

10. APPROVALS AND CONDITIONS

10.1 Approvals from the relevant authorities

The approvals required and their salient conditions for our Listing are as follows:

Approval required	Salient conditions imposed	Status of compliance				
SC which was obtained vide its letter dated 12 June 2013 pursuant to Section 214(1) of the CMA and the equity requirements for public companies	(i) Karex to allocate at least 12.5% of its enlarged issued and paid-up share capital to Bumiputera investors at the point of listing. This includes the shares offered to Malaysian public via balloting, of which 50% are to be offered to Bumiputera investors.	To be complied				
	(ii) Karex to appoint a full-time Chief Financial Officer who is fit and proper, fully qualified and competent to effectively discharge his/her role as the officer primarily responsible for the financial management of a listed company.	Complied				
	(iii) In relation to the following property of Karex: <table><tr><th>Property</th><th>Condition of approval</th></tr><tr><td>PTD Nos. 7906, 7907 and 7915, Taman Pontian Jaya, Batu 34, Jalan Johor, Pontian, Johor</td><td>The company is to rectify the unapproved structures within six (6) months from the date of the SC's approval letter.</td></tr></table>	Property	Condition of approval	PTD Nos. 7906, 7907 and 7915, Taman Pontian Jaya, Batu 34, Jalan Johor, Pontian, Johor	The company is to rectify the unapproved structures within six (6) months from the date of the SC's approval letter.	Complied as per the notification to the SC on 7 October 2013
Property	Condition of approval					
PTD Nos. 7906, 7907 and 7915, Taman Pontian Jaya, Batu 34, Jalan Johor, Pontian, Johor	The company is to rectify the unapproved structures within six (6) months from the date of the SC's approval letter.					
	(iv) RHB Investment Bank / Karex to fully comply with the requirements of the SC's Equity Guidelines and Propsectus Guidelines – Equity pertaining to the implementation of the Proposed Listing.	Noted				

The SC has vide its letter dated 12 June 2013 noted that the equity structure in relation to Bumiputera, Non-Bumiputera and foreign shareholdings in our Company arising from the implementation of our Listing would change as follows:

Shareholders	Existing % held	After Listing % held
Bumiputera	-	12.58 ⁽¹⁾
Non-Bumiputera	100.00	76.86
Foreigners	-	10.56
Total	100.00	100.00

⁽¹⁾ Comprises the following:

- 10% of the enlarged share capital of Karex (comprising 27,005,520 Karex Shares) to be held by existing Bumiputera investors, subject to recognition by MITI; and
- 2.5% of the enlarged share capital of Karex (comprising 6,750,000 Karex Shares) to be made available to Bumiputera investors under the offer to Malaysian Public via balloting.

10. APPROVALS AND CONDITIONS (Cont'd)

The SC vide its letter dated 26 April 2013 approved the waiver sought in relation to compliance with paragraph 12.15 of the Prospectus Guidelines. The details of the waiver sought, accompanying condition imposed by the SC and the status of compliance are as follows:

Reference	Details of waiver sought	Decision of the SC and conditions imposed	Status of compliance
Paragraph 12.15 of the Prospectus Guidelines	Relief from complying with Paragraph 12.15 of the Prospectus Guidelines where the pro forma financial information for a group of corporations must be prepared based on the audited results of the corporations.	Approved, subject to the Reporting Accountant i.e. Messrs. KPMG providing a confirmation that the Adjusted FYE 30 June 2010 Group Results, as disclosed in Karex's registrable prospectus, are not misleading.	Complied (Reporting Accountant i.e. Messrs. KPMG has vide its letter dated 29 April 2013 provided its confirmation that the Adjusted FYE 30 June 2010 Group Results as disclosed in Section 3.5 and Section 13.1 subsection 2.1 of Karex's registrable prospectus is not misleading)
Approval required	Salient conditions imposed		Status of compliance

MITI vide its letter dated 25 June 2013

To notify MITI upon completion of the Listing.

To be complied

Bursa Securities for the admission of our Company to the Official List of Bursa Securities and the listing of and quotation for the entire enlarged issued and paid-up share capital of our Company on the Main Market which was obtained vide its letter dated 10 September 2013

-

-

10. APPROVALS AND CONDITIONS (Cont'd)**10.2 Moratorium on sale of our Shares**

In accordance with Section 5.29 (a) of the SC Guidelines, our Promoters are not allowed and have undertaken not to sell, transfer or assign their entire shareholdings in our Company as at the date of our Listing for a period of six (6) months from the date of our admission to the Main Market.

In accordance with the SC Guidelines, the shareholders of KOL and their direct and indirect shareholders (up to the ultimate individual shareholder(s)) have also undertaken not to sell, transfer or assign their entire shareholdings in KOL (one of our Promoters) for a period of six (6) months from the date of our admission to the Main Market.

In accordance with the SC Guidelines, the shareholders of AJNA and their direct and indirect shareholders (up to the ultimate individual shareholder(s)) have also undertaken not to sell, transfer or assign their entire shareholdings in AJNA (one of our Promoters) for a period of six (6) months from the date of our admission to the Main Market.

Details of those subject to moratorium mentioned above are as follows:

Affected party	No. of shares*	Percentage shareholdings (%)
Moratorium on disposal of Shares		
KOL	94,500,000	35.00
AJNA	3,800,000	1.41
Goh Siang	7,005,586	2.59
Goh Leng Kian	10,805,590	4.00
Goh Yen Yen	7,555,543	2.80
Goh Yin	7,555,547	2.80
Lam Jiuan Jiuan	5,655,543	2.09
Goh Miah Kiat	7,555,585	2.80
Lam Yiu Pang Albert	19,055,543	7.06
Goh Ai Noi	7,455,543	2.76
Total	170,944,480	63.31

Note:

* Assuming full subscription of the Issue Shares made available to them as eligible Directors and employees of 100,000 Shares each (as disclosed in Section 4.3.2(ii) of this Prospectus). Our eligible Directors and employees have the right to not subscribe or not fully subscribe the Shares allocated to them. The amount of Shares under moratorium shall be reduced accordingly.

Moratorium on disposal of KOL shares

Lam Jiuan Jiuan	7*	100.00
Total	7	100.00

Note:

* Lam Jiuan Jiuan is holding one (1) share on trust for each of Goh Siang, Goh Leng Kian, Goh Yen Yen, Goh Yin, Goh Miah Kiat and Goh Ai Noi, and one (1) share for herself.

