, office, laboratory and factory equipment, electrical installation and renovation	10%-20%

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

**(e) Leased assets**

**(i) Finance lease**

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

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

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

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(e) Leased assets****(ii) Operating lease**

Leases, where the Group do not assume substantially all the risks and rewards of ownerships are classified as operating leases and the leased assets are not recognised on the statement of financial position under operating lease. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property.

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

**(f) Intangible assets****(i) Goodwill**

Goodwill arises on business combinations is measured at cost less any accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

**(ii) Product development expenditure**

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

Expenditure on development activities, whereby research findings are applied to a plan and design for the production of new or substantially improved products and processes, is capitalised if the product and process are technically and commercially feasible and the Group has sufficient resources to complete development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the statements of comprehensive income as an expense as incurred. Capitalised development expenditure is stated at cost less any accumulated amortisation and any impairment losses.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(f) Intangible assets (continued)**

**(iii) Other intangible assets**

Intangible assets, other than goodwill, that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in the profit or loss as an expense as incurred.

**(iv) Subsequent expenditure**

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

**(v) Amortisation**

Goodwill and intangible assets with indefinite useful lives are not amortised but are tested for impairment annually and whenever there is an indication that they may be impaired.

Other intangible assets such as capitalised development expenditure and trademarks are amortised from the date of production commences. Amortisation of intangible assets is recognised in profit or loss on a straight-line basis over the estimated useful life of 20 years.

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

**(g) Investment properties**

**(i) Investment properties carried at fair value**

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. These include land held for a currently undetermined future use. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or loss for the period in which they arise.

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

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) Investment properties (continued)**

**(ii) Reclassification to/from investment property**

When an item of property, plant and equipment is transferred to investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised in other comprehensive income and accumulated in equity as revaluation reserve. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in profit or loss. Upon disposal of an investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment or inventories, its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

**(iii) Determination of fair value**

An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio every year.

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

**(h) Inventories**

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

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

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

**(i) Cash and cash equivalents**

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

Cash and cash equivalents (other than bank overdrafts) are categorised and measured as loans and receivables in accordance with policy Note 3(c).

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(j) Impairment****(i) Financial assets**

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

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognised, the impairment previously recognised is reversed, to the extent that the asset's carrying amount does not exceed its amortised cost at the reversal date. The amount of the reversal is recognised in profit or loss.

**(ii) Non-financial assets**

The carrying amounts of non-financial assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment.

If any such indication exists, then the asset's recoverable amount is estimated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

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

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

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(j) Impairment (continued)****(ii) Non-financial assets (continued)**

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

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

**(k) Equity instruments**

All equity instruments are stated at cost on initial recognition and are not re-measured subsequently.

**(i) Issue expenses**

Costs directly attributable to issue of equity instruments are recognised as a deduction from equity.

**(ii) Repurchase of share capital**

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity and is not revalued for subsequent changes in the fair value or market price of shares. Repurchased shares that are not subsequently cancelled are classified as treasury shares and are presented as a deduction from total equity.

**(iii) Dividend payments**

The distribution of non-cash assets to owners is recognised as dividend payable when the dividend was approved by shareholders. The dividend payable is measured at the fair value of the shares to be distributed. At the end of the financial year and on the settlement date, the Company reviews the carrying amount of the dividend payable, with any changes in the fair value of the dividend payable recognised in equity. When the Company settles the dividend payable, the difference between the carrying amount of the dividend distributed and the carrying amount of the dividend payable is recognised as a separate line item in profit or loss.

All transactions with owners of the parent are recorded separately within equity.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(l) Employee benefits**

**(i) Short-term employee benefits**

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

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

**(ii) Defined contribution plans**

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

**(iii) Defined benefits plan**

The liability in respect of a defined benefit plan is the present value of the defined benefit obligations at the statement of financial position date, together with adjustments for actuarial gains/losses and past service cost. The Company determines the present value of the defined benefit obligation with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of the reporting date.

The defined benefit obligation, calculated using the projected unit credit method, is determined by independent actuaries, considering the estimated future cash outflows using market yields at statement of financial position date of government securities which have currency and terms to maturity approximating the terms of the related liability.

Actuarial gains and losses arise from experience adjustments and changes in actuarial assumptions. The amount of net actuarial gains and losses is charged or credited to the statement of comprehensive income over the average remaining service lives of the related employee participating in the unfunded retirement benefit plan.

Insurance policies are used to fund the retirement benefit plan. These insurance policies are non-qualifying insurance policies where the right to reimbursement under insurance policies is treated as a separate asset. In the statement of comprehensive income, the expense relating to a defined benefit plan is presented net of amount recognised for a reimbursement.

**(m) Provisions and contingent liabilities**

**(i) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of discount is recognised as finance cost.



**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(m) Provisions and contingent liabilities (continued)****(ii) Contingent liabilities**

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(n) Revenue and other income****(i) Goods sold**

Revenue from the sale of goods is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

**(ii) Services**

Revenue from services is recognised upon services rendered.

**(iii) Rental income**

Rental income from investment property is recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

**(iv) Dividend income**

Dividend income is recognised in profit or loss when the right to receive payment is established.

**(v) Interest income**

Interest income is recognised as it accrues, using the effective interest method in profit or loss.

**(o) Borrowing costs**

All borrowing costs are recognised in profit or loss using the effective interest method, in the period in which they are incurred except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to be prepared for its intended use.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(o) Borrowing costs (continued)**

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

**(p) Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or other comprehensive income.

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

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (tax loss). Deferred tax is measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting date.

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

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

**(q) Earnings per share**

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)****3. SIGNIFICANT ACCOUNTING POLICIES (continued)****(r) Operating segment**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the Board of Directors of the Group, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

**(s) Related parties**

A related party is a person or entity that is related to the Group. A related party transaction is a transfer of resources, services or obligations between the Group and its related party, regardless of whether a price is charged.

(i) A person or a close member of that person's family is related to the Group if that person:

- (a) Has control or joint control over the Group;
- (b) Has significant influence over the Group; or
- (c) Is a member of the key management personnel of the ultimate holding company of the Group, or the Group.

(ii) An entity is related to the Group if any of the following conditions applies:

- (a) The entity and the Group are members of the same group.
- (b) One entity is an associate or joint venture of the other entity.
- (c) Both entities are joint ventures of the same third party.
- (d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (e) The entity is a post-employment benefit plan for the benefits of employees of either the Group or an entity related to the Group.
- (f) The entity is controlled or jointly-controlled by a person identified in (i) above.
- (g) A person identified in (i)(a) above has significant influence over the Group or is a member of the key management personnel of the ultimate holding company or the Group.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**4. PROPERTY, PLANT AND EQUIPMENT**

GROUP	Plant, machinery and electrical equipment		Motor vehicles	Furniture, fittings, office, laboratory and factory equipment, electrical installation and renovation		Capital work-in- progress	Total
	Land and buildings (Note 4.1)						
Cost/Valuation	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July 2010	115,128	336,214	5,854	28,806	20,955	506,957	
Disposal of a subsidiary	(69,959)	(279,592)	(825)	(3,491)	(18,941)	(372,808)	
Additions	125	542	219	737	1,992	3,615	
Transfer	1,282	1,023	-	224	(2,529)	-	
Write off	(4)	(467)	-	(923)	-	(1,394)	
Disposals	-	(18)	(295)	(66)	-	(379)	
Exchange differences	(238)	(758)	(13)	(49)	-	(1,058)	
At 30 June 2011/1 July 2011	46,334	56,944	4,940	25,238	1,477	134,933	
Additions	1,019	5,325	548	1,410	134	8,436	
Transfer	503	(6)	-	34	(531)	-	
Transfer to investment properties							
- Transfer of carrying amount	(680)	-	-	-	-	(680)	
- Revaluation of property transferred	40	-	-	-	-	40	
Write off	-	(5)	-	(88)	-	(93)	
Disposals	-	(67)	(286)	(2)	-	(355)	
Exchange differences	(766)	(2,798)	10	(146)	-	(3,700)	
At 30 June 2012	46,450	59,393	5,212	26,446	1,080	138,581	
<b>Representing items at:</b>							
Cost	17,037	59,393	5,212	26,446	1,080	109,168	
Valuation	29,413	-	-	-	-	29,413	
	46,450	59,393	5,212	26,446	1,080	138,581	

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**4. PROPERTY, PLANT AND EQUIPMENT (continued)**

GROUP	Plant, machinery and electrical equipment		Motor vehicles	Furniture, fittings, office, laboratory and factory equipment, electrical installation and renovation		Capital work-in- progress	Total
	Land and buildings (Note 4.1)	Land and buildings (Note 4.1)		RM'000	RM'000		
Accumulated depreciation/ impairment losses	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>At 1 July 2010</b>							
Accumulated depreciation	3,547	77,133	3,275	13,138	-	-	97,093
Accumulated impairment losses	-	110	-	9	12,754	-	12,873
	3,547	77,243	3,275	13,147	12,754	-	109,966
Disposal of a subsidiary	(2,861)	(54,829)	(500)	(2,189)	(12,754)	-	(73,133)
Charge for the year	759	5,102	481	1,620	-	-	7,962
Write off	-	(369)	-	(720)	-	-	(1,089)
Disposals	-	(8)	(243)	(18)	-	-	(269)
Exchange differences	(3)	(101)	(5)	(13)	-	-	(122)
<b>At 30 June 2011/1 July 2011</b>							
Accumulated depreciation	1,442	26,928	3,008	11,818	-	-	43,196
Accumulated impairment losses	-	110	-	9	-	-	119
	1,442	27,038	3,008	11,827	-	-	43,315
Charge for the year	538	2,616	512	1,522	-	-	5,188
Transfer	-	(5)	-	5	-	-	-
Write off	-	(3)	-	(55)	-	-	(58)
Disposals	-	(53)	(242)	(1)	-	-	(296)
Exchange differences	(31)	(571)	17	(37)	-	-	(622)
<b>At 30 June 2012</b>							
Accumulated depreciation	1,949	28,912	3,295	13,252	-	-	47,408
Accumulated impairment losses	-	110	-	9	-	-	119
	1,949	29,022	3,295	13,261	-	-	47,527
<b>Carrying amounts</b>							
At 30 June 2012	44,501	30,371	1,917	13,185	1,080	-	91,054
At 30 June 2011	44,892	29,906	1,932	13,411	1,477	-	91,618

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**4. PROPERTY, PLANT AND EQUIPMENT (continued)**

COMPANY	Land and buildings (Note 4.1)	Plant, machinery and electrical equipment	Motor vehicles	Furniture, fittings, office, laboratory and factory equipment, electrical installation and renovation	Capital work-in-progress	Total
<b>Cost/Valuation</b>						
At 1 July 2010	26,591	39,621	3,609	20,611	1,031	91,463
Additions	99	367	-	465	1,951	2,882
Transfer	1,282	-	-	224	(1,506)	-
Write off	(4)	(467)	-	(667)	-	(1,138)
Disposals	-	(168)	-	(320)	-	(488)
At 30 June 2011/1 July 2011	27,968	39,353	3,609	20,313	1,476	92,719
Additions	982	5,351	-	856	107	7,296
Transfer	503	(6)	-	6	(503)	-
Write off	-	(5)	-	(1)	-	(6)
Disposals	-	(67)	(396)	(1,855)	-	(2,318)
At 30 June 2012	29,453	44,626	3,213	19,319	1,080	97,691
<b>Representing items at:</b>						
Cost	9,048	44,626	3,213	19,319	1,080	77,286
Valuation	20,405	-	-	-	-	20,405
	29,453	44,626	3,213	19,319	1,080	97,691

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**4. PROPERTY, PLANT AND EQUIPMENT (continued)**

COMPANY	Plant, machinery and electrical equipment		Motor vehicles	Furniture, fittings, office, laboratory and factory equipment, electrical installation and renovation		Capital work-in- progress	Total
	Land and buildings (Note 4.1)	RM'000		RM'000	RM'000		
<b>Accumulated depreciation/ impairment losses</b>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>At 1 July 2010</b>							
Accumulated depreciation	740	21,853	2,238	9,523	-	-	34,354
Accumulated impairment losses	-	110	-	9	-	-	119
	740	21,963	2,238	9,532	-	-	34,473
Charge for the year	374	1,913	274	1,183	-	-	3,744
Write off	-	(369)	-	(523)	-	-	(892)
Disposals	-	(139)	-	(157)	-	-	(296)
<b>At 30 June 2011/1 July 2011</b>							
Accumulated depreciation	1,114	23,258	2,512	10,026	-	-	36,910
Accumulated impairment losses	-	110	-	9	-	-	119
	1,114	23,368	2,512	10,035	-	-	37,029
Charge for the year	412	1,878	214	1,088	-	-	3,592
Transfer	-	(5)	-	5	-	-	-
Write off	-	(3)	-	(1)	-	-	(4)
Disposals	-	(53)	(329)	(861)	-	-	(1,243)
<b>At 30 June 2012</b>							
Accumulated depreciation	1,526	25,075	2,397	10,257	-	-	39,255
Accumulated impairment losses	-	110	-	9	-	-	119
	1,526	25,185	2,397	10,266	-	-	39,374
<b>Carrying amounts</b>							
At 30 June 2012	27,927	19,441	816	9,053	1,080	-	58,317
At 30 June 2011	26,854	15,985	1,097	10,278	1,476	-	55,690

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**4. PROPERTY, PLANT AND EQUIPMENT (continued)**

**4.1 Land and buildings**

GROUP	Freehold	Long-term	Short-term	Buildings	Total
	land	leasehold	leasehold		
Cost/Valuation	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July 2010	20,941	23,778	870	69,539	115,128
Disposal of a subsidiary	(5,382)	(16,935)	-	(47,642)	(69,959)
Additions	26	-	-	99	125
Transfer	-	-	-	1,282	1,282
Write off	-	-	-	(4)	(4)
Exchange differences	(171)	-	-	(67)	(238)
At 30 June 2011/1 July 2011	15,414	6,843	870	23,207	46,334
Additions	37	218	-	764	1,019
Transfer	-	-	-	503	503
Transfer to investment properties					
- Transfer of carrying amount	-	(430)	-	(250)	(680)
- Revaluation of property transferred	-	30	-	10	40
Exchange differences	(310)	-	-	(456)	(766)
At 30 June 2012	15,141	6,661	870	23,778	46,450
<b>Representing items at:</b>					
Cost	5,718	5,280	870	5,169	17,037
Valuation	9,423	1,381	-	18,609	29,413
	15,141	6,661	870	23,778	46,450
<b>Accumulated depreciation</b>					
At 1 July 2010	-	119	138	3,290	3,547
Disposal of a subsidiary	-	-	-	(2,861)	(2,861)
Charge for the year	-	21	25	713	759
Exchange differences	-	-	-	(3)	(3)
At 30 June 2011/1 July 2011	-	140	163	1,139	1,442
Charge for the year	-	40	24	474	538
Exchange differences	-	-	-	(31)	(31)
At 30 June 2012	-	180	187	1,582	1,949
<b>Carrying amounts</b>					
At 30 June 2012	15,141	6,481	683	22,196	44,501
At 30 June 2011	15,414	6,703	707	22,068	44,892



**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**4. PROPERTY, PLANT AND EQUIPMENT (continued)**

**4.1 Land and buildings (continued)**

COMPANY Cost/Valuation	Freehold	Long-term	Short-term	Buildings	Total
	land	leasehold	leasehold		
	RM'000	land	land	RM'000	RM'000
		RM'000	RM'000		
At 1 July 2010	3,075	5,062	870	17,584	26,591
Additions	-	-	-	99	99
Transfer	-	-	-	1,282	1,282
Write off	-	-	-	(4)	(4)
At 30 June 2011/1 July 2011	3,075	5,062	870	18,961	27,968
Additions	-	218	-	764	982
Transfer	-	-	-	503	503
At 30 June 2012	3,075	5,280	870	20,228	29,453
<b>Representing items at:</b>					
Cost	-	5,280	870	2,898	9,048
Valuation	3,075	-	-	17,330	20,405
	3,075	5,280	870	20,228	29,453
<b>Accumulated depreciation</b>					
At 1 July 2010	-	24	137	579	740
Charge for the year	-	5	25	344	374
At 30 June 2011/1 July 2011	-	29	162	923	1,114
Charge for the year	-	24	24	364	412
At 30 June 2012	-	53	186	1,287	1,526
<b>Carrying amounts</b>					
At 30 June 2012	3,075	5,227	684	18,941	27,927
At 30 June 2011	3,075	5,033	708	18,038	26,854

The freehold land belonging to a subsidiary with carrying amount of RM2,344,000 (2011: RM2,803,000) has yet to be transferred to the subsidiary's name and to be entered in Revenue Records of the Himachal State Revenue Authorities, India.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**4. PROPERTY, PLANT AND EQUIPMENT (continued)**

- (i) Depreciation charge for the financial year includes:

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Charged to profit or loss	5,188	7,831	3,592	3,613
Capitalised as product development expenditure (Note 5)	-	131	-	131
	<u>5,188</u>	<u>7,962</u>	<u>3,592</u>	<u>3,744</u>

- (ii) Land and buildings of the Group and of the Company were revalued on 30 October 2008 based on valuation carried out by external independent professional valuers who have adopted the comparison and assets depreciated replacement cost method of valuation, to reflect market value of existing use.

The comparison method is comparing the subject property with comparable properties which have been sold or are being offered for sale and making adjustments for factors which affect value such as location, size, shape of land, built-up area, design, type and condition of building, improvements, availability of facilities and amenities, time element and other relevant factors.

The assets depreciated replacement cost is the value of property is added to the replacement cost of buildings and other site improvements.

The carrying amounts of revalued freehold land, leasehold land and buildings of the Group and of the Company that would have been included in the financial statements, had these assets been carried at cost less accumulated amortisation and impairment losses are as follows:

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Freehold land	1,138	1,138	826	826
Leasehold land	917	1,202	-	-
Buildings	<u>11,193</u>	<u>11,722</u>	<u>10,294</u>	<u>10,504</u>

- (iii) Details of assets under finance lease arrangements are as follows:

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Plant, machinery and electrical equipment - carrying amounts at end of the year	<u>4,407</u>	<u>5,168</u>	<u>4,407</u>	<u>5,168</u>

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**4. PROPERTY, PLANT AND EQUIPMENT (continued)**

(iii) Details of assets under finance lease arrangements are as follows: (continued)

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Motor vehicles				
- additions during the year	231	198	-	-
- carrying amounts at end of the year	<u>1,336</u>	<u>1,457</u>	<u>774</u>	<u>1,016</u>
Furniture, fittings, office, laboratory and factory equipment				
- carrying amounts at end of the year	<u>475</u>	<u>1,509</u>	<u>475</u>	<u>1,509</u>

(iv) Carrying amounts of property, plant and equipment pledged as securities for credit facilities granted to the Group and the Company amounted to RM49,617,000 (2011: RM47,499,000) and RM26,577,000 (2011: RM20,122,000) respectively.

**5. INTANGIBLE ASSETS**

GROUP	Goodwill RM'000	Product development expenditure RM'000	Acquired trademark RM'000	Total RM'000
<b>Cost</b>				
At 1 July 2010	16,759	26,505	770	44,034
Additions	117	3,231	-	3,348
Disposal of a subsidiary	(12,469)	(741)	-	(13,210)
Write off	-	(3,759)	-	(3,759)
At 30 June 2011/1 July 2011	<u>4,407</u>	<u>25,236</u>	<u>770</u>	<u>30,413</u>
Additions	-	2,435	-	2,435
Write off	-	(2,307)	-	(2,307)
At 30 June 2012	<u>4,407</u>	<u>25,364</u>	<u>770</u>	<u>30,541</u>

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**5. INTANGIBLE ASSETS (continued)**

<b>GROUP</b>	<b>Goodwill RM'000</b>	<b>Product development expenditure RM'000</b>	<b>Acquired trademark RM'000</b>	<b>Total RM'000</b>
<b>Accumulated amortisation/ impairment losses</b>				
At 1 July 2010	12,480	5,835	429	18,744
Amortisation for the year	-	501	30	531
Disposal of a subsidiary	(12,469)	(367)	-	(12,836)
Write off	-	(186)	-	(186)
At 30 June 2011/1 July 2011				
Accumulated amortisation	-	5,783	459	6,242
Accumulated impairment losses	11	-	-	11
	11	5,783	459	6,253
Amortisation for the year	-	464	30	494
Impairment	4,212	-	-	4,212
Write off	-	(81)	-	(81)
At 30 June 2012				
Accumulated amortisation	-	6,166	489	6,655
Accumulated impairment losses	4,223	-	-	4,223
	4,223	6,166	489	10,878
<b>Carrying amounts</b>				
At 30 June 2012	184	19,198	281	19,663
At 30 June 2011	4,396	19,453	311	24,160
<b>COMPANY</b>				
		<b>Product development expenditure RM'000</b>	<b>Acquired trademark RM'000</b>	<b>Total RM'000</b>
<b>Cost</b>				
At 1 July 2010		25,949	770	26,719
Additions		3,489	-	3,489
Write off		(3,759)	-	(3,759)
At 30 June 2011/1 July 2011		25,679	770	26,449
Additions		2,666	-	2,666
Write off		(2,307)	-	(2,307)
At 30 June 2012		26,038	770	26,808

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**5. INTANGIBLE ASSETS (continued)**

COMPANY	Product development expenditure RM'000	Acquired trademark RM'000	Total RM'000
<b>Accumulated amortisation</b>			
At 1 July 2010	5,473	429	5,902
Amortisation for the year	497	30	527
Write off	(186)	-	(186)
At 30 June 2011/1 July 2011	5,784	459	6,243
Amortisation for the year	464	30	494
Write off	(81)	-	(81)
At 30 June 2012	6,167	489	6,656
<b>Carrying amounts</b>			
At 30 June 2012	19,871	281	20,152
At 30 June 2011	19,895	311	20,206

**Goodwill**

Goodwill has been allocated to the Group's cash-generating units identified according to pharmaceutical business segment.

The recoverable amount of the goodwill was based on its value in use and was determined by discounting the future cash flows generated from the continuing use of the investment and was based on the following key assumptions:

- The discount rate of 14.25% (2011: 14.25%) was used by the management as their expected internal rate of return for a foreign subsidiary.
- Cash flows were projected based on actual operating results in the year immediately before the projected years whereby there are expected efficiency improvements with an assumption of revenue growth of 5% (2011: 20%) per annum.

By using the above methods, the recoverable amount was lower than the carrying amount of the investments and cash-generating unit. Thus, an impairment loss on goodwill totalling RM4,212,000 was recognised in the profit or loss during the financial year.

**Product development expenditure and acquired trademark**

The recoverable amount of the product development expenditure and acquired trademark of the Group and of the Company are based on their value in use calculations and where recoverable amounts are higher than the carrying amounts of the intangibles, no impairment loss was recognised. However, during the year, carrying amounts of product development expenditure of the Group and of the Company of RM2,226,000 (2011: RM3,573,000) was written off as the products are no longer viable.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**5. INTANGIBLE ASSETS (continued)**

**Product development expenditure and acquired trademark (continued)**

Value in use was determined by discounting the future cash flows generated from the continuing/expected sales of the products within a specific timeframe and was based on the following key assumptions:

- 10-year cash flows were projected based on past actual operating results and management's assessment of future trends in the consumer market based on both external and internal sources of the product itself or product of its similar nature and its ability to launch to the market in future.
- The average discount rate of 7.8% (2011: 7.8%) used was the management's expected internal rate of return.
- The size of operation will remain, and not be lower than the current operations.
- Approvals from the regulatory bodies in Malaysia on the products are granted, at the stipulated timelines.
- Close monitoring on the timelines and development costs by the management.

Included in additions to product development expenditure are the following expenditure incurred:

	<b>GROUP/COMPANY</b>	
	<b>2012</b>	<b>2011</b>
	RM'000	RM'000
Interest expense	-	5
Depreciation of property, plant and equipment (Note 4)	-	131
Staff costs	-	695
	<u>-</u>	<u>695</u>

In the previous financial year, included in staff costs of the Group and of the Company was contribution to Employees' Provident Fund amounted to RM62,000.

**6. INVESTMENT PROPERTIES**

	<b>GROUP</b>	
	<b>RM'000</b>	
At 1 July 2010 and at 30 June 2011/1 July 2011		850
Transfer from property, plant and equipment		680
Change in fair value recognised in profit or loss		150
At 30 June 2012		<u>1,680</u>
	<b>2012</b>	<b>2011</b>
	RM'000	RM'000
Included in the above are:		
Freehold land	750	600
Leasehold land	430	-
Buildings	500	250
	<u>1,680</u>	<u>850</u>

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**6. INVESTMENT PROPERTIES (continued)**

The freehold investment property was revalued on 9 May 2012 by an independent professional qualified valuer using comparative/investment method.

The amounts recognised in the profit or loss in respect of investment properties are disclosed in Note 22.

Investment properties of the Group amounting to RM1,680,000 (2011: RM850,000) have been charged to secure term loan and guarantee facilities granted to a subsidiary (Note 16).

**7. INVESTMENT IN SUBSIDIARIES**

	COMPANY	
	2012 RM'000	2011 RM'000
<b>At cost</b>		
Unquoted shares in Malaysia	6,454	6,454
Less: Accumulated impairment losses At 1 July and 30 June	<u>(1,750)</u>	<u>(1,750)</u>
	<u>4,704</u>	<u>4,704</u>
Unquoted shares outside Malaysia	10,141	10,175
Less: Accumulated impairment losses	<u>(5,604)</u>	<u>(34)</u>
	<u>4,537</u>	<u>10,141</u>
Total investment in subsidiaries	9,241	14,845
Amount due from subsidiaries	<u>6,644</u>	<u>6,294</u>
	<u>15,885</u>	<u>21,139</u>

The movement in the accumulated impairment losses of investment in unquoted shares outside Malaysia is as follows:

	COMPANY	
	2012 RM'000	2011 RM'000
At 1 July	34	34
Impairment loss recognised	5,604	-
Impairment loss written off	<u>(34)</u>	<u>-</u>
At 30 June	<u>5,604</u>	<u>34</u>

The amount due from subsidiaries was deemed as capital contribution to subsidiaries as the repayment of these amounts are neither fixed nor expected and hence, are considered as part of the investment in these companies.

Details of subsidiaries are as follows:

Name of the company	Country of incorporation	Effective Group's interest (%)		Principal activities
		2012	2011	
Hovid Pharmacy Sdn. Bhd.	Malaysia	100.00	100.00	Trading of medical supplies, pharmaceutical and consumer products.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**7. INVESTMENT IN SUBSIDIARIES (continued)**

Details of subsidiaries are as follows: (continued)

Name of company	Country of incorporation	Effective Group's interest (%)		Principal activities
		2012	2011	
Hovid Inc. *	Philippines	100.00	100.00	Trading of goods such as medical supplies, consumer goods, wholesale/importation and distribution of pharmaceutical products.
Hovid Marketing Sdn. Bhd.	Malaysia	100.00	100.00	Marketing of health and wellness products via the multi-level network marketing direct interest model.
Javid Sdn. Bhd.	Malaysia	100.00	100.00	Dealers in all kinds of pharmaceutical, medicated herbs and nutritional products. Inactive.
Ho Yan Hor (S) Pte. Ltd. #	Singapore	-	80.00	Wholesalers, distributors, agents of and dealers in all kinds of pharmaceutical products, embrocation oil, herbal tea and Chinese patented medicines. Inactive.
Hovid Nutriworld Sdn. Bhd.	Malaysia	100.00	100.00	To own and manage a chain of concept stores selling over-the-counter health food products, consumer products, supplements and herbal products. Inactive.
Hovid Limited *	Hong Kong Special Administrative Region, China	60.00	60.00	Trading of pharmaceutical products.
Hovid Life Science Pte. Ltd. *^	India	100.00	100.00	Inactive.
Hovid International Limited *	British Virgin Islands	100.00	100.00	Inactive.



**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**7. INVESTMENT IN SUBSIDIARIES (continued)**

Details of subsidiaries are as follows: (continued)

Name of company	Country of incorporation	Effective Group's interest (%)		Principal activities
		2012	2011	
Hovid Research Sdn. Bhd.	Malaysia	100.00	100.00	Establishing, maintaining and operating laboratories and shops, for the purpose of carrying on chemical, physical and other research and developments in medicine, chemistry, industry and other unrelated or related fields.
Best Practice International Sdn. Bhd.	Malaysia	100.00	100.00	Inactive.
Agrovid S.A.S	Republic of Colombia	100.00	100.00	Engaged in agro-industrial exploitation of productive species and cultivation and commercialisation of agriculture crops and livestock. Inactive.
Biodeal Pharmaceuticals Private Limited *^	India	51.00	51.00	Manufacturing of pharmaceutical and consumer products.

\* Not audited by SJ Grant Thornton.

× Not required to be audited in the country of incorporation.

^ The latest audited financial statements for this subsidiary are for the year ended 31 March 2012. The Directors have consolidated the results of this subsidiary based on its audited 9 months and unaudited 3 months management financial statements as at 30 June 2012.

# Struck-off during the financial year.

**8. INVESTMENT IN AN ASSOCIATE**

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>At cost</b>				
Quoted shares in Malaysia	-	24,557	-	38,544
Share of post-acquisition reserves	-	(9,102)	-	-
	-	15,455	-	38,544
Less: Accumulated impairment Losses	-	(1,422)	-	(24,511)
	-	14,033	-	14,033

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**8. INVESTMENT IN AN ASSOCIATE (continued)**

The movement in the accumulated impairment losses is as follows:

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
At 1 July	1,422	-	24,511	-
Transferred from investment in subsidiaries	-	-	-	21,163
Transferred to other investment	-	-	(24,511)	-
Impairment loss recognised	-	1,422	-	10,524
Impairment loss reversed	(1,422)	-	-	-
Impairment loss written off	-	-	-	(7,176)
At 30 June	-	1,422	-	24,511

In the previous financial year, the carrying value of the quoted shares in Malaysia was based on the market value of RM14,033,000. These quoted shares were pledged to a bank for a term loan granted to the Company.

On 15 August 2011, the Company has proposed to distribute a portion of its shareholding interest in Carotech Berhad ("Carotech") by way of dividend-in-specie to the shareholders of the Company, on the basis of 25 ordinary shares of RM0.10 each in Carotech for every 100 ordinary shares of RM0.10 each held in the Company. Details of the events are disclosed in Note 34.

On 23 December 2011, upon completion of dividend-in-specie, interest in Carotech has been reduced from 38.5% to 17.6% and it is now accounted for as other investment as disclosed in Note 9. The investment in Carotech as an associate was deemed disposed. As a result of the deemed disposal, the Group recognised a gain amounting to approximately RM7.684 million.

Details of the associate are as follows:

Name of Company	Country of incorporation	Effective Group's interest (%)		Principal activities
		2012	2011	
Carotech Berhad	Malaysia	-	38.45	Extraction and processing of nutrients from palm oil for the purpose of manufacturing and producing pharmaceutical, phytonutrient and oleochemical products.
Carotech Inc.	U.S.A.	-	38.45	Sales agency and marketing of pharmaceutical, phytonutrient and oleochemical products.
Carotech Bio-Fuel Sdn. Bhd.	Malaysia	-	38.45	Inactive.
Carotech Yangzhou Biofuel Company Limited	The People's Republic of China	-	38.45	Inactive.
Carotech Bio-Vits Sdn. Bhd.	Malaysia	-	38.45	Inactive.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**8. INVESTMENT IN AN ASSOCIATE (continued)**

The summary of financial information for the associate, not adjusted for the percentage ownership held by the Group is as follows:

GROUP	Effective ownership interest	Revenue # (100%) RM'000	Loss # (100%) RM'000	Total assets (100%) RM'000	Total liabilities (100%) RM'000
2011					
<i>Equity accounted</i>					
Carotech Berhad	38.45%	32,233	23,672	341,785	313,189

# relates to the period from 1 September 2010 to 30 June 2011.

**9. OTHER INVESTMENT**

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<u>Available-for-sale investment</u>				
Unquoted shares in Malaysia	6,412	-	17,612	-
Less: Accumulated impairment losses	(6,412)	-	(17,612)	-
	-	-	-	-

The movement in the accumulated impairment losses is as follows:

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
At 1 July	-	-	-	-
Transferred from investment in an associate	-	-	24,511	-
Impairment loss recognised	6,412	-	6,412	-
Impairment loss written off	-	-	(13,311)	-
At 30 June	6,412	-	17,612	-

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**10. DEFERRED TAX ASSETS AND LIABILITIES**

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

GROUP	Assets		Liabilities		Net	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Property, plant and equipment	-	-	(6,198)	(6,283)	(6,198)	(6,283)
Intangible assets	-	-	(5,038)	(4,619)	(5,038)	(4,619)
Others	186	125	(278)	(444)	(92)	(319)
Net tax assets/(liabilities)	<u>186</u>	<u>125</u>	<u>(11,514)</u>	<u>(11,346)</u>	<u>(11,328)</u>	<u>(11,221)</u>

**COMPANY**

Property, plant and equipment	-	-	(5,515)	(5,213)	(5,515)	(5,213)
Intangible assets	-	-	(5,038)	(4,619)	(5,038)	(4,619)
Net tax liabilities	<u>-</u>	<u>-</u>	<u>(10,553)</u>	<u>(9,832)</u>	<u>(10,553)</u>	<u>(9,832)</u>

**Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items:

	GROUP	
	2012 RM'000	2011 RM'000
Carrying amount of qualifying property, plant and equipment in excess of their tax base	(14)	(21)
Unabsorbed capital allowances	343	341
Unutilised tax losses	<u>3,381</u>	<u>3,185</u>
	<u>3,710</u>	<u>3,505</u>

Deferred tax assets have not been recognised in respect of these items because it was not probable that future taxable profit will be available against which a subsidiary could utilise the benefits therefrom.