10. APPROVALS AND CONDITIONS (Cont'd)

Moratorium on disposal of AJNA shares

Lam Juan Juan	500	50.00
Lam Yiu Pang Albert	500	50.00
Total	1,000	100.00

(The rest of this page has been intentionally left blank)

11. CONFLICT OF INTERESTS AND RELATED PARTY TRANSACTIONS

11.1 Related party transactions

"Related party transactions" are defined in the Listing Requirements as transactions entered into by a listed issuer or its subsidiaries that involve the interest, direct or indirect, of a related party. A "related party" means a director, major shareholder or person connected with such director or major shareholder.

"Director" shall have the meaning given in Section 4 of the Act and includes any person who is or was within the preceding six (6) months of the date on which the terms of the transaction were agreed upon, a director of the listed issuer or any other company which is its subsidiary or holding company or a chief executive officer of the listed issuer, its subsidiary or holding company.

"Major shareholder" means a person who has an interest or interests in one or more voting shares in a corporation and the nominal amount of that share, or the aggregate of the nominal amounts of those shares, is:

- (a) equal to or more than 10% of the aggregate of the nominal amounts of all the voting shares in the company; or
- (b) equal to or more than 5% of the aggregate of the nominal amounts of all the voting shares in the company where such person is the largest shareholder of the company.

Certain transactions, despite falling within the definition of a related party transaction above, are not normally regarded as related party transactions. These are detailed in paragraph 10.08(11) of the Listing Requirements.

The Directors of our Company are of the opinion that all business transactions between our Group and the Directors and substantial shareholders of our Company and/or persons connected to them are on arm's length basis and on terms not more favourable to the related parties than those generally available to the third parties. The Audit Committee will supervise the terms of related party transactions and the Directors of our Company will report related party transactions, if any, annually in our Company's annual report.

Save as disclosed below and in Section 9.2.4 of this Prospectus, our Directors and substantial shareholders have no direct and indirect interests in:

- (i) other businesses and corporations carrying on a similar trade as our Group; and
- (ii) other businesses and corporations which are the customers or suppliers of our Group.

11. CONFLICT OF INTERESTS AND RELATED PARTY TRANSACTIONS (Cont'd)**11.1.1 Related party transactions**

Save as disclosed below, we have not entered into and are not involved in any on-going or proposed related party transactions which are non-recurrent in nature for the past four (4) FYE 2010 to FYE 2013 and up to the LPD:

Name of Company	Related Parties	Nature of relationship	Nature of transaction*	FYE 2010	FYE 2011	FYE 2012	FYE 2013	As at the LPD
ITL	Innolates Limited	Lam Jiu Juan and Lam Yiu Pang Albert are both directors and shareholders of Innolates Limited.	Purchase of equipment and machinery by ITL from related party	(RM '000) 1,161	(RM '000) -	(RM '000) -	(RM '000) -	(RM '000) -
		Goh Siang, Goh Leng Kian, Goh Yen Yen, Goh Yin, Goh Miah Kiat and Goh Ai Noi are shareholders of Innolates Limited.						
		Lam Jiu Juan, Goh Siang, Goh Leng Kian and Goh Yen Yen are both our Promoters and Directors.						
		Goh Yin and Goh Miah Kiat are both our Promoters and key management.						
		Lam Yiu Pang Albert and Goh Ai Noi are our Promoters.						
KISB	Innolates Limited	Lam Jiu Juan and Lam Yiu Pang Albert are both directors and shareholders of Innolates Limited.	Sale of equipment and machinery by KISB to related party	483	-	-	-	-
		Goh Siang, Goh Leng Kian, Goh Yen Yen, Goh Yin, Goh Miah Kiat and Goh Ai Noi are shareholders of Innolates Limited.						

11. CONFLICT OF INTERESTS AND RELATED PARTY TRANSACTIONS (Cont'd)

Name of Company	Related Parties	Nature of relationship	Nature of transaction*	FYE 2010 (RM '000)	FYE 2011 (RM '000)	FYE 2012 (RM '000)	FYE 2013 (RM '000)	As at the LPD (RM '000)
		Lam Jiuuan Jiuuan, Goh Siang, Goh Leng Kian and Goh Yen Yen are both our Promoters and Directors.						
		Goh Yin and Goh Miah Kiat are both our Promoters and key management.						
		Lam Yiu Pang Albert and Goh Ai Noi are our Promoters.						
ITL	Omni Star Co Ltd	Goh Siang is a shareholder of Omni Star Co Ltd.	Purchase of Pre-vulcanised latex by ITL from related party	-	-	24	-	-
		Goh Siang is both our Promoter and Senior Executive Director.						
KISB	Goh Yen Yen and Goh Yin	Goh Yen Yen is our Promoter and Director.	Sales of residential property – double storey house by KISB to related parties	-	-	300	-	-
		Goh Yin is our Promoter and key management.						
KISB	Goh Siang	Goh Siang is our Promoter and Senior Executive Director.	Sales of residential property – double storey house by KISB to related party	-	-	300	-	-

11. CONFLICT OF INTERESTS AND RELATED PARTY TRANSACTIONS (Cont'd)

Name of Company	Related Parties	Nature of relationship	Nature of transaction*	FYE 2010	FYE 2011	FYE 2012	FYE 2013	As at the LPD
KISB	Goh Leng Kian and Boong Siew Choon	Goh Leng Kian is our Promoter and Director. Boong Siew Choon is the spouse of Goh Leng Kian.	Sales of residential property – double storey house by KISB to related parties	(RM '000)	(RM '000)	(RM '000)	(RM '000)	(RM '000)
				-	-	200	-	-
		Boong Siew Choon is the key management of KISB.						

11.1.2 Recurrent related party transactions

Save as disclosed below, we have not entered into and are not involved in any on-going or proposed related party transactions which are recurrent in nature for the past four (4) FYE 2010 to FYE 2013 and FYE 2014:

Name of Company	Related Parties	Nature of relationship	Nature of transaction*	FYE 2010	FYE 2011	FYE 2012	FYE 2013	(Proposed) FYE 2014
KISB	CI ⁽⁷⁾	Lam Jiu Juan and Lam Yiu Pang Albert are both partners in CI.	Sales of condos by KISB to related party	(RM '000)	(RM '000)	(RM '000)	(RM '000)	(RM '000)
				24	11	31	18	50
		Lam Jiu Juan is our Promoter and Director.						
		Lam Yiu Pang Albert is our Promoter.						