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**10. DEFERRED TAX ASSETS AND LIABILITIES (continued)**

Movement in temporary differences during the year

GROUP	At 1 July 2010 RM'000	Recognised in profit or loss (Note 23) RM'000	Exchange differences RM'000	Disposal of a subsidiary RM'000	At 30 June 2011 RM'000	Recognised in profit or loss (Note 23) RM'000	Exchange differences RM'000	At 30 June 2012 RM'000
Deferred tax liabilities								
- Property, plant and equipment	(28,366)	(378)	63	22,398	(6,283)	(209)	294	(6,198)
- Intangible assets	(4,949)	330	-	-	(4,619)	(419)	-	(5,038)
- Others	(225)	(160)	-	(59)	(444)	168	(2)	(278)
Deferred tax assets								
- Property, plant and equipment	22,321	-	-	(22,321)	-	-	-	-
- Provisions	18	-	-	(18)	-	-	-	-
- Others	108	18	(1)	-	125	48	13	186
	<u>(11,093)</u>	<u>(190)</u>	<u>62</u>	<u>-</u>	<u>(11,221)</u>	<u>(412)</u>	<u>305</u>	<u>(11,328)</u>
<b>COMPANY</b>								
Deferred tax liabilities								
- Property, plant and equipment	(5,213)	-	-	-	(5,213)	(302)	-	(5,515)
- Intangible assets	(4,949)	330	-	-	(4,619)	(419)	-	(5,038)
	<u>(10,162)</u>	<u>330</u>	<u>-</u>	<u>-</u>	<u>(9,832)</u>	<u>(721)</u>	<u>-</u>	<u>(10,553)</u>

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**11. INVENTORIES**

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>At cost</b>				
Raw materials	9,725	6,763	9,190	6,141
Work-in-progress	2,113	1,663	1,959	1,663
Finished goods	12,264	10,121	3,775	3,449
Trading goods	2,502	2,656	-	-
Packing materials	2,939	2,485	2,348	1,826
	<u>29,543</u>	<u>23,688</u>	<u>17,272</u>	<u>13,079</u>
<b>Recognised in profit or loss</b>				
Inventories recognised as cost of sales	74,207	70,751	70,693	62,690
Inventories written off	763	533	471	438
Inventories written down	183	308	94	287

**12. RECEIVABLES, DEPOSITS AND PREPAYMENTS**

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>Trade</b>				
Trade receivables	33,896	31,224	6,834	5,919
Less: Accumulated impairment losses	(763)	(480)	-	-
	33,133	30,744	6,834	5,919
Amount due from subsidiaries				
- interest bearing	-	-	32,010	24,160
- non-interest bearing	-	-	2,230	2,735
Less: Accumulated impairment losses	-	-	(856)	(917)
	-	-	33,384	25,978
<b>Total trade</b>	<u>33,133</u>	<u>30,744</u>	<u>40,218</u>	<u>31,897</u>
<b>Non-trade</b>				
Other receivables	18,784	902	17,872	16
Less: Accumulated impairment losses	(17,725)	-	(17,725)	-
	<u>1,059</u>	<u>902</u>	<u>147</u>	<u>16</u>

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**12. RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)**

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>Non-trade</b>				
Amount due from subsidiaries				
- interest bearing	-	-	6,290	7,108
- non-interest bearing	-	-	4,870	6,210
	-	-	11,160	13,318
Less: Accumulated impairment losses	-	-	(3,799)	(3,869)
	-	-	7,361	9,449
Amount due from an associate	-	22,608	-	22,608
Less: Accumulated impairment losses	-	(22,092)	-	(22,092)
	-	516	-	516
	1,059	1,418	7,508	9,981
Prepayments	1,782	1,914	1,466	1,658
Deposits	8,869	3,679	8,728	3,549
<b>Total non-trade</b>	<b>11,710</b>	<b>7,011</b>	<b>17,702</b>	<b>15,188</b>
<b>Total trade and non-trade</b>	<b>44,843</b>	<b>37,755</b>	<b>57,920</b>	<b>47,085</b>

The movement in the accumulated impairment losses on other receivables is as follows:

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
At 1 July	-	-	-	-
Transferred from amount due from an associate	22,092	-	22,092	-
Impairment loss reversed	(4,367)	-	(4,367)	-
At 30 June	<u>17,725</u>	<u>-</u>	<u>17,725</u>	<u>-</u>

The movement in the accumulated impairment losses on amount due from an associate is as follows:

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
At 1 July	22,092	-	22,092	-
Transferred from amount due from subsidiaries	-	-	-	22,092
Transferred to other receivables	(22,092)	-	(22,092)	-
Impairment loss recognised	-	22,092	-	-
At 30 June	<u>-</u>	<u>22,092</u>	<u>-</u>	<u>22,092</u>

The amount due from subsidiaries is unsecured, non-interest bearing and have no fixed terms of repayment except for interest bearing portion which is subject to an interest at 8.00% (2011: 7.10% to 8.00%) per annum.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**12. RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)**

In the previous financial year, the amount due from an associate was unsecured, interest bearing ranging from 7.10% to 8.00% per annum and has no fixed terms of repayment.

**13. CASH AND DEPOSITS**

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Deposits with licensed banks	585	897	578	869
Cash and bank balances	22,622	7,872	15,776	2,661
	<u>23,207</u>	<u>8,769</u>	<u>16,354</u>	<u>3,530</u>

All deposits with licensed banks are pledged for bank facilities granted to the Company and a subsidiary.

**14. CAPITAL AND RESERVES**

**14.1 Share capital**

GROUP/COMPANY	Par Value RM	2012	2011	2012	2011
		Number of shares '000	Number of shares '000	RM'000	RM'000
<b>Authorised</b>					
At 1 July/30 June	0.10	<u>2,000,000</u>	<u>2,000,000</u>	<u>200,000</u>	<u>200,000</u>
<b>Issued and fully paid</b>					
At 1 July/30 June	0.10	<u>762,080</u>	<u>762,080</u>	<u>76,208</u>	<u>76,208</u>

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Company residual assets.

**14.2 Share premium**

	GROUP/COMPANY RM'000
<b>Non-distributable</b>	
1 July 2010/30 June 2011/ 30 June 2012	<u>90</u>

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefit.



**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**14. CAPITAL AND RESERVES (continued)**

**14.3 Reserves**

Non-distributable	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>Exchange fluctuation reserve</b>				
At 1 July	-	299	-	-
Movement during the financial year	(682)	(72)	-	-
Share of foreign exchange of an associate	(32)	-	-	-
Realised on disposal of an associate	32	-	-	-
Realised on strike-off of a subsidiary	(1)	-	-	-
Realised on disposal of a subsidiary	-	(227)	-	-
At 30 June	(683)	-	-	-
<b>Warrant reserve</b>				
At 1 July and 30 June	7,004	7,004	7,004	7,004
<b>Revaluation reserve</b>				
At 1 July	6,493	22,995	6,137	6,137
Realised on disposal of a subsidiary	-	(16,502)	-	-
Revaluation of property, plant and equipment upon transfer to investment properties	40	-	-	-
At 30 June	6,533	6,493	6,137	6,137
Less: Deferred taxation				
At 1 July	(1,825)	(6,510)	(1,795)	(1,795)
Realised on disposal of a subsidiary	-	4,685	-	-
At 30 June	(1,825)	(1,825)	(1,795)	(1,795)
Revaluation reserve, net of tax at 30 June	4,708	4,668	4,342	4,342
<b>Fair value reserve</b>				
At 1 July	-	-	-	-
Fair value loss	(2,404)	-	(2,404)	-
Impairment loss reclassified to profit or loss	2,404	-	2,404	-
At 30 June	-	-	-	-
<b>Total reserves</b>	<b>11,029</b>	<b>11,672</b>	<b>11,346</b>	<b>11,346</b>

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**14. CAPITAL AND RESERVES (continued)**

**14.3 Reserves (continued)**

**(i) Exchange fluctuation reserve**

The exchange fluctuation reserve represents exchange differences arising from the translation of the financial statements of foreign operation whose functional currencies are different from that of the Group's presentation currency.

**(ii) Warrant reserve**

The warrant reserve represents monies received from renounceable rights issue of 381,040,000 five-year warrants 2008/2013 ("Warrants") on the basis of one warrant for every two new ordinary shares held at an issue price of RM0.02 per warrant.

**Salient terms of the Warrants**

The salient terms of the Warrants are as follows:

- (a) The issue date of the Warrants is 29 January 2008 and the expiry date is 28 January 2013. Any Warrants not exercised during the exercise period will lapse and cease to be valid for any purpose;
- (b) Each Warrant shall entitle the registered holder during the exercise period to subscribe for one new ordinary share of RM0.10 each in the Company at an exercise price of RM0.37 per warrant unless otherwise adjusted pursuant to the provisions of the Deed Poll; and
- (c) The new ordinary shares of RM0.10 each to be issued pursuant to the exercise of the Warrants shall upon allotment and issue, rank *pari passu* in all respects with the existing ordinary shares of RM0.10 each save and except that they will not be entitled to any rights, allotments, dividends and/or other distributions declared, where the entitlement date precedes the relevant dates of allotment of such ordinary shares of RM0.10 each.

None of the Warrants issued was exercised during the financial year.

**(iii) Revaluation reserve**

The revaluation reserve relates to the revaluation of land and buildings.

**(iv) Fair value reserve**

The fair value reserve represents the cumulative fair value changes, net of tax, of available-for-sale investment.

**14.4 Retained earnings**

Subject to agreement by the Inland Revenue Board, the Company has sufficient credit under Section 108 of the Income Tax Act, 1967 and tax exempt income to frank the entire distributable reserves at 30 June 2012 and 30 June 2011 if paid out as dividends.

The Finance Act, 2007 introduced a single tier company income tax system with effect from year of assessment 2008. As such, the Section 108 tax credit as at 30 June 2012 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

As at reporting date, the Company has not elected for single tier income tax system.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**15. PROVISION FOR RETIREMENT BENEFITS**

The retirement benefits plan is for the Managing Director in accordance with his employment contract signed with the Company.

The amount recognised in the Group's and in the Company's statements of financial position is analysed as follows:

	<b>GROUP/COMPANY</b>	
	<b>2012</b>	<b>2011</b>
	RM'000	RM'000
<b>Non-current liabilities</b>		
Provision for retirement benefits		
- Present value of unfunded obligation	1,385	1,199

The expense recognised in the Group's and in the Company's statements of comprehensive income is analysed as follows:

	<b>GROUP/COMPANY</b>	
	<b>2012</b>	<b>2011</b>
	RM'000	RM'000
Current service cost	129	(291)
Interest cost	60	50
Actuarial gain	(3)	(4)
Benefit expense	186	(245)
Reimbursement rights under insurance policies that exactly match the amount and timing of some of benefits payable under the plan	-	269
Expense recognised in the profit or loss net of the amount recognised for the reimbursement rights under insurance policies	186	24

The amounts charged to the profit or loss are included in staff costs.

The unfunded retirement benefit scheme is a defined benefit scheme. Obligation is determined by independent actuaries using the Projected Unit Credit actuarial method. The actuarial valuations were carried out as at 8 April 2011 for the year ended 2012 and 2011.

The principal actuarial assumptions used in the actuarial valuation in respect of the Group's and of the Company's defined benefit plan were as follows:

- (i) Salary escalation of 6.0% per annum.
- (ii) Discount interest rate of 5.7% per annum.
- (iii) Medical cost inflation of 5.0% per annum.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**16. LOANS AND BORROWINGS**

The contractual terms of the Group's and of the Company's interest bearing loans and borrowings are as follows:

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>Non-current liabilities</b>				
Secured term loans	5,547	8,912	3,357	4,824
Finance lease liabilities	684	1,664	375	1,406
	<u>6,231</u>	<u>10,576</u>	<u>3,732</u>	<u>6,230</u>
<b>Current liabilities</b>				
Secured term loans	2,939	3,363	1,579	2,006
Secured bank overdrafts	7,533	6,096	6,093	4,721
Secured bankers' acceptance	19,304	20,260	19,304	20,260
Unsecured bankers' acceptance	-	1,135	-	-
Secured revolving credit	6,000	6,000	6,000	6,000
Finance lease liabilities	1,168	2,173	1,024	2,061
	<u>36,944</u>	<u>39,027</u>	<u>34,000</u>	<u>35,048</u>
<b>Total loans and borrowings</b>	<u>43,175</u>	<u>49,603</u>	<u>37,732</u>	<u>41,278</u>

**Security**

**(i) Term loans**

The term loans are secured by way of:

- (a) fixed charges over a leasehold land and building of the Company;
- (b) fixed charges over the freehold land and buildings of the Company;
- (c) lien holder's caveat over leasehold land and buildings of the Company;
- (d) debentures incorporating fixed and floating charges over all present and future assets of the Company;
- (e) fixed charges over land and buildings and investment properties of a subsidiary;
- (f) facility agreements;
- (g) negative pledge;
- (h) specific debentures incorporating fixed charges over certain plant and machinery of the Company; and
- (i) fixed deposits pledged.

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (*Cont'd*)**

**16. LOANS AND BORROWINGS (continued)**

**Security (continued)**

**(i) Term loans (continued)**

In the previous financial year, a term loan facility amounted to RM428,000 were secured against the following:

- (a) A first legal charge under Memorandum of Deposit over the Company's entire shares of a listed associate and/or other marketable quoted shares acceptable by the banker ("Pledged Shares");
- (b) A first legal charge under Memorandum of Deposit over cash equivalent to 3 months interest; and
- (c) An assignment over dividends received under the Pledged Shares.

**(ii) Bank overdrafts, bankers' acceptance and revolving credit**

The bank overdrafts, bankers' acceptance and revolving credit are secured by way of:

- (a) fixed charges over a leasehold land and building of the Company;
- (b) fixed charges over the freehold land and buildings of the Company;
- (c) lien holder's caveat over leasehold land and buildings of the Company;
- (d) debentures incorporating fixed and floating charges over all present and future assets of the Company;
- (e) facility agreements; and
- (f) negative pledge.

**Significant covenants and terms**

**COMPANY**

On 26 May 2011, two debentures have been executed by the Company with Malaysian Trustees Berhad ("Security Agent") for the lender banks waiving any and all events of cross default of a former subsidiary which have arisen prior to the date of the Debentures.

Significant covenants and terms included in the two debentures are:

**(a) Covenant to pay**

The Company covenants with the Security Agent who acts for the lender banks, that it will duly and punctually pay to the lender banks, their respective secured amounts and discharge all its other obligations with respect to the secured amounts in accordance with the provisions of the respective existing facilities agreements.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (*Cont'd*)**

**16. LOANS AND BORROWINGS (continued)**

**Significant covenants and terms (continued)**

**(b) Security**

**Fixed and floating charges**

The Company as beneficial owner charges in favour of the Security Agent as security for the payment in full of the secured amounts:

- (i) by way of a fixed charge in point of priority and security:
- all properties, plant and equipment of the Company, both present and future except for the properties which are already charged as security in favour of the lender banks, of which only the residual value after satisfaction of the relevant security affecting the properties; and
  - all shares, bonds and securities of any kind whatsoever, whether marketable or otherwise and all other interests, including but not limited to loan capital of the Company both present and future but excluding the quoted shares of a former subsidiary owned by the Company, which have been charged to another lender bank.
- (ii) by way of a floating charge in point of priority and security over all its other movable and immovable property, other assets and rights to the Company, but not limited to trade assets and stock in trade of the Company and the benefit of any security interest and securities from time to time and at any time held by the Company in respect of any such and all other rights whatsoever and wheresoever, both present and future and all the property described in the Debentures and so that such floating charge shall be subject to the provisions of the Debentures and all things in action due or owing or which may become due or owing to or purchased or otherwise acquired by the Company.

**(c) Continuing security**

The security created is expressly intended to be and shall be a continuing security for the secured amounts and the charges, covenants and provisions contained in the Debentures shall remain in force as a continuing security to the Security Agent, for and on behalf of the lender banks notwithstanding any settlement of account or any other act, event or matter whatsoever, except upon the execution under a written agreement by the Security Agent for and on behalf of the lender banks of an absolute and unconditional release or the execution by the Security Agent, for and on behalf of the lender banks, of a receipt for all (and not part only) of the secured amounts.

**(d) Restrictions against other Security Interests**

Other than the security created under the existing security documents and facilities agreements, there is no mortgage charge or debenture or any security interest upon any of the Company's properties, assets and undertaking secured by the Debentures and:

- (i) the Company shall not during the subsistence of this Debenture, without the consent in writing of the Security Agent acting on the instructions of the majority creditors, create or allow to arise or exist any form of security interest in respect of any of the properties, assets or undertakings of the Company covered by these Debentures, the existing security documents and the security interest permitted under the existing facilities agreements and the other facilities agreements;

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**16. LOANS AND BORROWINGS (continued)**

**Significant covenants and terms (continued)**

**(d) Restrictions against other Security Interests (continued)**

- (ii) the Company hereby covenants that it shall not, without the prior written consent of the Security Agent acting on the instructions of the majority creditors:
- pledge, charge or otherwise encumber any of the assets hereby charged or any part thereof or attempt or agree so to do; and
  - part with possession of, transfer, sell, lease or otherwise dispose of the assets hereby charged or any part thereof or attempt or agree so to do; and
- (iii) the Company shall not deal with its book debts and other debts otherwise than by collecting them in the ordinary course of the Company's business and in particular the Company will not realise its book debts by means of block discounting and debt factoring.

In the previous financial year, a term loan facility of the Company was subject to the fulfilment of the following significant covenants:

- (i) Debts to Equity Ratio calculated at the end of the financial year based on its audited financial statements shall not exceed 3.0 during the tenure of the term loan facility;
- (ii) Dividend payments to its shareholders shall not exceed 50% of the preceding year's net profit after tax; and
- (iii) Not to declare and pay dividend in the event there is breach of obligations and/or covenants in relation to the term loan facility.

During the financial year, the Company has fully settled the said term loan.

**Finance lease liabilities**

Finance lease liabilities are payable as follows:

	Minimum lease payments 2012			Minimum lease payments 2011		
	Interest 2012	Principal 2012		Interest 2011	Principal 2011	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>GROUP</b>						
Less than 1 year	1,236	68	1,168	2,350	177	2,173
Between 1 and 5 years	719	35	684	1,742	78	1,664
	<u>1,955</u>	<u>103</u>	<u>1,852</u>	<u>4,092</u>	<u>255</u>	<u>3,837</u>

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**16. LOANS AND BORROWINGS (continued)**

**Finance lease liabilities (continued)**

Finance lease liabilities are payable as follows: (continued)

COMPANY	Minimum lease payments 2012			Minimum lease payments 2011		
	RM'000	Interest 2012 RM'000	Principal 2012 RM'000	RM'000	Interest 2011 RM'000	Principal 2011 RM'000
Less than 1 year	1,070	46	1,024	2,221	160	2,061
Between 1 and 5 years	385	10	375	1,462	56	1,406
	<u>1,455</u>	<u>56</u>	<u>1,399</u>	<u>3,683</u>	<u>216</u>	<u>3,467</u>

**17. LONG-TERM ADVANCES**

**GROUP**

Long-term advances are granted by certain shareholders of the subsidiaries. These amounts are non-trade in nature, unsecured, have no fixed terms of repayment and interest free, except for an amount of RM5,762,000 (2011: RM6,348,000) which is subject to an interest rate at 10% (2011: 12%) per annum.