11. CONFLICT OF INTERESTS AND RELATED PARTY TRANSACTIONS (Cont'd)

Name of Company	Related Parties	Nature of relationship	Nature of transaction*	FYE 2010 (RM '000)	FYE 2011 (RM '000)	FYE 2012 (RM '000)	FYE 2013 (RM '000)	(Proposed) FYE 2014 (RM '000)
ISB	CI ⁽¹⁾	Lam Jiu Juan and Lam Yiu Pang Albert are both partners in CI.	Sales of condoms by ISB to related party	120	219	219	171	250
		Lam Jiu Juan is our Promoter and Director.						
		Lam Yiu Pang Albert is our Promoter.						
UTSB	CIL ⁽¹⁾	Lam Jiu Juan and Lam Yiu Pang Albert are both directors and shareholders of CIL.	Sales of catheters by UTSB to related party	1,245	1,857	1,953	3,248	3,000
		Goh Siang, Goh Leng Kian, Goh Yen Yen, Goh Yin, Goh Miah Kiat and Goh Ai Noi are shareholders of CIL.						
		Lam Jiu Juan, Goh Siang, Goh Leng Kian and Goh Yen Yen are both our Promoters and Directors.						
		Goh Yin and Goh Miah Kiat are both our Promoters and key management.						
		Lam Yiu Pang Albert and Goh Ai Noi are our Promoters.						

Note:

(1) Both CI and CIL are resellers of our products and the transactions are conducted at arm's length. In that respect, they are not in conflict of interest with our business

11. CONFLICT OF INTERESTS AND RELATED PARTY TRANSACTIONS (Cont'd)**11.2 Monitoring and oversight of conflict of interests and related party transactions**

Our Audit Committee will review any related party transactions and conflict of interests that may arise within our Group. Our Audit Committee will periodically review the procedures set by our Company to monitor related party transactions to ensure that these transactions are carried out on normal commercial terms not more favourable to the related party than those generally available to the third parties dealing at arm's length and are not detrimental of our Company's minority shareholders. All reviews of our Audit Committee will be reported to our Board for its further action.

We will, after our Listing, procure a mandate from our shareholders, if necessary, for all our recurrent related party transactions of revenue or trading in nature or those necessary for our day-to-day operations. Further, the interested persons shall abstain from voting on the resolution(s) pertaining to the respective transactions. Furthermore, we will make disclosures in our annual report of the aggregate value of the recurrent related party transactions entered into by us conducted based on the nature of transactions made, names of the related parties involved and their relationship with our Group during the financial year and in the annual reports for the subsequent financial years.

11.3 Outstanding loans made to or for the benefit of related parties

There are no outstanding loans (including guarantees of any kind) granted by us, or any of our shareholders or Subsidiaries to or for the benefit of related parties during the past four (4) FYE 2010 to FYE 2013, immediately preceding the date of this Prospectus.

11.4 Interests in similar business

As at the LPD, save as disclosed in Sections 9.2.4, 11.1.1 and 11.1.2 of this Prospectus, none of our Directors or substantial shareholders have any interest, whether direct or indirect, in any business or corporation which are:

- (i) carrying on a similar trade as our Group; and
- (ii) customers of and/or suppliers of our Group.

Our Board is of the opinion that there is no existing or potential conflict of interest situation arising from the Directors' and/or substantial shareholders' interests in the businesses and corporations disclosed in Sections 9.2.4, 11.1.1 and 11.1.2 of this Prospectus. Furthermore, our Board confirms that there are no any other business transactions that would give rise to any conflict of interest situation.

11.5 Declaration by advisers

- (i) Save as disclosed below, RHB Investment Bank confirms, it is not aware of any circumstances that exist or are likely to give rise to a possible conflict of interest situation in its capacity as the Principal Adviser, Underwriter and Joint Placement Agent for our Listing.

RHB Investment Bank is the Principal Adviser to Karex for our Listing. However, RHB Investment Bank's role as the Principal Adviser for the implementation of our Listing involves the preparation of all submissions on behalf of Karex to the regulatory authorities, where required, and the Prospectus in relation to our Listing. In view of the above, RHB Investment Bank is not aware of any circumstances that exist or are likely to give rise to a possible conflict of interest situation in relation to its capacity as the Principal Adviser to Karex in relation to our Listing.

11. CONFLICT OF INTERESTS AND RELATED PARTY TRANSACTIONS (Cont'd)

RHB Investment Bank and/or its related companies ("**RHB Banking Group**") form a diversified financial group and may extend credit facilities or engage in private banking, commercial banking and investment banking transaction including, inter-alia brokerage, securities trading, asset and funds management and credit transaction service businesses in its ordinary course of business with Karex and its persons acting in concert. Furthermore, any member of the RHB Banking Group may at any time offer or provide its services to or engage in any transactions (on its own account or otherwise) with Karex and/or its affiliates, hold long or short positions, and may trade any otherwise effect transactions for its own account or the account of its other customers in debt or equity securities or senior loans of Karex and/or affiliates. This is the result of the businesses of the RHB Banking Group generally acting independently of each other which may generate situations where parts of the RHB Banking Group and/or its customers now have in the future, may have interest or take actions that may conflict with the interest of Karex.

As at 30 June 2013, RHB Bank Berhad (a company related to RHB Investment Bank) has, in the ordinary course of their banking business, granted credit facilities to Karex. RHB Bank Berhad extended term loan facilities to our Group, of which RHB Bank Berhad's portion amounted to RM23.0 million. The outstanding borrowings owing by our Group as at 30 June 2013 stood at RM10.1 million. The said borrowings were utilised to, among others, partially finance the purchase of our new land in Pontian where our new plant will be located, the purchase of machineries to enhance our manufacturing facility as well as our Group's working capital requirements.

RHB Investment Bank as part of the RHB Banking Group confirms that there is no conflict of interest in its capacities as the Principal Adviser, Underwriter and Joint Placement Agent in relation to our Listing as:

- (i) the credit facilities granted to our Group are not material compared to RHB Bank Berhad's total loan, advances and financing of RM92.4 billion as at 30 June 2013;
- (ii) the total outstanding amounts owed by our Group are not material when compared to RHB Banking Group's audited consolidated net assets of RM15.1 billion as at 31 December 2012; and
- (iii) the team(s) in charge of our Listing in RHB Banking Group is independent from the team handling the credit facilities.

Therefore, RHB Investment Bank is of the view that there is no conflict of interest in its capacity as the Principal Adviser for the implementation of our Listing. Furthermore, the extension of credit facilities arose in the ordinary course of business of the RHB Banking Group's extensive participation in the Malaysian banking industry.

(The rest of this page has been intentionally left blank)

11. CONFLICT OF INTERESTS AND RELATED PARTY TRANSACTIONS (Cont'd)

- (ii) Save as disclosed below, ZJ Advisory confirms, it is not aware of any circumstances that exist or are likely to give rise to a possible conflict of interest situation in its capacity as the Financial Adviser to Karex Group for our Listing.

Shaari bin Haron, a shareholder of our Company (holding approximately 6.81 million Shares, representing an equity interest of approximately 3.0% in our Company upon completion of the Acquisitions), is also a director and shareholder of ZJ Advisory. However, Shaari bin Haron is not part of due diligence working group in relation to our Listing ("DDWG") and has no direct control over the decisions made by the DDWG. Potential conflicts of interest arising from Shaari bin Haron's influence in ZJ Advisory (if any) is mitigated by the appointment of the various advisers (i.e. Solicitors, Reporting Accountants, Independent Market Researcher and Principal Adviser) who advise and perform their duties in respect of our Listing independently. The DDWG has been set up so that there is adequate supervision and management of the due diligence process.

- (iii) CIMB Investment Bank Berhad, its subsidiaries and associated companies, as well as its holding company CIMB Group Holdings Berhad and the subsidiaries and associated companies of its holding company (the "**CIMB Group**") form a diversified financial group and are engaged in a wide range of investment and commercial banking, brokerage, securities trading, asset and funds management and credit transaction service businesses. The CIMB Group has engaged and may in the future, engage in transactions with and perform services for our Company and/or our affiliates, in addition to the role set out in this Prospectus. In addition, in the ordinary course of business, any member of the CIMB Group may at any time offer or provide its services to or engage in any transactions (on its own account or otherwise) with our Company and/or our affiliates and/or any other entity or person, hold long or short positions in securities issued by our Company and/or our affiliates, make investment recommendations and/or publish or express independent research views on such securities, and may trade or otherwise effect transactions for its own account or the account of its other customers in debt or equity securities or senior loans of our Company and/or our affiliates. This is a result of the businesses of the CIMB Group generally acting independently of each other, and accordingly there may be situations where parts of the CIMB Group and/or its customers now have or in the future, may have interest or take actions that may conflict with the interests of our Company.

CIMB confirms that as at the LPD, it is not aware of any circumstances that would give rise to a conflict of interest situation in its capacity as the Joint Placement Agent for our Listing.

- (iv) Messrs. KPMG confirms that there is no conflict of interest in its role as the Auditors and Reporting Accountants for our Listing.
- (v) Messrs. Intadit C.P.A. Office Company Limited confirms that there is no conflict of interest in its role as the Auditors of ITL for our Listing.
- (vi) Messrs. Jeff Leong, Poon & Wong confirms that there is no conflict of interest faced by it in its role as the Solicitor for our Listing (as to Malaysian law).
- (vii) Messrs. Siam City Law Offices Limited confirms that there is no conflict of interest faced by it in its role as the Solicitor for our Listing (as to Thailand law).
- (viii) Infobusiness confirms that there is no conflict of interest in its role as the Independent Market Researcher for our Listing.

12. OTHER INFORMATION

12.1 Material equipment

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

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

Note:

* Approximate amount.

12.2 Regulatory and environmental issues

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

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

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

(The rest of this page has been intentionally left blank)

12. OTHER INFORMATION (Cont'd)**12.3 Material plans to construct, expand or improve facilities**

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

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

12. OTHER INFORMATION (Cont'd)

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

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

(The rest of this page has been intentionally left blank)

13. FINANCIAL INFORMATION

13.1 Report on the compilation of proforma consolidated financial information



KPMG (Firm No. AF 0758)
Chartered Accountants
Level 14, Menara Ansar
65, Jalan Trus
80000 Johor Bahru, Malaysia

Telephone +60 (7) 224 2870
Fax +60 (7) 224 8055
Internet www.kpmg.com.my

The Board of Directors

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

25 September 2013

Dear Sirs

KAREX BERHAD (“Karex” or the “Company”)

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

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

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

Board of Directors’ responsibility for the Proforma Consolidated Financial Information

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

KPMG, a partnership established under Malaysian law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

13. FINANCIAL INFORMATION (Cont'd)**KAREX BERHAD**

*Report on the Compilation of Proforma Consolidated Financial Information Included in a Prospectus for the listing of and quotation for the entire issued and paid-up share capital of the Company on the Main Market of Bursa Securities
25 September 2013*

Reporting Accountant's Responsibilities

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

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

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

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

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

- a) The related proforma adjustments give appropriate effect to those criteria; and
- b) The proforma consolidated financial information reflects the proper application of those adjustments to the unadjusted financial information.

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

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

13. FINANCIAL INFORMATION (Cont'd)



KAREX BERHAD
Report on the Compilation of Proforma Consolidated Financial Information Included in a Prospectus for the listing of and quotation for the entire issued and paid-up share capital of the Company on the Main Market of Bursa Securities
25 September 2013

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

Opinion

In our opinion,

- the proforma consolidated financial information has been properly compiled, in all material respects, on the basis as set out in Notes 1.2, 1.3, 2.2 and 3.2 series to the proforma consolidated financial information using the financial statements prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standard;
- such basis is consistent with both the format of the financial statements and the accounting policies of Karex Group as disclosed in Note 1.4; and
- each material adjustment made to the information used in the preparation of the proforma consolidated financial information is appropriate for the purpose of preparing the proforma consolidated financial information.