**18. PAYABLES AND ACCRUALS**

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>Trade</b>				
Trade payables	<u>13,532</u>	<u>12,974</u>	<u>12,075</u>	<u>11,609</u>
<b>Non-trade</b>				
Other payables	17,930	7,517	15,134	6,002
Accrued expenses	2,565	4,771	1,259	2,044
Amount due to subsidiaries	-	-	338	689
	<u>20,495</u>	<u>12,288</u>	<u>16,731</u>	<u>8,735</u>
	<u>34,027</u>	<u>25,262</u>	<u>28,806</u>	<u>20,344</u>

Trade payables are non-interest bearing and are generally on 30 to 120 (2011: 30 to 120) days term.

The following is included in other payables of the Group and of the Company:

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
(i) Amount owing to a Company in which a person connected with a Director has substantial financial interest	<u>63</u>	<u>72</u>	<u>43</u>	<u>70</u>
(ii) Amount owing to a Company in which a Director has substantial financial interest	<u>1</u>	<u>101</u>	<u>1</u>	<u>101</u>

The amount due to subsidiaries is unsecured, non-interest bearing and has no fixed terms of repayment.



**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**19. REVENUE**

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Revenue is stated at gross invoiced values and comprises:				
Goods sold	162,555	153,167	126,606	110,957
Services	2,253	289	-	-
	<u>164,808</u>	<u>153,456</u>	<u>126,606</u>	<u>110,957</u>

**20. FINANCE COSTS**

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Interest expense:				
- bank overdrafts	810	900	566	618
- term loans	751	2,328	345	776
- other borrowings	1,632	3,323	1,302	1,511
	<u>3,193</u>	<u>6,551</u>	<u>2,213</u>	<u>2,905</u>

**21. FINANCE INCOME**

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Interest income recognised in profit or loss	<u>1,647</u>	<u>1,561</u>	<u>3,330</u>	<u>3,009</u>

**22. PROFIT/(LOSS) BEFORE TAX**

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Profit/(Loss) before tax is arrived at after charging:				
Amortisation of intangible assets	494	531	494	527
Auditors' remuneration:				
- Audit services:				
- Auditors of the Company	71	90	38	65
- Other auditors	30	54	-	-
- Other services:				
- Auditors of the Company	28	100	28	100
- Affiliates of the auditors of the Company	-	20	-	15
- Other auditors	1	1	-	-

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**22. PROFIT/(LOSS) BEFORE TAX (continued)**

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Profit/(Loss) before tax is arrived at after charging: (continued)				
Bad debts written off	-	31	-	5
Defined benefit plan for a Director	186	24	186	24
Depreciation of property, plant and equipment	5,188	7,831	3,592	3,613
Direct operating expenses of investment properties				
- generating income	6	3	-	-
Impairment loss on investment in an associate	-	1,422	-	10,524
Impairment loss on investment in a subsidiary	-	-	5,604	-
Impairment loss for goodwill	4,212	-	-	-
Impairment loss on receivables	306	22,163	-	-
Impairment loss on available-for- sale investment	6,412	-	6,412	-
Inventories written down	183	308	94	287
Inventories written off	763	533	471	438
Loss on foreign exchange:				
- realised	1	170	-	-
- unrealised	152	650	152	850
Personnel expenses (including key management personnel):				
- Contributions to Employees' Provident Fund	3,182	2,896	1,928	1,679
- Wages, salaries and others	35,890	31,228	20,890	16,339
Preliminary expenses written off	-	1	-	-
Product development expenditure written off	2,226	3,573	2,226	3,573
Property, plant and equipment written off	35	305	2	246
Rental expense of equipment	61	11	-	-
Rental expense of premises	549	366	127	115
and after crediting:				
Changes in fair value of investment properties	150	-	-	-
Dividend income	-	-	-	4,655
Gain on deemed disposal of an associate	7,684	-	-	-
Gain on disposal of a subsidiary	-	6,576	-	-

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**22. PROFIT/(LOSS) BEFORE TAX (continued)**

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
and after crediting: (continued)				
Gain on disposal of property, plant and equipment	30	236	-	-
Gain on foreign exchange:				
- realised	1,933	1,656	1,788	1,652
- unrealised	-	5,855	-	-
Gain on distribution of dividend -in-specie	952	-	952	-
Rental income from investment properties	55	-	-	-
Rental income from premises	80	35	338	283
Rental income from equipment	-	-	660	1,002
Reversal of impairment loss on investment in an associate	1,422	-	-	-
Reversal of impairment loss on receivables	4,397	91	4,498	68

**23. INCOME TAX EXPENSE**

(i) Recognised in profit or loss:

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Income tax expense	6,498	3,945	6,175	3,667

Major components of income tax expense include:

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>Current tax expense</b>				
Malaysia - current year	5,508	4,219	5,221	5,437
- prior years	235	(733)	233	(1,440)
Overseas - current year	343	269	-	-
	6,086	3,755	5,454	3,997
<b>Deferred tax expense</b>				
Origination and reversal of temporary differences (Note 10)	412	190	721	(330)
	6,498	3,945	6,175	3,667

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**23. INCOME TAX EXPENSE (continued)**

(ii) Reconciliation of effective tax rate:

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Profit/(Loss) for the year	15,758	(6,117)	13,046	11,791
Income tax expense	6,498	3,945	6,175	3,667
Profit/(Loss) before tax	22,256	(2,172)	19,221	15,458

	GROUP		COMPANY	
	2012 %	2011 %	2012 %	2011 %
Statutory income tax rate of Malaysia	25	(25)	25	25
Non-deductible expenses	30	310	21	36
Reinvestment allowances utilised	(1)	(7)	(1)	(1)
Non-taxable income	(8)	(25)	(9)	(7)
Tax incentives	(3)	(97)	(2)	(12)
Changes in unrecognised temporary differences	(2)	6	-	-
Effect of changes in tax rate	-	7	-	-
Allowable expenses not included in profit or loss	-	(40)	-	(6)
Unrecognised tax losses in a subsidiary	-	1	-	-
Share of post tax result of an associate	(10)	102	-	-
Recognition of previously unrecognised temporary differences	-	4	-	(2)
Utilisation of tax allowances brought forward	-	(5)	-	-
Overprovision of deferred taxation in prior years	(3)	-	(3)	-
Others	-	3	-	-
	28	234	31	33
Under/(Over)provision in prior years	1	(52)	1	(9)
Average effective tax rate	29	182	32	24

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**23. INCOME TAX EXPENSE (continued)**

The Group's unabsorbed capital allowances and unutilised tax losses amounted to approximately RM343,000 (2011: RM341,000) and RM3,381,000 (2011: RM3,185,000) respectively.

However, the above amount is subject to approval of Inland Revenue Board of Malaysia.

**24. EARNINGS/(LOSS) PER SHARE**

**Basic earnings/(loss) per share**

The basic earnings/(loss) per share has been calculated by dividing the Group's profit/(loss) attributable to equity holders by the weighted average number of ordinary shares in issue during the financial year.

	2012	2011
Profit/(Loss) attributable to ordinary equity holders of the Company (RM'000)	<u>15,682</u>	<u>(6,051)</u>
Weighted average number of ordinary shares in issue (unit'000)	<u>762,080</u>	<u>762,080</u>
Basic earnings/(loss) per share ("EPS/LPS") (sen)	<u>2.06</u>	<u>(0.79)</u>

**Diluted earnings/(loss) per share**

For the purpose of calculating diluted earnings/(loss) per share, the profit/(loss) attributable to equity holders and the weighted average number of ordinary shares in issue during the year have been adjusted for the dilutive effects of all potential ordinary shares, i.e., warrants in issue.

	2012	2011
Profit/(Loss) attributable to ordinary equity holders of the Company (RM'000)	<u>15,682</u>	<u>(6,051)</u>
Weighted average number of ordinary shares in issue (unit'000)	762,080	762,080
Effect of Warrants (unit'000)	<u>381,040</u>	<u>381,040</u>
Adjusted weighted average number of ordinary shares (unit'000)	<u>1,143,120</u>	<u>1,143,120</u>
Diluted EPS/(LPS) (sen)	<u>1.37</u>	<u>(0.53)</u>

**25. DIVIDEND**

Dividend recognised during the financial year by the Company is:

	Sen per share	Total amount RM'000	Date of payment
2012			
Interim tax exempt dividend	4.5	<u>8,573</u>	23 December 2011

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**26. KEY MANAGEMENT PERSONNEL COMPENSATION**

The key management personnel compensations are as follows:

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Directors' remuneration				
- Fees	183	199	183	174
- Emoluments	2,028	2,087	780	730
Total short-term employee benefits	2,211	2,286	963	904
Post-employment benefits				
- Defined benefit plan expenses for a Director	186	24	186	24
	2,397	2,310	1,149	928
Other key management personnel				
- Short-term employee benefits	2,362	2,069	2,160	2,069
- Other long-term benefits	291	413	291	278
	5,050	4,792	3,600	3,275

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly and includes all the Directors of the Group.

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

In addition to their salaries, the Group also provides non-cash benefits to Directors amounted to RM34,800 (2011: RM34,800).

**27. EFFECTS ON DISPOSAL OF A SUBSIDIARY**

In the previous financial year, the Company disposed a total of 180,000,000 ordinary shares of RM0.10 each of its shares in Carotech Berhad comprising 19.74% equity interest for a total net consideration of RM12,600,000. After the disposals, the effective interest of the Company over Carotech Berhad is 38.45%. Therefore, Carotech Berhad is no longer accounted for as a subsidiary but equity accounted for as an associate.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**27. EFFECTS ON DISPOSAL OF A SUBSIDIARY (continued)**

Details of the assets, liabilities and net cash flow arising from the disposal of a subsidiary were as follows:

	RM'000
<b>Net asset position as at 31 August 2010</b>	
Property, plant and equipment	299,675
Product development expenditure and trademark	374
Inventories	58,504
Receivables, deposits and prepayments	7,858
Tax recoverable	2
Cash and deposits	591
Payables and accruals	(56,547)
Loan and borrowings	(257,737)
Taxation	(162)
	<hr/>
Net assets of the subsidiary	52,558
Less: Non-controlling interests	(21,977)
	<hr/>
Net assets disposed	30,581
Gain on disposal	6,576
	<hr/>
Deemed proceeds	37,157
Less: Fair value of retained interests, reclassified as an associate	(31,557)
Add: Cash and cash equivalents	26,002
	<hr/>
Cash flow on disposal, net of cash disposed	<u>31,602</u>

**28. OPERATING SEGMENTS**

The Group has two operating and reportable segments as described below:

Pharmaceutical	Manufacture and sale of pharmaceutical products.
Phytonutrient	Extraction and processing of nutrients from palm oil for the purpose of manufacturing and producing of pharmaceutical, phytonutrient and oleochemicals/biodiesel products.

Management monitors the operating results of business segments separately for the purpose of making decisions about resources to be allocated and of assessing performance.

**Segment profit**

Performance is measured based on segment profit before interest and tax as included in the internal management reports that are reviewed by the Board of Directors.

**Segment assets**

The total of segment asset is measured based on all assets (including goodwill) of a segment, as included in the internal management reports that are reviewed by the Board of Directors.

**Segment liabilities**

The total of segment liabilities is measured based on all liabilities of a segment, as included in the internal management reports that are reviewed by the Board of Directors.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**28. OPERATING SEGMENTS (continued)**

<b>Business Segments</b>					
<b>2012</b>	<b>Note</b>	<b>Pharmaceutical RM'000</b>	<b>Phytonutrient RM'000</b>	<b>Eliminations RM'000</b>	<b>Total RM'000</b>
<b>Revenue</b>					
External revenue		164,808	-	-	164,808
Inter-segment revenue	i	70,202	-	(70,202)	-
<b>Total revenue</b>		<b>235,010</b>	<b>-</b>	<b>(70,202)</b>	<b>164,808</b>
<b>Results</b>					
Profit from operations		25,848	7,060	-	32,908
Share of loss in an associate		-	(9,106)	-	(9,106)
Finance costs		(3,193)	-	-	(3,193)
Finance income		1,647	-	-	1,647
Profit/(Loss) before tax		24,302	(2,046)	-	22,256
Income tax expense		(6,498)	-	-	(6,498)
<b>Profit/(Loss) for the year</b>		<b>17,804</b>	<b>(2,046)</b>	<b>-</b>	<b>15,758</b>
<b>Assets</b>					
Segment assets		209,990	-	-	209,990
Unallocated assets	ii				186
<b>Total assets</b>					<b>210,176</b>
<b>Liabilities</b>					
Segment liabilities		84,628	-	-	84,628
Unallocated liabilities	iii				14,277
<b>Total Liabilities</b>					<b>98,905</b>
<b>Other information</b>					
Addition to property, plant and equipment		8,436	-	-	8,436
Addition to intangible assets		2,435	-	-	2,435
Changes in fair value of investment properties		150	-	-	150
Depreciation and amortisation		5,682	-	-	5,682
Realised gain on foreign exchange		1,933	-	-	1,933
Gain on disposal of property, plant and equipment		30	-	-	30
Gain on distribution of dividend-in-specie		952	-	-	952
Gain on deemed disposal of an associate		-	7,684	-	7,684



**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**28. OPERATING SEGMENTS (continued)**

**Business Segments (continued)**

2012	Note	Pharmaceutical RM'000	Phytonutrient RM'000	Eliminations RM'000	Total RM'000
<b>Other information</b>					
Impairment loss for goodwill		4,212	-	-	4,212
Impairment loss on receivables		306	-	-	306
Impairment loss on available-for-sale investment		-	6,412	-	6,412
Inventories written down		183	-	-	183
Inventories written off		763	-	-	763
Loss on foreign exchange					
- realised		1	-	-	1
- unrealised		152	-	-	152
Product development expenditure written off		2,226	-	-	2,226
Property, plant and equipment written off		35	-	-	35
Reversal of impairment loss on investment in an associate		-	1,422	-	1,422
Reversal of impairment loss on receivables		31	4,366	-	4,397
<b>2011</b>					
<b>Revenue</b>					
External revenue		145,189	8,267	-	153,456
Inter-segment revenue	I	69,886	-	(69,886)	-
Total revenue		215,075	8,267	(69,886)	153,456
<b>Results</b>					
Profit/(Loss) from operations		25,775	(13,849)	-	11,926
Share of loss in an associate		-	(9,108)	-	(9,108)
Finance costs		(3,915)	(2,636)	-	(6,551)
Finance income		1,561	-	-	1,561
Profit/(Loss) before tax		23,421	(25,593)	-	(2,172)
Income tax expense		(3,931)	(14)	-	(3,945)
Profit/(Loss) for the year		19,490	(25,607)	-	(6,117)

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**28. OPERATING SEGMENTS (continued)**

**Business Segments (continued)**

2011	Note	Pharmaceutical RM'000	Phytonutrient RM'000	Eliminations RM'000	Total RM'000
<b>Assets</b>					
Segment assets		200,873	-	-	200,873
Unallocated assets	ii				125
Total assets					<u>200,998</u>
<b>Liabilities</b>					
Segment liabilities		82,412	-	-	82,412
Unallocated liabilities	iii				13,086
Total liabilities					<u>95,498</u>
<b>Other information</b>					
Addition to property, plant and equipment		3,522	93	-	3,615
Addition to intangible asset		3,348	-	-	3,348
Bad debts written off		31	-	-	31
Depreciation and amortisation		5,557	2,805	-	8,362
Gain on foreign exchange - realised		1,656	-	-	1,656
- unrealised		-	5,855	-	5,855
Gain on disposal of property, plant and equipment		236	-	-	236
Gain on disposal of a subsidiary		6,576	-	-	6,576
Impairment loss on receivables		71	22,092	-	22,163
Impairment loss on investment in an associate		1,422	-	-	1,422
Inventories written down		308	-	-	308
Inventories written off		533	-	-	533
Loss on foreign exchange - realised		18	152	-	170
- unrealised		650	-	-	650
Preliminary expenses written off		1	-	-	1
Product development expenditure written off		3,573	-	-	3,573
Property, plant and equipment written off		305	-	-	305
Reversal of impairment loss on receivables		91	-	-	91

Notes:

- (i) Inter-segment revenues are eliminated on consolidation.
- (ii) Unallocated assets consist of tax recoverable and deferred tax assets.
- (iii) Unallocated liabilities consist of tax payable and deferred tax liabilities.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**28. OPERATING SEGMENTS (continued)**

**Geographical segments**

	Sales RM'000	Total assets RM'000	Capital expenditure RM'000
<b>2012</b>			
(i) Asia	132,529	206,014	8,370
(ii) Africa	30,316	-	-
(iii) North and South America	1,497	4,162	66
(iv) Europe	208	-	-
(v) Pacific Island	258	-	-
	<u>164,808</u>	<u>210,176</u>	<u>8,436</u>
<b>2011</b>			
(i) Asia	115,005	197,440	3,615
(ii) Africa	29,058	-	-
(iii) North and South America	2,568	3,558	-
(iv) Europe	6,618	-	-
(v) Pacific Island	207	-	-
	<u>153,456</u>	<u>200,998</u>	<u>3,615</u>

**Customers**

The Group does not have a single customer contributed to more than 10% of the Group's revenues.

**29. FINANCIAL INSTRUMENTS**

**29.1 Categories of financial instruments**

The table below provides an analysis of financial instruments categorised as follows:

- (a) Loans and receivables (L&R); and
- (b) Other financial liabilities (OL) measured at amortised cost.

	Carrying amount RM'000	L&R/ (OL) RM'000
<b>2012</b>		
<b>Financial assets</b>		
<b>GROUP</b>		
Receivables and deposits	43,061	43,061
Cash and deposits	23,207	23,207
	<u>66,268</u>	<u>66,268</u>

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**29. FINANCIAL INSTRUMENTS (continued)**

**29.1 Categories of financial instruments (continued)**

	<b>Carrying amount RM'000</b>	<b>L&amp;R/ (OL) RM'000</b>
<b>2012</b>		
<b>Financial assets</b>		
<b>COMPANY</b>		
Receivables and deposits	56,454	56,454
Cash and deposits	16,354	16,354
	<u>72,808</u>	<u>72,808</u>
<b>Financial liabilities</b>		
<b>GROUP</b>		
Loans and borrowings	(49,216)	(49,216)
Payables and accruals	(34,027)	(34,027)
	<u>(83,243)</u>	<u>(83,243)</u>
<b>COMPANY</b>		
Loans and borrowings	(37,732)	(37,732)
Payables and accruals	(28,806)	(28,806)
	<u>(66,538)</u>	<u>(66,538)</u>
<b>2011</b>		
<b>Financial assets</b>		
<b>GROUP</b>		
Receivables and deposits	35,841	35,841
Cash and deposits	8,769	8,769
	<u>44,610</u>	<u>44,610</u>
<b>COMPANY</b>		
Receivables and deposits	45,427	45,427
Cash and deposits	3,530	3,530
	<u>48,957</u>	<u>48,957</u>

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**29. FINANCIAL INSTRUMENTS (continued)**

**29.1 Categories of financial instruments (continued)**

	Carrying amount RM'000	L&R/ (OL) RM'000
<b>2011</b>		
<b>Financial liabilities</b>		
<b>GROUP</b>		
Loans and borrowings	(55,951)	(55,951)
Payables and accruals	<u>(25,262)</u>	<u>(25,262)</u>
	<u><u>(81,213)</u></u>	<u><u>(81,213)</u></u>
<b>COMPANY</b>		
Loans and borrowings	(41,278)	(41,278)
Payables and accruals	<u>(20,344)</u>	<u>(20,344)</u>
	<u><u>(61,622)</u></u>	<u><u>(61,622)</u></u>

**29.2 Net gains/(losses) arising from financial instruments**

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Net gains/(losses) arising on:				
- Loans and receivables	1,780	6,691	1,636	802
- Financial liabilities	<u>(3,193)</u>	<u>(6,551)</u>	<u>(2,213)</u>	<u>(2,905)</u>

**29.3 Financial risk management**

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

- Credit risk
- Liquidity risk
- Market risk

**(i) Credit risk**

Concentration of credit risk with respect to trade receivables is limited as the Group and the Company have a large number of customers in a broad spectrum of manufacturing and distribution sectors and a variety of end markets. The Group's and the Company's historical experiences in collection of trade receivables fall within the recorded allowances. Due to this factor, the Directors believe that no additional credit risk beyond amounts allowed for collection loss is inherent in the Group's and the Company's trade receivables.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**29. FINANCIAL INSTRUMENTS (continued)**

**29.3 Financial risk management (continued)**

**(i) Credit risk (continued)**

**Receivables**

**Risk management objectives, policies and processes for managing the risk**

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all new trade receivables.

**Exposure to credit risk, credit quality and collateral**

As at the end of the reporting period, the maximum exposure to credit risk arising from receivables is represented by the carrying amounts in the statement of financial position.

Management has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values. A significant portion of these receivables are regular customers that have been transacting with the Group and the Company. The Group and the Company use ageing analysis to monitor the credit quality of the receivables. Any receivables having significant balances past due more than 15 days, except for customers on Letter of Credit with credit terms ranging from 30 to 45 days, which are deemed to have higher credit risk, are monitored individually.

The exposure of credit risk for trade receivables as at the end of the reporting period by geographical region was:

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Malaysia	20,360	19,735	1,092	725
Africa	1,284	2,701	1,283	2,701
Asia	11,238	8,193	4,208	2,378
Others	251	115	251	115
	<u>33,133</u>	<u>30,744</u>	<u>6,834</u>	<u>5,919</u>

**Impairment losses**

The ageing of trade receivables as at the end of the reporting period was:

GROUP	Gross	Individually	Net
2012	RM'000	impaired RM'000	RM'000
Not past due	24,270	-	24,270
Past due 0-30 days	5,556	-	5,556
Past due 31-60 days	1,730	-	1,730
Past due 61-90 days	731	-	731
Past due more than 91 days	1,609	763	846
	<u>33,896</u>	<u>763</u>	<u>33,133</u>

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**29. FINANCIAL INSTRUMENTS (continued)**

**29.3 Financial risk management (continued)**

**(i) Credit risk (continued)**

**Impairment losses (continued)**

The ageing of trade receivables as at the end of the reporting period was: (continued)

<b>GROUP</b>	<b>Gross</b>	<b>Individually</b>	<b>Net</b>
	<b>RM'000</b>	<b>impaired</b>	<b>RM'000</b>
		<b>RM'000</b>	
<b>2011</b>			
Not past due	19,739	-	19,739
Past due 0-30 days	6,836	-	6,836
Past due 31-60 days	2,754	-	2,754
Past due 61-90 days	1,023	-	1,023
Past due more than 91 days	872	480	392
	<u>31,224</u>	<u>480</u>	<u>30,744</u>
<b>COMPANY</b>			
<b>2012</b>			
Not past due	37,778	62	37,716
Past due 0-30 days	1,717	5	1,712
Past due 31-60 days	136	-	136
Past due 61-90 days	568	-	568
Past due more than 91 days	875	789	86
	<u>41,074</u>	<u>856</u>	<u>40,218</u>
<b>2011</b>			
Not past due	27,617	271	27,346
Past due 0-30 days	3,054	39	3,015
Past due 31-60 days	813	-	813
Past due 61-90 days	701	-	701
Past due more than 91 days	629	607	22
	<u>32,814</u>	<u>917</u>	<u>31,897</u>

The movement in the accumulated impairment losses of trade receivables were as follows:

	<b>GROUP</b>	
	<b>2012</b>	<b>2011</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 July	480	566
Impairment loss recognised	306	71
Impairment loss reversed	(30)	(91)
Impairment loss written off	-	(66)
Foreign exchange translation	7	-
At 30 June	<u>763</u>	<u>480</u>

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**29. FINANCIAL INSTRUMENTS (continued)**

**29.3 Financial risk management (continued)**

**(i) Credit risk (continued)**

**Impairment losses (continued)**

As at 30 June 2012, trade receivables of the Group and of the Company amounting to approximately RM8,863,000 (2011: RM11,005,000) and RM2,502,000 (2011: RM4,551,000) respectively were past due but not impaired. These relate to a number of independent customers from whom there is no recent history of default.

**Inter-company balances**

**Risk management objectives, policies and processes for managing the risk**

The Company provides unsecured loans and advances to subsidiaries. The Company monitors the results of the subsidiaries regularly.

**Exposure to credit risk, credit quality and collateral**

As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

**Impairment losses**

As at the end of the reporting period, there was no indication that any further loans and advances to the subsidiaries which are not recoverable. The Company does not specifically monitor the ageing of current advances to the subsidiaries.

The movement in the accumulated impairment losses of amount due from subsidiaries were as follows:

	COMPANY	
	2012 RM'000	2011 RM'000
At 1 July	4,786	26,946
Transferred to amount due from an associate	-	(22,092)
Impairment loss reversed	(131)	(68)
At 30 June	<u>4,655</u>	<u>4,786</u>

**(ii) Liquidity risk**

Liquidity risk is the risk that the Group and the Company will not be able to meet their financial obligations as they fall due. The Group's and the Company's exposure to liquidity risk arises principally from their various payables, loans and borrowings.

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



**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**29. FINANCIAL INSTRUMENTS (continued)**

**29.3 Financial risk management (continued)**

**(ii) Liquidity risk (continued)**

**Maturity analysis**

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

2012	Carrying amounts RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000	1 – 2 years RM'000	2 – 5 years RM'000	More than 5 years RM'000
<b>GROUP</b>							
<b>Non-derivative financial liabilities</b>							
Secured term loans	8,486	2.70% - 14.25%	9,358	3,369	1,938	3,654	397
Secured bank overdrafts	7,533	7.05% - 14.25%	7,533	7,533	-	-	-
Secured bankers' acceptance	19,304	3.32% - 4.94%	19,304	19,304	-	-	-
Secured revolving credit	6,000	4.85% - 5.13%	6,000	6,000	-	-	-
Finance lease liabilities	1,852	3.40% - 7.43%	1,955	1,236	495	224	-
Payables and accruals	34,027	-	34,027	33,863	-	-	164
Long-term advances	6,041	10.00%	6,041	-	-	-	6,041
	<u>83,243</u>		<u>84,218</u>	<u>71,305</u>	<u>2,433</u>	<u>3,878</u>	<u>6,602</u>
<b>COMPANY</b>							
<b>Non-derivative financial liabilities</b>							
Secured term loans	4,936	2.70% - 6.60%	5,242	1,723	1,136	1,986	397
Secured bank overdrafts	6,093	7.60% - 9.10%	6,093	6,093	-	-	-
Secured bankers' acceptance	19,304	3.32% - 4.94%	19,304	19,304	-	-	-
Secured revolving credit	6,000	4.85% - 5.13%	6,000	6,000	-	-	-
Finance lease liabilities	1,399	4.18% - 7.43%	1,455	1,070	367	18	-
Payables and accruals	28,806	-	28,806	28,806	-	-	-
	<u>66,538</u>		<u>66,900</u>	<u>62,996</u>	<u>1,503</u>	<u>2,004</u>	<u>397</u>

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**29. FINANCIAL INSTRUMENTS (continued)**

**29.3 Financial risk management (continued)**

**(ii) Liquidity risk (continued)**

**Maturity analysis (continued)**

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

2011	Carrying amounts RM'000	Contractual interest rate %	Contractual cash flows RM'000	Under 1 year RM'000	1 – 2 years RM'000	2 – 5 years RM'000	More than 5 years RM'000
<b>GROUP</b>							
<b>Non-derivative financial liabilities</b>							
Secured term loans	12,275	2.70% - 14.25%	13,196	3,665	4,003	4,914	614
Secured bank overdrafts	6,096	7.05% - 9.10%	6,096	6,096	-	-	-
Secured bankers' acceptance	20,260	2.99% - 5.12%	20,260	20,260	-	-	-
Unsecured bankers' acceptance	1,135	4.91% - 5.08%	1,135	1,135	-	-	-
Secured revolving credit	6,000	3.29% - 5.15%	6,000	6,000	-	-	-
Finance lease liabilities	3,837	4.18% - 9.06%	4,092	2,352	1,224	516	-
Payables and accruals	25,262	-	25,262	25,163	-	-	99
Long-term advances	6,348	12.00%	7,109	-	7,109	-	-
	<u>81,213</u>		<u>83,150</u>	<u>64,671</u>	<u>12,336</u>	<u>5,430</u>	<u>713</u>
<b>COMPANY</b>							
<b>Non-derivative financial liabilities</b>							
Secured term loans	6,830	2.70% - 6.60%	7,321	2,191	1,602	2,914	614
Secured bank overdrafts	4,721	7.05% - 9.10%	4,721	4,721	-	-	-
Secured bankers' acceptance	20,260	2.99% - 5.12%	20,260	20,260	-	-	-
Secured revolving credit	6,000	3.29% - 5.15%	6,000	6,000	-	-	-
Finance lease liabilities	3,467	4.18% - 9.06%	3,683	2,222	1,113	348	-
Payables and accruals	20,344	-	20,344	20,344	-	-	-
	<u>61,622</u>		<u>62,329</u>	<u>55,738</u>	<u>2,715</u>	<u>3,262</u>	<u>614</u>

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**29. FINANCIAL INSTRUMENTS (continued)**

**29.3 Financial risk management (continued)**

**(iii) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other prices will affect the Group's and the Company's financial position or cash flows.

**Currency risk**

The Group and the Company are exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currency giving rise to this risk is primarily the US Dollar ("USD").

**Risk management objectives, policies and processes for managing the risk**

The availability of both inflow and outflow of USD arising from the normal business transactions of the Group and of the Company provide a natural hedge to foreign currency exchange risk.

**Exposure to foreign currency risk**

The Group's and the Company's exposure to USD risk, based on carrying amounts as at the end of the reporting period was:

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash and deposits	4,363	681	3,775	635
Receivables	5,655	4,644	3,360	4,445
Borrowings	(587)	(1,092)	(587)	(1,092)
Payables	(6,177)	(3,481)	(5,060)	(3,481)
Exposure in the statements of financial position	<u>3,254</u>	<u>752</u>	<u>1,488</u>	<u>507</u>

**Currency risk sensitivity analysis**

The Group and the Company are mainly exposed to the currency of USD. The management considers that the impact of other currencies to be minimal.

The following table details the sensitivity of the Group and of the Company to a 1% increase and decrease in RM against the relevant foreign currency. The sensitivity rate of 1% is used when reporting foreign currency risk internally to key management and represents management's assessment of the reasonably possible change in foreign exchange rates in the next 12 months.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in profit where RM strengthening by 1% against the respective currencies. For a 1% weakening of RM against the USD, there would be a decrease in the profit, and the balances would be negative. This analysis assumes that all other variables, in particular interest rates, remained constant and ignores any impact of forecasted sales and purchases.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**29. FINANCIAL INSTRUMENTS (continued)**

**29.3 Financial risk management (continued)**

**(iii) Market risk (continued)**

**Currency risk (continued)**

**Currency risk sensitivity analysis (continued)**

	GROUP		COMPANY	
	Profit or loss		Profit or loss	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
USD impact	33	8	15	5

**Interest rate risk**

The Group's and the Company's fixed rate borrowings are exposed to a risk of change in its fair value due to changes in interest rates. The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Short-term receivables and payables are not significantly exposed to interest rate risk.

**Risk management objectives, policies and processes for managing the risk**

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

The Group and the Company place cash balances with reputable licensed banks to generate interest income for the Group and the Company. The Group and the Company manage their interest rate risk by placing such balances on varying maturities and interest rate terms.

**Exposure to interest rate risk**

The interest rate profile of the Group's and the Company's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	GROUP		COMPANY	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
<b>Fixed rate instruments</b>				
Financial assets	7	28	38,300	31,784
Financial liabilities	(35,395)	(32,514)	(29,181)	(30,819)
	<u>(35,388)</u>	<u>(32,486)</u>	<u>9,119</u>	<u>965</u>
<b>Floating rate instruments</b>				
Financial assets	578	869	578	869
Financial liabilities	(13,542)	(23,437)	(8,551)	(10,459)
	<u>(12,964)</u>	<u>(22,568)</u>	<u>(7,973)</u>	<u>(9,590)</u>

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**29. FINANCIAL INSTRUMENTS (continued)**

**29.3 Financial risk management (continued)**

**(iii) Market risk (continued)**

**Interest rate risk (continued)**

**Interest rate risk sensitivity analysis**

**Fair value sensitivity analysis for fixed rate instruments**

The Group and the Company do not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

**Sensitivity analysis for floating rate instruments**

A change of 100 basis points ("bp") in interest rates at the reporting period would have increased/(decreased) post-tax profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	GROUP		COMPANY	
	Profit or loss 100 bp increase RM'000	Profit or loss 100 bp decrease RM'000	Profit or loss 100 bp increase RM'000	Profit or loss 100 bp decrease RM'000
<b>2012</b>				
Floating rate instruments	<u>(130)</u>	<u>130</u>	<u>(80)</u>	<u>80</u>
<b>2011</b>				
Floating rate instruments	<u>(226)</u>	<u>226</u>	<u>(96)</u>	<u>96</u>

**29.4 Fair value of financial instruments**

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

The fair value of the fixed rate loans is determined by discounting the relevant cash flows using current interest rate for similar financial instruments at the end of the reporting date. Since the current interest rates do not differ significantly from the intrinsic rate of this financial liability, the fair value of the loans, therefore, closely approximate their carrying values as at the end of the reporting date.

The carrying amount of floating rate loans approximate the fair value as they bear variable rates of interest determined based on a margin over the lender banks' effective cost of funds.

***Non-derivatives financial liabilities***

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period. For finance leases the market rate of interest is determined by reference to similar lease agreements.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**30. CAPITAL MANAGEMENT**

The Group's objectives when managing capital is to maintain a strong capital base and safeguard the Group's ability to continue as a going concern, so as to maintain investor, creditor and market confidence and to sustain future development of the business.

In the previous financial year, the Directors monitor and determine to maintain an optimal debt-to-equity ratio that complies with debt covenants and regulatory requirements as disclosed in Note 16. The debt-to-equity ratio was as follows:

	2011 RM'000
Total borrowings (Note 16)	49,603
Less: Cash and deposits (Note 13)	<u>(8,769)</u>
Net debt	<u>40,834</u>
Total equity	<u>105,500</u>
Debt-to-equity ratio	<u>0.39</u>

There were no changes in the Group's approach to capital management during the financial year.

Under the requirement of Bursa Malaysia PN No. 17/2005, the Group is required to maintain a consolidated shareholders' equity equal to or not less than the 25 percent of the issued and paid-up capital (excluding treasury shares) and such shareholders' equity is not less than RM40 million. The Group has complied with this requirement.