Other Matters

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

Yours faithfully

KPMG
Firm Number: AF 0758
Chartered Accountants

Tan Teck Eng
Approval Number: 2986/05/14(J)
Chartered Accountant

13. FINANCIAL INFORMATION (Cont'd)

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

Proforma Consolidated Financial Information

1. Proforma group, listing scheme and basis of preparation and significant accounting policies**1.1 Proforma Group**

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

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

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

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

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

1.2 Listing Scheme

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

13. FINANCIAL INFORMATION (Cont'd)**1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)****1.2.1 Acquisition of Subsidiaries**

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

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

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

(1) Denotes par value at RM1.00 each

(2) Denotes par value at THB 100 each

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

1.2.2 Initial Public Offering ("IPO")

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

1.2.2.1 Institutional Offering

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

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

1.2.2.2 Retail Offering

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

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

Stamped For Identification
Purposes Only
KFWG

13. FINANCIAL INFORMATION (Cont'd)**1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)****1.2.2.2 Retail Offering (Cont'd)**

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

1.2.3 Utilisation

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

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

1.3 Basis of preparation

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

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

1.3.1 Statement of compliance

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

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

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

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

13. FINANCIAL INFORMATION (Cont'd)**1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)****1.3 Basis of preparation (Cont'd)****1.3.1 Statement of compliance (Cont'd)*****MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013 (Cont'd)***

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

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

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

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

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

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

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

1.3.2 Basis of measurement

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

1.3.3 Functional and presentation currency

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

1.3.4 Use of estimates and judgements

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

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

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

13. FINANCIAL INFORMATION (Cont'd)**1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)****1.4 Significant accounting policies**

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

1.4.1 Basis of consolidation**(i) Subsidiaries**

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

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

(ii) Business combinations

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

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

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

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

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

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

(iii) Acquisitions of non-controlling interests

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

(iv) Restructuring among common shareholders

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

13. FINANCIAL INFORMATION (Cont'd)**1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)****1.4.1 Basis of consolidation (Cont'd)****(v) Loss of control**

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

(vi) Non-controlling interests

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

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

(vii) Transactions eliminated on consolidation

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

1.4.2 Foreign currency**(i) Foreign currency transactions**

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

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

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

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

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

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

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

13. FINANCIAL INFORMATION (Cont'd)**1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)****1.4.2 Foreign currency (Cont'd)****(ii) Operations denominated in functional currencies other than Ringgit Malaysia (Cont'd)**

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

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

1.4.3 Financial instruments**(i) Initial recognition and measurement**

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

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

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

(ii) Financial instrument categories and subsequent measurement

The Group categorises financial instruments as follows:

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

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

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

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

13. FINANCIAL INFORMATION (Cont'd)**1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)****1.4.3 Financial instruments (Cont'd)****(ii) Financial instrument categories and subsequent measurement (Cont'd)*****Financial assets (Cont'd)*****(b) Loans and receivables**

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

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

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

Financial liabilities

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

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

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

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

(iii) Financial guarantee contracts

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

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

(iv) Regular way purchase or sale of financial assets

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

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

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

13. FINANCIAL INFORMATION (Cont'd)**1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)****1.4.3 Financial instruments (Cont'd)****(v) Derecognition**

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

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

1.4.4 Property, plant and equipment**(i) Recognition and measurement**

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

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

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

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

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

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

13. FINANCIAL INFORMATION (Cont'd)**1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)****1.4.4 Property, plant and equipment (Cont'd)****(ii) Subsequent costs**

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

(iii) Depreciation

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

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

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

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

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

1.4.5 Leased assets**(i) Finance lease**

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

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

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

13. FINANCIAL INFORMATION (Cont'd)**1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)****1.4.5 Leased assets (Cont'd)****(ii) Operating leases**

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

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

1.4.6 Investment properties**(i) Investment properties carried at cost**

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

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

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

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

Long leasehold land	99 years
Buildings	50 years

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

(ii) Determination of fair value

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

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

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

13. FINANCIAL INFORMATION (Cont'd)**1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)****1.4.7 Intangible assets****Research and development**

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

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

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

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

1.4.8 Inventories

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

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

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

1.4.9 Cash and cash equivalents

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

1.4.10 Impairment**(i) Financial assets**

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

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

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

13. FINANCIAL INFORMATION (Cont'd)**1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)****1.4.10 Impairment (Cont'd)****(i) Financial assets (Cont'd)**

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

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

(ii) Other assets

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

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

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

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

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

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

13. FINANCIAL INFORMATION (Cont'd)**1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)****1.4.11 Employee benefits****(i) Short-term employee benefits**

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

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

(ii) State plans

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

(iii) Defined benefit plans

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

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

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

(ii) Rental income

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

(iii) Interest income

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

13. FINANCIAL INFORMATION (Cont'd)**1. Proforma group, listing scheme and basis of preparation and significant accounting policies (Cont'd)****1.4.13 Borrowing costs**

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

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

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

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

1.4.14 Income tax

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

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

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

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

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

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

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

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

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

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

** Number of Shares after Acquisitions and IPO

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

Stamped For Identification
Purposes Only
KPMG

13. FINANCIAL INFORMATION (Cont'd)**2. Proforma consolidated statements of profit or loss and other comprehensive income (Cont'd)****2.2 Notes to the summarised proforma consolidated statements of profit or loss and other comprehensive income of Karex Group**

- i) The summarised proforma consolidated statements of profit or loss and other comprehensive income of Karex Group for the financial years ended 30 June 2010, 30 June 2011, 30 June 2012 and 30 June 2013 are prepared for illustrative purposes only and are based on the audited financial statements of the following companies for the respective years mentioned below, after making relevant adjustments deemed necessary under the circumstances as set out in (ii) below:
- (a) KISB for the financial years ended 30 June 2010, 30 June 2011, 30 June 2012 and 30 June 2013;
 - (b) UTSB for the financial years ended 30 June 2010, 30 June 2011, 30 June 2012 and 30 June 2013;
 - (c) HMSB for the six months period ended 30 June 2010 and financial years ended 31 December 2009, 30 June 2011, 30 June 2012 and 30 June 2013;
 - (d) ISB for the six months period ended 30 June 2010 and financial years ended 31 December 2009, 30 June 2011, 30 June 2012 and 30 June 2013; and
 - (e) ITL for the six months period ended 30 June 2010 and financial years ended 31 December 2009, 30 June 2011, 30 June 2012 and 30 June 2013.
- ii) The relevant adjustments deemed necessary under the circumstances are set out below:
- (a) Non-coterminous year end
Adjustments have been made to the statements of comprehensive income of HMSB, ISB and ITL on a prorated basis as the financial year end for these companies are not coterminous with the Karex Group in the financial years ended 31 December 2009;
 - (b) Elimination of intercompany transactions
Adjustments have been made to eliminate intercompany transactions in all period/years under review. Such transactions include and not limited to the followings:
 - (i) Sales of goods charged by intercompany for the six months period ended 30 June 2010 and financial years ended 31 December 2009, 30 June 2011, 30 June 2012 and 30 June 2013;
 - (ii) Rental of factory charged by KISB to UTSB and ISB, for the six months period ended 30 June 2010 and financial years ended 31 December 2009, 30 June 2011, 30 June 2012 and 30 June 2013;
 - (iii) Management fees charged by KISB to UTSB for the financial years ended 30 June 2010, 30 June 2011, 30 June 2012 and 30 June 2013; and
 - (iv) Intercompany sales of fixed assets from KISB to ISB and ITL for the six months period ended 30 June 2010 and financial years ended 31 December 2009, 30 June 2011, 30 June 2012 and 30 June 2013.