**31. OPERATING LEASES**

**Leases as lessee**

Non-cancellable operating lease rentals are payables as follows:

	GROUP	
	2012 RM'000	2011 RM'000
Less than 1 year	377	284
Between 1 and 5 years	<u>765</u>	<u>390</u>
	<u>1,142</u>	<u>674</u>

The non-cancellable operating lease commitments are in respect of tenancy agreements committed by subsidiaries.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**31. OPERATING LEASES (continued)**

**Leases as lessor**

The Group leases out its investment properties. The future minimum lease receivables under non-cancellable leases are as follows:

	<b>GROUP</b>	
	<b>2012</b> RM'000	<b>2011</b> RM'000
Less than 1 year	-	6

**32. CAPITAL COMMITMENTS**

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

	<b>GROUP/COMPANY</b>	
	<b>2012</b> RM'000	<b>2011</b> RM'000
Authorised and contracted for:		
- Purchase of property, plant and equipment	1,777	1,004
Authorised but not contracted for:		
- Leasehold land and buildings	5,000	6,552
	<u>6,777</u>	<u>7,556</u>

**33. RELATED PARTIES**

Significant transactions and balances of the Group and the Company, other than key management personnel compensation, are as follows:

	<b>Transaction value for year ended 30 June</b>		<b>Balances as at 30 June</b>	
	<b>2012</b> RM'000	<b>2011</b> RM'000	<b>2012</b> RM'000	<b>2011</b> RM'000
<b>Transactions with subsidiaries</b>				
<b>COMPANY</b>				
<b>Hovid Pharmacy Sdn. Bhd.</b>				
Sales	55,569	49,410	-	-
Interest income	1,378	1,049	-	-
Reallocation of common cost	2,857	2,061	-	-
Rental expense	(72)	(72)	-	-
Amount due from - trade	-	-	30,400	23,959
Amount due from - non-trade	-	-	2,984	3,577

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**33. RELATED PARTIES (continued)**

Significant transactions and balances of the Group and the Company, other than key management personnel compensation, are as follows: (continued)

	Transaction value for year ended 30 June		Balances as at 30 June	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>Transactions with subsidiaries</b>				
<b>COMPANY</b>				
<b>Carotech Berhad</b>				
Interest income	-	203	-	-
Reallocation of common cost	-	32	-	-
Purchases	-	(427)	-	-
Steam services expenses	-	(60)	-	-
<b>Hovid Inc.</b>				
Sales	4,540	3,419	-	-
Interest income	293	256	-	-
Reallocation of common cost	1,435	1,199	-	-
Amount due from - trade	-	-	1,610	201
Amount due from - non-trade	-	-	3,306	3,531
<b>Javid Sdn. Bhd.</b>				
Amount due from - non-trade	-	-	2,026	1,987
<b>Hovid Marketing Sdn. Bhd.</b>				
Sales	178	466	-	-
Purchases	(33)	(50)	-	-
<b>Hovid Life Science Pte. Ltd.</b>				
Amount due from - non-trade	-	-	136	130
<b>Hovid International Limited</b>				
Amount due from - non-trade	-	-	4,618	4,307
<b>Hovid Limited</b>				
Sales	3,106	4,067	-	-
Interest income	21	13	-	-
Reallocation of common cost	170	-	-	-
Amount due from - trade	-	-	1,374	1,818
Amount due from - non-trade	-	-	50	54
<b>Hovid Research Sdn. Bhd.</b>				
Rental income	970	1,260	-	-
Services rendered	(5,401)	(4,770)	-	-
Amount due from - non-trade	-	-	783	1,227



**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**33. RELATED PARTIES (continued)**

Significant transactions and balances of the Group and the Company, other than key management personnel compensation, are as follows: (continued)

	Transaction value for year ended 30 June		Balances as at 30 June	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>Transactions with subsidiaries</b>				
<b>COMPANY</b>				
<b>Agrovid S.A.S</b>				
Amount due from - non-trade	-	-	87	82
<b>Best Practice International Sdn. Bhd.</b>				
Amount due from - non-trade	-	-	15	13
<b>Biodeal Pharmaceuticals Pvt. Ltd.</b>				
Purchases	(1,373)	(5,949)	-	-
Amount due to - trade	-	-	-	(98)
Amount due to - non-trade	-	-	(338)	-
Amount due from - non-trade	-	-	-	244
<b>Transactions with a related party</b>				
<b>COMPANY</b>				
<b>Carotech Berhad</b>				
Sales	84	51	-	-
Interest income	1,638	1,487	-	-
Reallocation of common cost	415	392	-	-
Purchases	(4,887)	(1,393)	-	-
Steam services expenses	(360)	(300)	-	-
Amount due from - non trade	-	-	-	516
<b>GROUP</b>				
<b>Carotech Berhad</b>				
Sales	91	60	-	-
Interest income	1,638	1,487	-	-
Reallocation of common cost	415	392	-	-
Services income	39	136	-	-
Purchases	(4,887)	(1,393)	-	-
Administration charges	(2)	(5)	-	-
Steam services expenses	(360)	(300)	-	-
Amount due from - non trade	-	-	-	516
<b>Transaction with a company in which a Director has substantial financial interest</b>				
<b>GROUP</b>				
<b>Ho Yan Hor Holdings Sdn. Bhd.</b>				
Amount due to - non-trade	-	-	(1)	(101)

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**33. RELATED PARTIES (continued)**

Significant transactions and balances of the Group and the Company, other than key management personnel compensation, are as follows (continued):

	Transaction value for year ended 30 June		Balances as at 30 June	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>Transaction with a company in which a person connected with a Director has substantial financial interest</b>				
<b>GROUP</b>				
<b>Fnture Express Sdn. Bhd.</b>				
Purchase of computer equipment and accessories	<u>(132)</u>	<u>(120)</u>	<u>(63)</u>	<u>(72)</u>
<b>Transaction with a company in which a person connected with a Director has substantial financial interest</b>				
<b>COMPANY</b>				
<b>Fnture Express Sdn. Bhd.</b>				
Purchase of computer equipment and accessories	<u>(105)</u>	<u>(72)</u>	<u>(43)</u>	<u>(70)</u>

**34. SIGNIFICANT EVENTS**

**(a) Dividend-In-Specie ("DIS")**

On 15 August 2011, the Board announced that the Company is proposing to distribute a portion of its shareholding interest in Carotech by way of Dividend-In-Specie to the shareholders of the Company, on the basis of 25 ordinary shares of RM0.10 each in Carotech for every 100 ordinary shares of RM0.10 each held in the Company ("Proposed DIS").

On 24 August 2011, the Company made an application to the Securities Commission ("SC") for the approval of the Proposed DIS and arising from the need to include the audited financial statements for the year ended 30 June 2011 in the Proposed DIS exercise.

On 7 October 2011, an extension of time for submission of the application for declassification from PN17 to Bursa Malaysia Securities Berhad ("Bursa Malaysia") was sought by the Company to enable the inclusion of the audited results of the year ended 30 June 2011 in the Circular to Shareholders for the Proposed DIS. On 15 October 2011, Bursa Malaysia requested for further information with regards to the application dated 7 October 2011 in which the management responded on 17 October 2011.

On 28 October 2011, the Company received a letter from Bursa Malaysia noting that the application for extension of time has been received. As such, the suspension on the trading of the Company's securities and the de-listing of the Company in accordance with Paragraph 8.04 of the Main Market Listing Requirements ("MMLR") shall be deferred pending the decision on the Application.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**34. SIGNIFICANT EVENTS (continued)**

**(a) Dividend-In-Specie (continued)**

On 14 November 2011, Bursa Malaysia granted the Company an extension of time up to 28 February 2012 to undertake the regularisation plan to Bursa Malaysia. The Company's application for extension of time to undertake its regularisation plan to Bursa Malaysia was in view that the Company has not yet completed the implementation of the Proposed DIS which is part of its regularisation plan.

On 15 November 2011, the SC approved the Proposed DIS under Section 212(5) of the Capital Markets and Services Act 2007.

On 16 November 2011, the Circular to Shareholders in relation to the Proposed DIS of up to 236,048,650 ordinary shares of RM0.10 each in Carotech was issued.

On 1 December 2011, the Proposed DIS was duly approved by the shareholders during the Extraordinary General Meeting.

On 23 December 2011, the Proposed DIS was completed following the distribution of a total number of 190,520,005 Carotech Shares to the entitled shareholders of the Company.

On 16 January 2012, Bursa Malaysia informed that after due consideration of all facts and circumstances provided by the Company including the following factors:-

- (a) the profitability and growth of the Group's pharmaceutical segment for the past seven years up to 30 June 2011 as well as the latest financial quarter for the period ended 30 September 2011;
- (b) the completion of the distribution of a portion of its shareholdings in Carotech by way of DIS on 23 December 2011; and
- (c) that Hovid no longer triggers any of the criteria of PN17.

Bursa Malaysia decided to grant the Company a waiver from complying with paragraph 8.04(3) of the MMLR which requires a PN17 company to submit a regularisation plan to the relevant authority to regularise its condition. With the waiver being granted, Bursa Securities informed that the Company would be uplifted from its PN17 status effective 17 January 2012.

On 17 January 2012, the Company was uplifted from PN17 status.

**(b) Struck-off of a subsidiary**

On 14 March 2012, Ho Yan Hor (S) Pte. Ltd. ("HYH") received a notice from the Accounting and Corporate Regulatory Authority of Singapore that HYH had been struck-off from the register on 7 March 2012 pursuant to Section 344(2) of the Singapore Companies Act, Cap 50.

**35. EVENTS AFTER THE REPORTING PERIOD**

- (a) On 25 September 2012, the Company incorporated a wholly-owned subsidiary in Hong Kong known as Hovid (Hong Kong) Limited ("HHKL") with an authorised capital of HKD10,000 divided into 10,000 ordinary shares of HKD1.00 each with an issued and fully paid-up share capital of HKD1.00 comprising 1 ordinary share of HKD1.00 each. The principal activity of HHKL is trading of pharmaceutical products.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**35. EVENTS AFTER THE REPORTING PERIOD (continued)**

- (b) On 4 October 2012, the Board announced that the Company is proposing to undertake a renounceable rights issue of up to 571,560,000 Warrants at an issue price of RM0.02 for each Warrant on the basis of one (1) Warrant for every two (2) existing ordinary shares of RM 0.10 each held in the Company. In view of the Warrants 2008/2013 will only expire on 28 January 2013, the Proposed Rights Issue of Warrants is expected to be implemented after the expiry of Warrants 2008/2013.

**36. COMPARATIVES FIGURES**

- (a) Certain comparative figures in the financial statements have been reclassified on the face of the statements of comprehensive income and statements of cash flows to conform with the current year presentation.

	GROUP		COMPANY	
	As <u>reclassified</u> RM'000	As <u>previously reported</u> RM'000	As <u>reclassified</u> RM'000	As <u>previously reported</u> RM'000
<b>Statements of comprehensive income</b>				
Inventories written down	(308)	(246)	(287)	(225)
Inventories written off	(533)	-	(438)	-
Raw materials and packaging used	(51,126)	(51,721)	(49,804)	(50,304)
<b>Statements of cash flows</b>				
<i>Cash flows from operating activities</i>				
Bad debts written off	31	-	5	-
Bankers' acceptance	(20,183)	-	(6,824)	-
Changes in inventories	218	813	(3,689)	(3,189)
Changes in payables and Accruals	(1,269)	(1,268)	2,468	2,470
Changes in receivables, deposits and prepayments	2,829	2,769	(213)	(276)
Inventories written down	308	246	287	225
Inventories written off	533	-	438	-
Preliminary expenses written off	1	-	-	-
Reversal on impairment loss on receivables	(91)	-	(68)	-
<i>Cash flows from investing activities</i>				
Product development expenditure incurred	-	-	(3,353)	(3,354)
<i>Cash flows from financing activities</i>				
Repayment of short-term bank borrowings	-	(20,183)	-	(6,825)

- (b) The comparative information was not audited by Messrs SJ Grant Thornton.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**37. SUPPLEMENTARY INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES**

On 25 March 2010, Bursa Malaysia Securities Berhad ("Bursa Malaysia") issued a directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the retained earnings or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued another directive on the disclosure and the prescribed format of presentation.

The breakdown of the retained earnings of the Group and of the Company as at 30 June 2012, into realised and unrealised profits, pursuant to the directive, is as follows:

	GROUP		COMPANY	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Total retained earnings of the Company and its subsidiaries:				
- Realised	20,925	14,628	27,688	23,193
- Unrealised	(12,631)	(13,040)	(10,705)	(10,683)
	8,294	1,588	16,983	12,510
Total share of retained earnings of an associate:				
- Realised	-	(12,823)	-	-
- Unrealised	-	3,471	-	-
	8,294	(7,764)	16,983	12,510
Less: Consolidation adjustments	11,165	20,114	-	-
Total group retained earnings as per consolidated accounts	19,459	12,350	16,983	12,510

The determination of realised and unrealised profits is based on the Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by Malaysian Institute of Accountants on 20 December 2010.

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**HOVID BERHAD**  
(Incorporated in Malaysia)

and its subsidiaries

**STATEMENT BY DIRECTORS PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965**

In the opinion of the Directors, the financial statements set out on pages 6 to 96 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2012 and of their financial performance and cash flows for the year then ended.

In the opinion of the Directors, the information set out in Note 37 to the financial statements have been compiled in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

Signed on behalf of the Board of Directors in accordance with a resolution by the Board of Directors.



..... )  
HO SUE SAN @ DAVID HO SUE SAN )



..... )  
LIONG KAM HON )

Ipoh  
15 October 2012

**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**

**HOVID BERHAD**  
(Incorporated in Malaysia)

and its subsidiaries

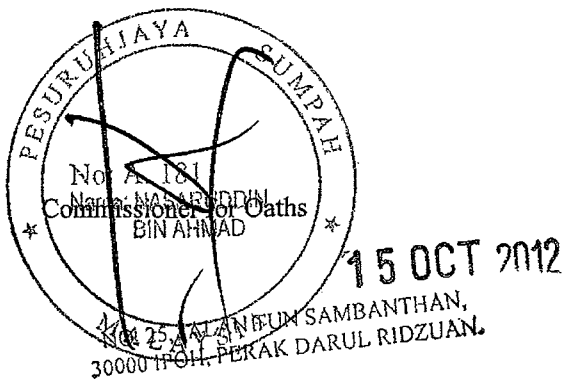
**STATUTORY DECLARATION PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965**

I, Ho Sue San @ David Ho Sue San, being the Director primarily responsible for the financial management of Hovid Berhad, do solemnly and sincerely declare that the financial statements set out on pages 6 to 96 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by  
the abovenamed at Ipoh in the State  
of Perak Darul Ridzuan on  
15 October 2012

)  
)  
)  
)  
.....  
HO SUE SAN @ DAVID HO SUE SAN

Before me:



**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**



**Grant Thornton**

An instinct for growth™

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF**

**HOVID BERHAD**  
(Incorporated in Malaysia)  
Company No: 58476-A

**SJ Grant Thornton** (AF:0737)

Level 11 Sheraton Imperial Court  
Jalan Sultan Ismail  
50250 Kuala Lumpur, Malaysia

T +603 2692 4022

F +603 2691 5229

www.gt.com.my

**Report on the Financial Statements**

We have audited the financial statements of Hovid Berhad which comprise the statement of financial position as at 30 June 2012 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as enumerated in Notes 1 to 36 and set out on pages 6 to 96.

*Directors' Responsibility for the Financial Statements*

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2012 and of their financial performance and cash flows for the financial year then ended.



**AUDITED CONDOLIDATED FINANCIAL STATEMENTS OF HOVID FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012 TOGETHER WITH THE AUDITORS' REPORT THEREON (Cont'd)**



An instinct for growth™

**Company No: 58476-A**

**Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:-

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- (b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, as disclosed in Note 7 to the financial statements.
- (c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (d) The auditors' reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174 (3) of the Act.

**Other Reporting Responsibilities**

Our audit was made for the purpose of forming an opinion on the financial statements taken as whole. The information set out in Note 37 on page 97 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by the Financial Reporting Standards. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

**Other Matters**

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

The financial statements of the Group and of the Company as at 30 June 2011 was audited by another firm whose report dated 24 October 2011 expressed an unqualified opinion on those statements.

**SJ GRANT THORNTON**  
(NO. AF: 0737)  
CHARTERED ACCOUNTANTS

**NG CHEE HOONG**  
(No: 2278/10/12(J))  
CHARTERED ACCOUNTANT

Kuala Lumpur  
15 October 2012

UNAUDITED CONSOLIDATED QUARTERLY REPORT OF HOVID FOR THE SIX (6)-MONTH  
FINANCIAL PERIOD ENDED 31 DECEMBER 2012

# hovid

Continuous Innovation & Quality

Hovid Bhd (Company no: 58476 A)

Condensed Consolidated Income Statement (unaudited)

For the Second Financial Quarter Ended 31 December 2012

CERTIFIED TRUE COPY

NG YUET SEAM (MAICSA 7005639)  
Company Secretary

	3 months ended		Year-to-date ended	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
<b>Revenue</b>	43,170	40,503	86,011	77,578
Other income	720	8,237	444	10,781
Operating expenses	(36,299)	(31,678)	(70,394)	(61,080)
<b>Profit from operations</b>	7,591	17,062	16,061	27,279
Depreciation & amortisation	(1,486)	(1,370)	(2,938)	(2,727)
Finance income	-	467	-	923
Finance costs	(776)	(743)	(1,365)	(1,535)
Share of loss of associate, net of tax	-	(2,833)	-	(9,106)
<b>Profit before tax</b>	5,329	12,583	11,758	14,834
Income tax expense	(1,030)	(1,543)	(2,428)	(2,983)
<b>Profit for the period</b>	4,299	11,040	9,330	11,851
<b>Attributable to:</b>				
Owners of the Company	4,207	10,756	9,149	11,260
Non-controlling interests	92	284	181	591
<b>Profit for the period</b>	4,299	11,040	9,330	11,851
<b>Earning per share attributable to owners of the Company (sen) (Note B10)</b>				
- Basic at nominal value of RM0.10 per share	0.6	1.4	1.2	1.5
- Diluted at nominal value of RM0.10 per share	0.4	0.9	0.8	1.0

The Condensed Consolidated Income Statement should be read in conjunction with the audited financial statements for the year ended 30 June 2012 and the accompanying explanatory notes attached to the interim financial statements.