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

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

Proforma adjustments

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

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

13. FINANCIAL INFORMATION (Cont'd)**3. Proforma consolidated statements of financial position**

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

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

(1) Denotes RM2.00

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

Stamped For Identification
Purposes Only
KPMG

13. FINANCIAL INFORMATION (Cont'd)**3. Proforma consolidated statements of financial position (Cont'd)**

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

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

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

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

(I) Proforma I

Proforma I incorporates the following:

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

The Acquisitions are accounted for using the merger method.

(II) Proforma II

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

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

Description	RM'000
Statement of comprehensive income	1,600
Share premium	3,900
Total	<u>5,500</u>

13. FINANCIAL INFORMATION (Cont'd)**3. Proforma consolidated statements of financial position (Cont'd)**

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

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

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

(2) Denotes RM2.00

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

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

(1) Denotes RM2.00

13. FINANCIAL INFORMATION (Cont'd)**4. Proforma consolidated statement of cash flows**

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

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

13. FINANCIAL INFORMATION (Cont'd)**4. Proforma consolidated statement of cash flows (Cont'd)****Notes to the statement of cash flows****(i) Cash and cash equivalents**

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

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

5. Exchange rates

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

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

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

13. FINANCIAL INFORMATION (Cont'd)

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

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

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

Overview of operations

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

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

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

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

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

(The rest of this page has been intentionally left blank)

13. FINANCIAL INFORMATION

13.2.1 Revenue

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

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

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Revenue	157,444	181,753	188,751	231,389
	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013	
	(%)	(%)	(%)	
Revenue	15.4	3.9	22.6	

13. FINANCIAL INFORMATION (Cont'd)

(i) Revenue by products

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

	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Condoms	144,014	91.5	167,104	91.9	171,159	90.7	208,170	90.0
Catheters	8,097	5.1	8,267	4.6	10,067	5.3	11,927	5.1
Probe covers and lubricating jelly	5,333	3.4	6,382	3.5	7,525	4.0	11,292	4.9
Total	157,444	100.0	181,753	100.0	188,751	100.0	231,389	100.0
	Change from FYE 2010 to FYE 2011		Change from FYE 2011 to FYE 2012		Change from FYE 2012 to FYE 2013			
		(%)		(%)		(%)		
Condoms		16.0		2.4		21.6		
Catheters		2.1		21.8		18.5		
Probe covers and lubricating jelly		19.7		17.9		50.1		
Total		15.4		3.9		22.6		

13. FINANCIAL INFORMATION (*Cont'd*)

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

(a) Condoms

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

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

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

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

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

13. FINANCIAL INFORMATION (Cont'd)

(b) Catheters

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

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

(c) Probe covers and lubricating jelly

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

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

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

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

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

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

13. FINANCIAL INFORMATION (Cont'd)**(ii) Revenue by companies**

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

	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
KISB	119,439	75.9	137,973	75.9	130,399	69.1	143,187	61.9
ISB	32,309	20.5	34,040	18.7	44,306	23.5	61,100	26.4
UTSB	8,097	5.1	8,267	4.6	10,067	5.3	11,927	5.1
ITL	26,528	16.9	40,912	22.5	42,143	22.3	64,607	27.9
HMSB	2,431	1.5	3,709	2.0	2,524	1.3	3,987	1.7
Less: Inter-company transactions	(31,360)	(19.9)	(43,148)	(23.7)	(40,688)	(21.5)	(53,419)	(23.0)
Total	157,444	100.0	181,753	100.0	188,751	100.0	231,389	100.0
	Change from FYE 2010 to FYE 2011		Change from FYE 2011 to FYE 2012		Change from FYE 2012 to FYE 2013			
		(%)		(%)		(%)		
KISB		15.5		(5.5)		9.8		
ISB		5.4		30.2		37.9		
UTSB		2.1		21.8		18.5		
ITL		54.2		3.0		53.3		
HMSB		52.6		(31.9)		58.0		
Less: Inter-company transactions		37.6		(5.7)		31.3		
Total		15.4		3.9		22.6		

13. FINANCIAL INFORMATION (Cont'd)

(a) KISB

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

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

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

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

(b) ISB

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

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

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

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

(c) UTSB

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

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

13. FINANCIAL INFORMATION (Cont'd)

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

(d) ITL

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

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

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

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

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

(e) HMSB

HMSB produces customised condoms for our customers in the commercial market segment. HMSB contributed 2.0% or less of our total revenue for the financial years under review. Demand for the customised condoms contributed to HMSB's revenue:

- (i) increase of RM1.5 million (↑58.0%) , for the FYE 2013 compared to the previous financial year;
- (ii) decrease of RM1.2 million (↓31.9%) for the FYE 2012 compared to the previous financial year; and
- (iii) increase of RM1.3 million (↑52.6%) for the FYE 2011 compared to the previous financial year.

(f) Inter-company Transactions

The inter-company transactions mainly consist of sale of condoms between KISB, ISB, ITL, and HMSB. Inter-company transactions are necessary to allow our Subsidiaries with capacity to serve the demand of others in our Group. Our inter-company transactions:

- (i) increased by RM12.7 million (↑31.3%) for the FYE 2013 compared to the previous financial year;
- (ii) decreased by RM2.5 million (↓5.7%) for the FYE 2012 compared to the previous financial year; and
- (iii) increased by RM11.8 million (↑37.6%) for the FYE 2011 compared to the previous financial year.