**UNAUDITED CONSOLIDATED QUARTERLY REPORT OF HOVID FOR THE SIX (6)-MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2012 (Cont'd)**



Continuous Innovation & Quality

**Hovid Bhd (Company no: 58476 A)**

**Condensed Consolidated Statement of Comprehensive Income (unaudited)  
For the Second Financial Quarter Ended 31 December 2012**

	3 months ended		Year-to-date ended	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
<b>Profit for the period</b>	<b>4,299</b>	<b>11,040</b>	<b>9,330</b>	<b>11,851</b>
<b>Other comprehensive income/(loss):-</b>				
Foreign currency translation differences for foreign operations	(125)	(834)	(43)	(1,211)
Share of other comprehensive loss of associate	-	-	-	(32)
Realisation of other comprehensive income on disposal of associate	-	32	-	32
Foreign exchange reserve transferred to profit and loss account	-	599	-	599
Fair value of available-for-sale investment	-	(802)	-	(802)
	(125)	(1,005)	(43)	(1,414)
<b>Total comprehensive income for the period</b>	<b>4,174</b>	<b>10,035</b>	<b>9,287</b>	<b>10,437</b>
<b>Attributable to:</b>				
Owners of the Company	4,164	10,159	8,975	10,458
Non-controlling interests	10	(124)	312	(21)
<b>Total comprehensive income for the period</b>	<b>4,174</b>	<b>10,035</b>	<b>9,287</b>	<b>10,437</b>

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 30 June 2012 and the accompanying explanatory notes attached to the interim financial statements.

UNAUDITED CONSOLIDATED QUARTERLY REPORT OF HOVID FOR THE SIX (6)-MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2012 (Cont'd)

# hovid

Continuous Innovation & Quality

Hovid Bhd (Company no: 58476 A)

Condensed Consolidated Statement of Financial Position (Unaudited)

For the Second Financial Quarter Ended 31 December 2012

	As at 31.12.2012 (Unaudited) RM'000	As at 30.06.2012 (Audited) RM'000
<b>ASSETS</b>		
<b>Non-Current Assets</b>		
Property, plant and equipment	89,867	91,054
Intangible assets	19,437	19,663
Investment properties	1,680	1,680
Deferred tax assets	183	186
	111,167	112,583
<b>Current Assets</b>		
Inventories	28,514	29,543
Trade receivables	30,106	33,133
Other receivables, deposits and prepayments	13,481	11,710
Cash and bank balances	14,409	23,207
	86,510	97,593
<b>Total Assets</b>	<b>197,677</b>	<b>210,176</b>
<b>EQUITY</b>		
<b>Equity Attributable to Owners of the Company</b>		
Share capital	76,208	76,208
Share premium	90	90
Revaluation and other reserves	10,718	11,029
Retained earnings	28,855	19,459
	115,871	106,786
<b>Non-controlling interests</b>	5,071	4,485
<b>Total Equity</b>	<b>120,942</b>	<b>111,271</b>
<b>LIABILITIES</b>		
<b>Non-Current Liabilities</b>		
Deferred tax liabilities	11,430	11,514
Term loans	4,606	5,547
Hire purchase creditors	449	684
Provision for retirement benefit	1,485	1,385
Long-term advances	5,896	6,041
	23,866	25,171
<b>Current Liabilities</b>		
Trade payables	11,969	13,532
Other payables and accruals	20,937	20,495
Term loans	2,426	2,939
Short term borrowings	12,771	25,304
Bank overdrafts	1,646	7,533
Hire purchase creditors	582	1,168
Tax payable	2,538	2,763
	52,869	73,734
<b>Total Liabilities</b>	<b>76,735</b>	<b>98,905</b>
<b>Total Equity And Liabilities</b>	<b>197,677</b>	<b>210,176</b>
<b>Net Assets Per Share Attributable To Owners Of The Company (Sen)</b>	<b>15.20</b>	<b>14.01</b>

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 30 June 2012 and the accompanying explanatory notes attached to the interim financial statements.

**UNAUDITED CONSOLIDATED QUARTERLY REPORT OF HOVID FOR THE SIX (6)-MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2012 (Cont'd)**



Continuous Innovation & Quality

Hovid Bhd (Company no: 58476 A)

Condensed Consolidated Statements of Changes in Equity (unaudited)

For the Second Financial Quarter Ended 31 December 2012

	Attributable to Owners of the Company					Non-controlling Interests	Total Equity
	Non-distributable			Distributable	Total		
	Share capital RM'000	Share premium RM'000	Reserves RM'000	Retained earnings RM'000	RM'000		
<b>PERIOD ENDED 31 DECEMBER 2012</b>							
At 1 July 2012	76,208	90	11,029	19,459	106,786	4,485	111,271
Total comprehensive income for the period	-	-	(174)	9,149	8,975	312	9,287
Transactions with owners							
Warrant issue expenses			(137)	-	(137)	-	(137)
Issuance of shares to non-controlling interests						521	521
Dilution of interest in a subsidiary				247	247	(247)	-
<b>At 31 December 2012</b>	<b>76,208</b>	<b>90</b>	<b>10,718</b>	<b>28,855</b>	<b>115,871</b>	<b>5,071</b>	<b>120,942</b>
<b>YEAR ENDED 31 DECEMBER 2011</b>							
At 1 July 2011	76,208	90	11,672	12,350	100,320	5,180	105,500
Total comprehensive income/(loss) for the period	-	-	(802)	11,260	10,458	(21)	10,437
Transactions with owners							
Dividend-in-specie distributed	-	-	-	(8,573)	(8,573)	-	(8,573)
<b>At 31 December 2011</b>	<b>76,208</b>	<b>90</b>	<b>10,870</b>	<b>15,037</b>	<b>102,205</b>	<b>5,159</b>	<b>107,364</b>

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 30 June 2012 and the accompanying explanatory notes attached to the interim financial statements.

UNAUDITED CONSOLIDATED QUARTERLY REPORT OF HOVID FOR THE SIX (6)-MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2012 (Cont'd)

# hovid

Continuous Innovation & Quality

Hovid Bhd (Company no: 58476 A)

Condensed Consolidated Statement of Cash Flows (unaudited)

For the Second Financial Quarter Ended 31 December 2012

	Note	6 months ended	
		31.12.2012 RM'000	31.12.2011 RM'000
<b>Cash flows from operating activities</b>			
Profit before tax		11,758	14,834
<i>Adjustments for:</i>			
Impairment loss on receivables		19	26
Amortisation of intangible assets		260	246
Defined benefit plan expenses for a Director		100	93
Depreciation of property, plant and equipment		2,678	2,480
Gain on disposals of properties, plant and equipment		(47)	(30)
Gain on deemed disposal of an associate		-	(7,684)
Reversal of impairment loss for investment in an associate		-	(1,422)
Reversal of impairment loss on receivables		(10)	-
Interest expense		1,365	1,534
Interest income		-	(923)
Product development expenditure written off		1,600	-
Property, plant and equipment written off		20	9
Share of loss in an associate, net of tax		-	9,106
Unrealised loss on foreign exchange		100	1,255
Gain on distribution of dividend-in-specie		-	(953)
<b>Operating profit before changes in working capital</b>		17,843	18,571
Change in inventories		1,029	(4,180)
Change in receivables, deposits and prepayments		1,247	(1,565)
Change in payables and accruals		(2,117)	5,020
<b>Cash generated from operations</b>		18,002	17,846
Interest received		-	1,708
Interest paid		(514)	(1,283)
Tax paid		(2,728)	(1,570)
<b>Net cash from operating activities</b>		14,760	16,701

**UNAUDITED CONSOLIDATED QUARTERLY REPORT OF HOVID FOR THE SIX (6)-MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2012 (Cont'd)**



Continuous Innovation & Quality

**Hovid Bhd (Company no: 58476 A)**

**Condensed Consolidated Statement of Cash Flows (unaudited)**

**For the Second Financial Quarter Ended 31 December 2012**

	Note	6 months ended	
		31.12.2012 RM'000	31.12.2011 RM'000
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(1,656)	(2,466)
Repayment from an associate		-	516
Proceeds from disposals of property, plant and equipment		91	48
Product development expenditure incurred		(1,634)	(1,979)
<b>Net cash used in investing activities</b>		<b>(3,199)</b>	<b>(3,881)</b>
<b>Cash flows from financing activities</b>			
Pledged deposits with licensed banks		(33)	301
Proceeds from issuance of shares to non-controlling interests		521	-
Repayments of short-term bank borrowings		(12,533)	(2,519)
Repayments of hire purchase liabilities		(880)	(949)
Repayments of term loans		(1,450)	(1,762)
Payment of warrants issue expenses		(137)	-
<b>Net cash used in financing activities</b>		<b>(14,512)</b>	<b>(4,929)</b>
Change in cash and cash equivalents		(2,951)	7,891
Effect of exchange rates fluctuations on cash held		7	145
Cash and cash equivalents at beginning of the period		15,089	1,776
<b>Cash and cash equivalents at end of the period</b>	(I)	<b>12,145</b>	<b>9,812</b>

Note (I) Cash and cash equivalents comprises:

Deposits with licensed banks	618	596
Less: Pledged deposits with licensed banks	(618)	(596)
	-	-
Cash and bank balances	13,791	17,154
Bank overdraft	(1,646)	(7,342)
	<u>12,145</u>	<u>9,812</u>

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the year ended 30 June 2012 and the accompanying explanatory notes attached to the interim financial statements.

**UNAUDITED CONSOLIDATED QUARTERLY REPORT OF HOVID FOR THE SIX (6)-MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2012 (Cont'd)**



**Continuous Innovation & Quality**

**Hovid Bhd (Company no: 58476 A)**

**Quarterly financial report (unaudited)**

**For the Second Financial Quarter Ended 31 December 2012**

**Explanatory Notes as per FRS 134, Interim Financial Reporting**

**A1 Basis of preparation**

The condensed interim financial statements are unaudited and have been prepared in accordance with the requirements of Malaysian Financial Reporting Standard ("MFRS") 134, *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board ("MASB"), and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. These condensed interim financial statements also comply with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* issued by the International Accounting Standard Board ("IASB").

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 30 June 2012. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 30 June 2012.

Since the previous annual audited financial statements as at 30 June 2012 were issued, the Group has adopted the MFRS framework issued by the MASB with effect from 1 July 2012. This MFRS framework was introduced by the MASB in order to fully converge Malaysia's existing Financial Reporting Standards ("FRS") framework with the International Financial Reporting Standards ("IFRS") framework issued by the IASB.

In compliance with MFRS, MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards* has been applied in this interim report. The transition from FRS to MFRS does not have any significant impact to the financial statements of the Group. The audited financial statements of the Group for the financial year ended 30 June 2012 were prepared in accordance with FRS. As the requirements under FRS are similar, the significant accounting policies and method of computation adopted in these quarterly interim financial statements are consistent with those adopted in the most recent annual audited financial statements for the year ended 30 June 2012.

**A2 Audit report of preceding annual financial statements**

The audit report of the preceding annual financial statements was not subject to any qualification.

**A3 Comment about seasonal or cyclical factors**

The business operations of the Group were not materially affected by any seasonal or cyclical factors during the quarter under review.

**A4 Unusual items affecting assets, liabilities, equities, net income or cash flows**

There were no items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence during the quarter under review.

**A5 Significant estimates and changes in estimates**

There were no changes in estimates that have had any material effect during the quarter under review.

**A6 Debt and equity securities**

There were no issuance and repayment of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the quarter under review.

**A7 Dividend paid**

No dividend was paid during the quarter under review.



**UNAUDITED CONSOLIDATED QUARTERLY REPORT OF HOVID FOR THE SIX (6)-MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2012 (Cont'd)**

# hovid

Continuous Innovation & Quality

Hovid Bhd (Company no: 58476 A)

Quarterly financial report (unaudited)

For the Second Financial Quarter Ended 31 December 2012

Explanatory Notes as per FRS 134, Interim Financial Reporting

**A8 Segment information**

The Group's primary reporting format is based on business segments. Prior to 23 December 2011, the group business segments were the pharmaceutical ("Hovid Segment") and the phytonutrient/oleochemical/biodiesel ("Carotech Segment") industries. From 23 December 2011, the Group's business segment is solely in pharmaceutical industry.

	3 months ended		Year-to-date ended	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
<b>Revenue</b>				
Hovid Segment	43,170	40,503	86,011	77,578
Carotech Segment	-	-	-	-
Group revenue	43,170	40,503	86,011	77,578
<b>Profit before tax and non-recurring item</b>				
Hovid Segment	5,329	7,732	11,758	14,834
Carotech Segment (a)	-	(2,833)	-	(7,684)
Group profit before tax	5,329	4,899	11,758	7,150
<b>Non-recurring item</b>				
Carotech Segment				
Gain on disposal of investment in Carotech (b)	-	7,684	-	7,684
Total non-recurring item	-	7,684	-	7,684
<b>Profit before tax and after non-recurring item</b>				
Hovid Segment	5,329	7,732	11,758	14,834
Carotech Segment (a+b)	-	4,851	-	-
Group profit before tax and after non-recurring item	5,329	12,583	11,758	14,834
<b>Profit after tax and non-recurring item</b>				
Hovid Segment	4,299	6,189	9,330	11,851
Carotech Segment	-	4,851	-	-
Net profit after tax and non-recurring item	4,299	11,040	9,330	11,851

**A9 Valuation of property, plant and equipment**

The Group did not carry out any revaluation on its property, plant and equipment during the quarter under review.

**A10 Material subsequent events**

There was no material event subsequent to the end of the current financial quarter.

**A11 Changes in the composition of the Group**

There were no changes to the composition of the Group during the quarter under review, other than the following:-

On 27 December 2012, Hovid International Limited ("HIL"), a wholly-owned subsidiary incorporated in British Virgin Islands, had diluted its equity interest in Agrovid S.A.S ("Agrovid"), a company incorporated in Republic of Colombia, from 100% to 92.83% arising from the allotment of 1,730 (one thousand, seven hundred and thirty only) new ordinary shares of Col Peso\$100,000 each of Agrovid to non-controlling interests.

**A12 Changes in contingent liabilities and contingent assets**

There were no material changes in contingent liabilities or contingent assets since the date of last annual report as at 30 June 2012, to the date of this report.

**UNAUDITED CONSOLIDATED QUARTERLY REPORT OF HOVID FOR THE SIX (6)-MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2012 (Cont'd)**



Continuous Innovation & Quality

Hovid Bhd (Company no: 58476 A)

Quarterly financial report (unaudited)

For the Second Financial Quarter Ended 31 December 2012

Explanatory Notes as per FRS 134, Interim Financial Reporting

**A13 Significant related parties transactions**

Transactions with a company in which a director has substantial financial interest:-

	3 months ended		Year-to-date ended	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
<b>Carotech Group</b>				
Sales	41	-	50	-
Reallocation of common cost	11	-	88	-
Purchases	(11)	-	(718)	-
Steam service expense	(150)	-	(240)	-
Rental of boiler and motor vehicle	(6)	-	(9)	-

**A14 Capital commitments**

The Group's capital commitments not provided for in the interim financial statements as at balance sheet date were as follows:-

	RM'000
<b>Plant and equipment</b>	
Authorised and contracted	558
Authorised but not contracted	37,500
<b>Total capital commitments</b>	<b>38,058</b>

**UNAUDITED CONSOLIDATED QUARTERLY REPORT OF HOVID FOR THE SIX (6)-MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2012 (Cont'd)**

# hovid

Continuous Innovation & Quality

Hovid Bhd (Company no: 58476 A)

Quarterly financial report (unaudited)

For the Second Financial Quarter Ended 31 December 2012

Explanatory Notes Pursuant to the Listing Requirements of Bursa Malaysia Securities Berhad

**B1 Review of performance**

	3 months ended		Year-to-date ended	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
<b>Revenue</b>				
Hovid Segment	43,170	40,503	86,011	77,578
Carotech Segment	-	-	-	-
Group revenue	43,170	40,503	86,011	77,578
<b>Profit before tax and non-recurring item</b>				
Hovid Segment	5,329	7,732	11,758	14,834
Carotech Segment				
- Share of loss in an associate, net of tax	-	(2,833)	-	(9,106)
- Reversal of impairment loss on investment in Carotech	-	-	-	1,422
Group profit before tax and non-recurring item	5,329	4,899	11,758	7,150
<b>Non-recurring item</b>				
Carotech Segment				
Gain on disposal of investment in Carotech	-	7,684	-	7,684
Total non-recurring item	-	7,684	-	7,684
<b>Profit before tax and after non-recurring item</b>				
Hovid Segment	5,329	7,732	11,758	14,834
Carotech Segment				
- As associate, share of loss net of tax	-	(2,833)	-	(9,106)
- Gain on disposal of investment in Carotech	-	7,684	-	7,684
- Reversal of impairment loss on investment in Carotech	-	-	-	1,422
Group profit before tax and after non-recurring item	5,329	12,583	11,758	14,834
<b>Profit after tax and non-recurring item</b>				
Hovid Segment	4,299	6,189	9,330	11,851
Carotech Segment				
- Share of loss in an associate, net of tax	-	(2,833)	-	(9,106)
- Gain on disposal of investment in Carotech	-	7,684	-	7,684
- Reversal of impairment loss on investment in Carotech	-	-	-	1,422
Net profit after tax and non-recurring item	4,299	11,040	9,330	11,851

**For the Quarter**

The Group's revenue which arose solely from Hovid segment, amounted to RM43.2 million was 6.6% higher as compared to the corresponding quarter last year of RM40.5 million mainly due to increased orders from customers.

The result of the Group for the corresponding quarter last year was affected by a non-recurring gain of RM7.7 million. This relates to the gain on deemed disposal of investment in Carotech Bhd, the then associate company, upon the completion of distribution of a portion of Hovid's shareholding in Carotech Bhd as dividend-in-specie, when the investment in Carotech was reduced to 17.6%, and it was classified as a simple investment in the books of Hovid.

**UNAUDITED CONSOLIDATED QUARTERLY REPORT OF HOVID FOR THE SIX (6)-MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2012 (Cont'd)**

**hovid**

Continuous Innovation & Quality

Hovid Bhd (Company no: 58476 A)

Quarterly financial report (unaudited)

For the Second Financial Quarter Ended 31 December 2012

Explanatory Notes Pursuant to the Listing Requirements of Bursa Malaysia Securities Berhad

The Group's pre-tax profit ("PBT") was RM5.3 million for the current quarter, an increase of 8.8% as compared to the corresponding quarter last year of RM4.9 million before accounting for the abovementioned non-recurring item. Hovid segment PBT for the current quarter was RM5.3 million, a decrease of 31.1% as compared to the corresponding quarter last year of RM7.7 million. The poorer result was mainly due to the lower profit margin arising from increase in staff costs, operational expenses and promotional discounts given.