13. FINANCIAL INFORMATION (Cont'd)

(iii) Revenue by geographical destination

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

	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Asia ⁽¹⁾	67,040	42.6	88,500	48.7	55,019	29.1	85,177	36.8
Africa	55,958	35.5	48,705	26.8	62,410	33.1	71,234	30.8
America	17,079	10.9	24,475	13.5	41,920	22.2	42,210	18.2
Europe	17,367	11.0	20,073	11.0	29,402	15.6	32,768	14.2
Total	157,444	100.0	181,753	100.0	188,751	100.0	231,389	100.0
	Change from FYE 2010 to FYE 2011		Change from FYE 2011 to FYE 2012		Change from FYE 2012 to FYE 2013			
	(%)		(%)		(%)			
Asia ⁽¹⁾	32.0		(37.8)		54.8			
Africa	(13.0)		28.1		14.1			
America	43.3		71.3		0.7			
Europe	15.6		46.5		11.5			
Total	15.4		3.9		22.6			

Note:

(1) Includes Malaysia

13. FINANCIAL INFORMATION (Cont'd)

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

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

13.2.2 Cost of goods sold

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

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

13. FINANCIAL INFORMATION (Cont'd)

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

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

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

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

13. FINANCIAL INFORMATION (Cont'd)

(i) Direct material cost

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

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

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

(Source: Infobusiness Research)

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

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

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

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

(ii) Direct labour cost

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

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

13. FINANCIAL INFORMATION (Cont'd)

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

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

(iii) Utilities

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

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

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

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

(iv) Depreciation

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

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

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

13. FINANCIAL INFORMATION (Cont'd)

(v) Others

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

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

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

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

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

	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Condoms	108,010	92.1	145,623	92.8	142,324	91.3	156,021	91.0
Catheters	6,133	5.2	6,857	4.4	7,797	5.0	9,086	5.3
Probe covers and lubricating jelly	3,172	2.7	4,389	2.8	5,765	3.7	6,365	3.7
Total	117,315	100.0	156,869	100.0	155,886	100.0	171,472	100.0
	Change from FYE 2010 to FYE 2011		Change from FYE 2011 to FYE 2012		Change from FYE 2012 to FYE 2013			
	(%)		(%)		(%)			
Condoms	34.8		(2.3)		9.6			
Catheters	11.8		13.7		16.5			
Probe covers and lubricating jelly	38.4		31.4		10.4			
Total	33.7		(0.6)		10.0			

13. FINANCIAL INFORMATION (Cont'd)

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

13.2.3 Gross profit and gross profit margin

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

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

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

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

(The rest of this page has been intentionally left blank)

13. FINANCIAL INFORMATION (Cont'd)

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

	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
<u>Gross profit</u>								
Condoms	36,004	89.7	21,481	86.3	28,835	87.7	52,149	87.0
Catheters	1,964	4.9	1,410	5.7	2,270	6.9	2,841	4.8
Probe covers and lubricating jelly	2,161	5.4	1,993	8.0	1,760	5.4	4,927	8.2
Total	40,129	100.0	24,884	100.0	32,865	100.0	59,917	100.0
	Change from FYE 2010 to FYE 2011		Change from FYE 2011 to FYE 2012		Change from FYE 2012 to FYE 2013			
		(%)		(%)		(%)		
<u>Gross profit</u>								
Condoms		(40.3)		34.2		80.9		
Catheters		(28.2)		61.0		25.2		
Probe covers and lubricating jelly		(7.8)		(11.7)		179.9		
Total		(38.0)		32.1		82.3		

13. FINANCIAL INFORMATION (Cont'd)

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

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

13. FINANCIAL INFORMATION (Cont'd)

(i) Condoms

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

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

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

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

(ii) Catheters

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

(iii) Probe covers and lubricating jelly

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

13. FINANCIAL INFORMATION (Cont'd)

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

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(%)	(%)	(%)	(%)
Probe covers	27.1	17.9	18.5	26.9
Lubricating jelly	53.9	48.2	27.4	49.5
	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013	
	(percentage points)	(percentage points)	(percentage points)	
Probe covers	(9.2)	0.6	8.4	
Lubricating jelly	(5.7)	(20.8)	22.1	

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

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

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

(iv) Overall Group

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

13. FINANCIAL INFORMATION (Cont'd)**13.2.4 Other operating income**

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

Our other operating income is shown below:

	<u>FYE 2010</u>	<u>FYE 2011</u>	<u>FYE 2012</u>	<u>FYE 2013</u>
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Other operating income	1,382	1,672	3,105	1,988
	<u>Change from FYE 2010 to FYE 2011</u>	<u>Change from FYE 2011 to FYE 2012</u>	<u>Change from FYE 2012 to FYE 2013</u>	
	(%)	(%)	(%)	
Other operating income	21.0	85.7	(36.0)	

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

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

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

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

13. FINANCIAL INFORMATION (Cont'd)**13.2.5 Operating expenses**

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

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

	FYE 2010		FYE 2011		FYE 2012		FYE 2013	
	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)	(RM'000)	(%)
Distribution expenses	7,683	37.0	7,083	41.7	9,307	49.2	9,698	41.4
Administrative expenses	7,888	38.0	8,680	51.2	9,207	48.6	10,068	43.0
Other expenses	5,168	25.0	1,204	7.1	424	2.2	3,645	15.6
Total	20,739	100.0	16,967	100.0	18,938	100.0	23,411	100.0
	Change from FYE 2010 to FYE 2011		Change from FYE 2011 to FYE 2012		Change from FYE 2012 to FYE 2013			
	(%)		(%)		(%)			
Distribution expenses	(7.8)		31.4		4.2			
Administrative expenses	10.0		6.1		9.4			
Other expenses	(76.7)		(64.8)		759.7			
Total	(18.2)		11.6		23.6			

(i) Distribution expenses

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

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

13. FINANCIAL INFORMATION (Cont'd)

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

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

(ii) Administrative expenses

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

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

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

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

(iii) Other expenses

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

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

13. FINANCIAL INFORMATION (Cont'd)

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

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

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

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

13.2.6 Interest income

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

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Interest income	38	104	144	150
	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013	
	(%)	(%)	(%)	
Interest income	173.7	38.5	4.2	