Carotech was an associate company up to 22 December 2011, thereafter it became a simple investment to the Group. Accordingly, the share of result in Carotech was accounted for the period up to 22 December 2011 in the previous financial year.

After accounting for the non-recurring item, the Group PBT for the current quarter of RM5.3 million was 57.6% lower in comparison to last year corresponding quarter of RM12.6 million.

**Year-to-date**

The Group's revenue amounted to RM86.0 million was 10.9% higher as compared to the corresponding period last year of RM77.6 million mainly due to increased orders from customers.

The Group's pre-tax profit ("PBT") was RM11.8 million for the current period, an increase of 64.4% as compared to the corresponding period last year of RM7.2 million before accounting for the abovementioned non-recurring item of RM7.7 million which occurred during the second quarter of the previous financial year. Hovid segment PBT for the current period was RM11.8 million, a decrease of 20.7% as compared to the corresponding period last year of RM14.8 million. The decrease was mainly due to the lower profit margin arising from increase in staff costs, operational expenses and promotional discounts given.

After accounting for the non-recurring item, the Group PBT for the current period of RM11.8 million was 20.7% lower in comparison to the corresponding period last year of RM14.8 million.

**B2 Results comparison with preceding quarter**

	Quarter ended	
	31.12.2012 RM'000	30.9.2012 RM'000
<b>Revenue</b>		
Hovid Segment	43,170	42,841
Carotech Segment	-	-
Group	43,170	42,841
<b>Profit before tax</b>		
Hovid Segment	5,329	6,429
Carotech Segment	-	-
Group	5,329	6,429

The Group's revenue which solely arose from Hovid segment amounted to RM43.2 million during the reporting quarter as compared to RM42.8 million for the preceding quarter, representing an increase of 0.8%. The increase in sales in comparison to the preceding quarter was due to improved sales orders.

The Group PBT for the current quarter was RM5.3 million, a decrease of 17.1% in comparison to the preceding quarter of RM6.4 million. The poorer result was due to the lower profit margin arising from increase in operational costs and promotional discounts given.

**UNAUDITED CONSOLIDATED QUARTERLY REPORT OF HOVID FOR THE SIX (6)-MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2012 (Cont'd)**



Continuous Innovation & Quality

Hovid Bhd (Company no: 58476 A)

Quarterly financial report (unaudited)

For the Second Financial Quarter Ended 31 December 2012

Explanatory Notes Pursuant to the Listing Requirements of Bursa Malaysia Securities Berhad

**B3 Commentary on Prospects**

Barring any unforeseen circumstances, the outlook for the Group is expected to be satisfactory as the Group is actively securing new overseas markets and registration of new products.

The Group will continue to enhance its competitive edge by continually placing emphasis in research and development and improving its production processes to achieve better efficiency.

**B4 Profit forecast, profit guarantee and internal targets**

The Group did not provide any profit forecast, profit guarantee and internal targets in any public document or any announcements made.

**B5 Income tax expense**

	3 months ended		Year-to-date ended	
	31.12.2012 RM'000	31.12.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000
Income tax expense	1,058	1,472	2,507	3,040
Deferred taxation	(28)	71	(79)	(57)
Based on the results for the period	1,030	1,543	2,428	2,983

The effective tax rate of the Group for the financial year is lower than the statutory rate applicable mainly due the tax incentive enjoyed by the Group.

**B6 Status of corporate proposal**

There are no corporate proposals announced but not completed for the quarter under review other than the following:-

On 4 October 2012, the Board announced that the Company is proposing to undertake a renounceable Rights Issue of up to 571,560,000 Warrants at an issue price of RM0.02 for each Warrant on the basis of one (1) Warrant for every two (2) existing ordinary shares of RM 0.10 each held in the Company. In view that the Warrants 2008/2013 will only expire on 28 January 2013, the Proposed Rights Issue of Warrants is expected to be implemented after the expiry of Warrants 2008/2013.

On 3 December 2012, applications were made to Bursa Malaysia Securities Berhad ("Bursa Securities") and Bank Negara Malaysia ("BNM") on the abovementioned Proposed Rights Issue of Warrants. Approvals were obtained from Bursa Securities, BNM and shareholders on 13 December 2012, 18 December 2012 and 18 February 2013, respectively.

**B7 Borrowings and debt securities**

Details of the Group's bank borrowings as at end of the reporting period were as follows :-

	Current RM'000	Non-current RM'000	Total RM'000
Secured	17,425	5,055	22,480

The bank borrowings denominated in foreign currency are as follows:-

Denominated in US Dollar	308
Denominated in Philippines Peso	229
Denominated in Indian Rupees	<u>2,206</u>

**B8 Material litigation**

There were no material litigation against the Group as at the reporting date, that arose since the date of last annual report.

**UNAUDITED CONSOLIDATED QUARTERLY REPORT OF HOVID FOR THE SIX (6)-MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2012 (Cont'd)**



Continuous Innovation & Quality

Hovid Bhd (Company no: 58476 A)

Quarterly financial report (unaudited)

For the Second Financial Quarter Ended 31 December 2012

Explanatory Notes Pursuant to the Listing Requirements of Bursa Malaysia Securities Berhad

**B9 Dividend payable**

No dividend has been declared or recommended in respect of the financial period under review.

**B10 Earnings per share**

The basic earning per share has been calculated by dividing the Group's net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the financial period. For the purpose of calculating diluted earnings per share, the profit attributable to shareholders and the weighted average number of ordinary shares in issue during the period have been adjusted for the dilutive effects of all potential ordinary shares, ie, warrants in issue.

	3 months ended		Year-to-date ended	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Net profit attributable to shareholders	RM'000 4,207	RM'000 10,756	RM'000 9,149	RM'000 11,260
<u>Number of ordinary shares</u>				
	'000	'000	'000	'000
Weighted average number of ordinary shares (basic)	762,080	762,080	762,080	762,080
Effects of Warrants	381,040	381,040	381,040	381,040
Weighted average number of ordinary shares (diluted)	1,143,120	1,143,120	1,143,120	1,143,120
<u>Earning per share</u>				
	Sen	Sen	Sen	Sen
Earning per share at nominal value of RM0.10 per share:-				
Basic	0.6	1.4	1.2	1.5
Diluted	0.4	0.9	0.8	1.0

**B11 Profit for the period**

Included in the profit for the period are:-

	Current quarter RM'000	Year-to-date RM'000
Finance income	-	-
Other income	183	273
Finance cost	(748)	(1,365)
Depreciation and amortisation	(1,487)	(2,938)
Impairment loss on receivables	(15)	(19)
Impairment loss on receivables written back	7	10
Gain on disposal of property, plant and equipment	31	47
Inventories written off	(154)	(236)
Foreign exchange gain/(loss)	500	115
Gain/(loss) on derivatives	-	-
Exceptional items	-	-

**UNAUDITED CONSOLIDATED QUARTERLY REPORT OF HOVID FOR THE SIX (6)-MONTH FINANCIAL PERIOD ENDED 31 DECEMBER 2012 (Cont'd)**



Continuous Innovation & Quality

Hovid Bhd (Company no: 58476 A)

Quarterly financial report (unaudited)

For the Second Financial Quarter Ended 31 December 2012

Explanatory Notes Pursuant to the Listing Requirements of Bursa Malaysia Securities Berhad

**B12 Realised and unrealised profits and losses disclosure**

	As at 31.12.2012 RM'000	As at 30.06.2012 RM'000
Total retained profits of Hovid and its subsidiaries:-		
Realised	30,400	20,925
Unrealised	(12,512)	(12,631)
Total	17,888	8,294
Consolidation adjustments	10,967	11,165
Total group retained earnings	28,855	19,459

Authorisation for issue

On 18 February 2013, the Board of Directors authorised this interim report for issue.

On behalf of the Board,  
Goh Tian Hock  
Ng Yuet Seam  
Joint Secretaries

# hovid

Continuous Innovation & Quality

何人可有限公司

Date: 02 MAY 2013

Registered office:  
No. 121, Jalan Tunku Abdul Rahman  
30010 Ipoh  
Perak Darul Ridzuan  
Malaysia

To: **The Shareholders of Hovid Berhad**

Dear Sir/Madam,

On behalf of the Board of Directors ("**Board**") of Hovid Berhad ("**Hovid**"), and after making due enquiries, I report that save as disclosed in this Abridged Prospectus, during the period from 30 June 2012 (being the date to which the last audited financial statements of Hovid and its subsidiaries ("**Hovid Group**") have been made) to the date hereof (being a date not earlier than fourteen (14) days before the date of issue of this Abridged Prospectus):

- (a) the business of the Hovid Group has, in the opinion of the Board, been satisfactorily maintained;
- (b) in the opinion of the Board, no circumstance has arisen since the last audited financial statements of the Hovid Group which has adversely affected the trading or the value of the assets of the Hovid Group;
- (c) the current assets of the Hovid Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in the Abridged Prospectus, there is no contingent liability by reason of any guarantee or indemnity given by the Hovid Group;
- (e) there has been no default or any known event since the last audited financial statements of the Hovid Group, that could give rise to a default situation, on payments of either interest and/or principal sums in relation to any borrowings of which the Board is aware of; and
- (f) save as disclosed in the latest unaudited financial results of the Hovid Group for the six (6)-month financial period ended 31 December 2012, there has been no material change in the published reserves or any unusual factors affecting the profits of the Hovid Group since the last audited financial statements of the Hovid Group.

Yours faithfully  
for and on behalf of the Board of  
**HOVID BERHAD**



**HO SUE SAN @ DAVID HO SUE SAN**  
**CHAIRMAN & MANAGING DIRECTOR**

**HOVID Bhd.** (58476-A)  
*(formerly known as Hovid Sdn. Bhd.)*

121, Jalan Tunku Abdul Rahman *(formerly known as Jalan Kuala Kangsar)*, 30010 Ipoh, Perak, Malaysia.  
Tel : 60(5) 506 0690, 60(5) 236 2988 • Fax : 60(5) 506 1215 • E-mail : info@hovid.com • Website : www.hovid.com



Certificate Number : SG06/0784



**1. SHARE CAPITAL**

- 1.1 No securities will be allotted and issued on the basis of this Abridged Prospectus later than twelve (12) months after the date of the issue of this Abridged Prospectus.
- 1.2 As at the LPD, save for the provisional allotment of the Warrants under the Rights Issue of Warrants as disclosed in Section 3 of this Abridged Prospectus, no other person has been or is entitled to be given an option to subscribe for any securities, shares or debentures in our Company or any of our subsidiaries.

**2. ARTICLES OF ASSOCIATION**

- 2.1 There is no shareholding qualification for our Directors.
- 2.2 The provisions in our Company's Articles of Association in dealing with the remuneration of our Directors are as follows:

**Article 92**

- (1) *The fees payable to the Directors shall from time to time be determined by an ordinary resolution of the Company in general meeting provided that such fees shall not be increased except pursuant to an ordinary resolution passed at a general meeting, where notice of the proposed increase has been given in the notice convening the meeting.*
- (2) *In addition to the fees payable to the Directors as provided in Article 92 (1), executive Directors shall, subject to the terms of any agreement entered into in any particular case, receive such remuneration as the Directors may from time to time determine.*
- (3) *Fees payable to non-executive Directors shall be a fixed sum and not by a commission on or percentage of profits or turnover.*
- (4) *Salaries payable to executive Directors may not include a commission on or percentage of turnover.*
- (5) *Any fee paid to an alternate Director shall be such as shall be agreed between himself and the Director nominating him and shall be paid out of the remuneration of the latter.*

**Article 93**

- (1) *The Directors shall be paid all travelling and other expenses properly and necessarily incurred by them in and about the business of the Company including their travelling and other expenses incurred in attending general meetings, meetings of the Directors or committee of Directors of the Company or other meetings in connection with the business of the Company and in the course of the performance of their duties as Directors.*

- (2) *Without limiting the generality of the foregoing Articles, if any Director being willing shall be called upon to render special duties or services outside his ordinary duties as a Director or if any Director being willing shall be called upon to perform extra services or to make any special efforts in going or residing away from his usual place of business or residence for any of the purposes of the Company or in giving special attention to the business of the Company as a member of a committee of Directors, the Company may remunerate the Director so doing either by a fixed sum or otherwise (other than by a commission on or percentage of profits or turnover) as may be determined by the Board of Directors and such remuneration may be, either in addition to or in substitution for his or their share in the remuneration from time to time provided for the Directors. Any extra remuneration payable to non-executive Directors shall not include a commission on or percentage of profits or turnover.*

Article 116

*The remuneration of a Managing Director shall be fixed by the Directors and may be by way of salary or commission on or percentage of profits or otherwise or by any or all of these modes but such remuneration shall not include a commission on or a percentage of turnover. There may be a term in his appointment that he shall receive pension, gratuity or other benefits upon retirement.*

**3. MATERIAL CONTRACT**

Save for the Deed Poll, our Board has confirmed that neither our Company nor our subsidiaries has entered into any material contract (not being contracts entered into in the ordinary course of business), during the two (2) years immediately preceding the date of this Abridged Prospectus.

**4. MATERIAL LITIGATION**

Our Board has confirmed that as at the LPD, neither our Company nor our subsidiaries are engaged in any material litigation either as plaintiff or defendant, and our Board has no knowledge of any proceedings pending or threatened against our Company or our subsidiaries or of any facts likely to give rise to any proceedings which might materially and adversely affect the financial position or business of our Company or our subsidiaries.

**5. GENERAL**

- 5.1 Save as disclosed below, none of the other Directors has any existing or proposed service contracts with our Company or any of our subsidiaries, excluding contracts expiring or determinable by the employing company without payment or compensation (other than statutory compensation) within one (1) year:
- (i) the letter of appointment dated 1 March 2013 (“**Letter of Appointment**”) between the Company and DHSS in respect of the appointment of DHSS as the Managing Director of the Company for the period from 1 March 2013 until 30 June 2018 and subject to the terms and conditions of the Letter of Appointment.

- 5.2 Save as disclosed in this Abridged Prospectus and to the best of our Directors' knowledge, as at the LPD, in connection with the financial condition and operations of our Group there are no:
- (i) known trends or demands, commitments, events or uncertainties that will or are likely to materially increase or decrease the liquidity of our Group other than in the ordinary course of business;
  - (ii) material commitments for capital expenditure;
  - (iii) unusual, infrequent events or transactions or any significant economic changes which materially affected the amount of reported income from the operations of our Group other than in the ordinary course of business;
  - (iv) known trends or uncertainties which have had, or will have, a material favourable or unfavourable impact on revenues or operating income; and
  - (v) substantial increase in revenue.
- 5.3 Save as disclosed in this Abridged Prospectus, our Board is not aware of any material information including special trade factors or risks which are not mentioned elsewhere and which are unlikely to be known or anticipated by the general public and which could materially affect the profits of our Group.

## 6. CONSENTS

The written consents of the Principal Adviser, Company Secretaries, Solicitors, Principal Bankers, Share Registrar and Bloomberg Finance L.P. to the inclusion in this Abridged Prospectus of their names in the form and context in which they appear have been given and have not subsequently been withdrawn before the issuance of this Abridged Prospectus.

The written consent of the Auditors/Reporting Accountants to the inclusion in this Abridged Prospectus of its name, Reporting Accountants' letter accompanying the proforma consolidated statements of financial position of Hovid as at 30 June 2012 and the auditors' report accompanying the audited consolidated financial statements of Hovid for the FYE 30 June 2012 in the form and context in which they appear has been given and has not subsequently been withdrawn before the issuance of this Abridged Prospectus.

## 7. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the Registered Office of our Company at No. 121, Jalan Tunku Abdul Rahman, 30010 Ipoh, Perak Darul Ridzuan during normal office hours on Mondays to Fridays (except public holidays) for a period of twelve (12) months commencing from the date of this Abridged Prospectus:

- (i) Memorandum and Articles of Association of Hovid;
- (ii) audited consolidated financial statements of Hovid for the FYE 30 June 2010, 30 June 2011 and 30 June 2012;
- (iii) unaudited consolidated results of our Group for the six (6)-month FPE 31 December 2012;
- (iv) proforma consolidated statements of financial position of Hovid as at 30 June 2012 together with the Reporting Accountants' letter thereon;
- (v) material contract referred to in Section 3 of this appendix;

- 
- (vi) Letter of Appointment referred to in Section 5.1 of this appendix;
  - (vii) letters of consent referred to in Section 6 of this appendix;
  - (viii) certified true extract of the shareholders' resolution pertaining to this Rights Issue of Warrants as set out in Appendix I of this Abridged Prospectus;
  - (ix) Directors' report as set out in Appendix VI of this Abridged Prospectus; and
  - (x) letter of irrevocable undertaking dated 22 April 2013 from DHSS to subscribe for the following:
    - (a) his rights entitlement under the Rights Issue of Warrants as at the Entitlement Date; and
    - (b) the remaining "open-portion" of Warrants (the portion for which no irrevocable undertaking for subscription has been given) which are not subscribed for by the other Entitled Shareholders of Hovid.

## 8. RESPONSIBILITY STATEMENTS

This Abridged Prospectus together with the accompanying documents have been seen and approved by our Directors and they collectively and individually accept full responsibility for the accuracy of the information given herein and confirm that, after having made all reasonable inquiries and to the best of their knowledge and belief, there is no false or misleading statement or other fact if omitted would make any statement in these documents false or misleading.

HwangDBS, being the Principal Adviser of the Rights Issue of Warrants, acknowledges that, based on all available information and to the best of its knowledge and belief, this Abridged Prospectus constitutes a full and true disclosure of all material facts concerning the Rights Issue of Warrants.

**THE REST OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**