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

13. FINANCIAL INFORMATION (Cont'd)**13.2.7 Finance costs**

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

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Finance costs	1,118	1,990	2,646	2,500
	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013	
	(%)	(%)	(%)	
Finance costs	78.0	33.0	(5.5)	

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

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

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

13. FINANCIAL INFORMATION (Cont'd)

13.2.8 PBT and PBT margin

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

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
PBT	19,692	7,703	14,530	36,144
	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013	
	(%)	(%)	(%)	
PBT	(60.9)	88.6	148.8	
	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(%)	(%)	(%)	(%)
<u>PBT margin</u>	12.5	4.2	7.7	15.6
	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013	
	(percentage points)	(percentage points)	(percentage points)	
<u>PBT margin</u>	(8.3)	3.5	7.9	

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

13. FINANCIAL INFORMATION (Cont'd)

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

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

13.2.9 Income tax expense

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

	<u>FYE 2010</u>	<u>FYE 2011</u>	<u>FYE 2012</u>	<u>FYE 2013</u>
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Income tax expense	3,163	715	2,514	7,116
	<u>Change from FYE 2010 to FYE 2011</u>	<u>Change from FYE 2011 to FYE 2012</u>	<u>Change from FYE 2012 to FYE 2013</u>	
	(%)	(%)	(%)	
Income tax expense	(77.4)	251.6	183.1	

13. FINANCIAL INFORMATION (Cont'd)

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(%)	(%)	(%)	(%)
<u>Tax rates</u>				
Malaysian statutory tax rate	25	25	25	25
Effective tax rate	16	9	17	20
	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013	
	(percentage points)	(percentage points)	(percentage points)	
<u>Tax rates</u>				
Malaysian statutory tax rate	-	-	-	
Effective tax rate	(7)	8	3	

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

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

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

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

13. FINANCIAL INFORMATION (Cont'd)

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

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

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

(The rest of this page has been intentionally left blank)

13. FINANCIAL INFORMATION (Cont'd)

13.2.10 PAT

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

	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(RM'000)	(RM'000)	(RM'000)	(RM'000)
PAT	16,529	6,988	12,016	29,028
	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013	
	(%)	(%)	(%)	
PAT	(57.7)	72.0	141.6	
	FYE 2010	FYE 2011	FYE 2012	FYE 2013
	(%)	(%)	(%)	(%)
<u>PAT margin</u>	10.5	3.8	6.4	12.5
	Change from FYE 2010 to FYE 2011	Change from FYE 2011 to FYE 2012	Change from FYE 2012 to FYE 2013	
	(percentage points)	(percentage points)	(percentage points)	
<u>PAT margin</u>	(6.7)	2.6	6.1	

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

- (i) increased by RM17.0 million (↑141.6%) and 6.1 percentage points respectively for the FYE 2013 compared to the previous financial year;
- (ii) increased by RM5.0 million (↑72.0%) and 2.6 percentage points respectively for the FYE 2012 compared to the previous financial year; and
- (iii) decreased by RM9.5 million (↓57.7%) and 6.7 percentage points respectively for the FYE 2011 compared to the previous financial year.

13. FINANCIAL INFORMATION (Cont'd)**13.2.11 Liquidity and capital resources****(i) Working capital**

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

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

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

(ii) Cash flow

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

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

Note:

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

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

13. FINANCIAL INFORMATION (Cont'd)

Net cash flow generated from operating activities

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

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

Net cash flow used in investing activities

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

Net cash flow from financing activities

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

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

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

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

13. FINANCIAL INFORMATION (Cont'd)

(iv) Borrowings

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

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

Notes:

- (1) Computed based on total interest-bearing borrowings of RM50.9 million over our total shareholders' funds attributable to our Group as at 30 June 2013 of RM108.4 million.
- (2) Computed based on total interest-bearing borrowings of RM40.9 million (after RM10.0 million repayment using proceeds from the sale of our Issue Shares) over our total shareholders' funds attributable to our Group as at 30 June 2013 of RM178.5 million upon completion of our IPO.

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

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

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

13. FINANCIAL INFORMATION (Cont'd)

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

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

(v) Treasury policies and objectives

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

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

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

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

13. FINANCIAL INFORMATION (Cont'd)**(vi) Financial instruments for hedging purposes**

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

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

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

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

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

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

(vii) Capital expenditures

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

13. FINANCIAL INFORMATION (Cont'd)**(viii) Material capital commitments**

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

Material capital commitments	RM' 000
------------------------------	---------

Approved and contracted for:

Purchase of machinery and equipment	1,920
-------------------------------------	-------

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

(ix) Contingent liabilities

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

(x) Material litigation, claims or arbitration

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

(xi) Key financial ratios

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

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

Notes:

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

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

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

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

13. FINANCIAL INFORMATION (Cont'd)**Trade receivables turnover**

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

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

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

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

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

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

Trade payables turnover

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

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

13. FINANCIAL INFORMATION (Cont'd)

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

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

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

Inventory turnover

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

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

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

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

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

13. FINANCIAL INFORMATION (Cont'd)

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

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

Current ratio

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

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

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

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

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

13.2.12 Trend analysis

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

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

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

13. FINANCIAL INFORMATION (*Cont'd*)

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

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

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

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

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

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

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

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

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

(The rest of this page has been intentionally left blank)

13. FINANCIAL INFORMATION (Cont'd)

13.3 Capitalisation and indebtedness

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

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

- (I) based on our proforma financial position as at 30 June 2013; and
- (II) as adjusted for the expected proceeds arising from the sale of the Issue Shares.

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

13.4 Order book

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

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

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

13. FINANCIAL INFORMATION (Cont'd)

13.5 Impact of inflation

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

13.6 Government/ economic/ fiscal/ monetary policies

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

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

Our Directors confirm that as at the LPD, our Group is not in breach of any terms and conditions or covenants associated with credit arrangement or bank loan, which can materially affect our financial results or business operations, or the investments by holders of securities in our Group.

13.8 Dividend policy

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

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

- (i) the level of cash and level of indebtedness;
- (ii) required and expected interest expense, cash flow, our profits and return on equity and retained earnings;
- (iii) our expected results of operations and future level of operations;
- (iv) our projected levels of capital expenditure and other investment plans; and
- (v) written consent from certain financial institutions to declare dividends (as disclosed in Section 13.2.11(iii) of this Prospectus).

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