

# financial statements

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## DIRECTORS' REPORT

for the year ended 31 December 2006

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company for the year ended 31 December 2006.

### PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding, whilst the principal activities of the subsidiary are as stated in note 5 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

### CHANGE OF NAME

During the year, the Company changed its name from Duopharma Biotech Bhd to CCM Duopharma Biotech Berhad.

### RESULTS

	Group	Company
	RM'000	RM'000
Profit for the year	28,979	18,338

### RESERVES AND PROVISIONS

There were no material transfers to or from reserves and provisions during the year under review other than those disclosed in the financial statements.

### DIVIDENDS

Since the end of the previous financial year, the Company paid:

- i) a final dividend of 35% (17.5 sen) per share less tax at 28% totalling approximately RM17.48 million in respect of the year ended 31 December 2005 on 8 June 2006 based on the paid-up share capital of 139,425,000 ordinary shares of RM0.50 each less treasury shares amounting to 658,000 ordinary shares of RM0.50 each; and
- ii) an interim dividend of 14% (7 sen) per share less tax at 28% totalling approximately RM6.99 million in respect of the year ended 31 December 2006 on 22 September 2006 based on the paid-up share capital of 139,432,000 ordinary shares of RM0.50 each less treasury shares amounting to 658,000 ordinary shares of RM0.50 each.

The final dividend recommended by the Directors in respect of the year ended 31 December 2006 is 29% (14.5 sen) per share less tax at 27% totalling to approximately RM14.69 million based on the paid up share capital of 139,432,000 ordinary shares of RM0.50 each less treasury shares amounting to 658,000 ordinary shares of RM0.50 each.

## DIRECTORS' REPORT (cont'd)

for the year ended 31 December 2006

### DIRECTORS OF THE COMPANY

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

Tan Sri Dato' Dr. Abu Bakar bin Suleiman  
 Dato' Haji Mizanur Rahman bin S M Abdul Ghani  
 Dr. Mohamad Hashim bin Ahmad Tajudin  
 Datuk Alias bin Ali  
 Datuk Dr Jegathesan a/l N M Vasagam @ Manikavasagam  
 Tuan Haji Ghazali bin Awang  
 Dr. Mohd Nasir bin Hassan

### DIRECTORS' INTERESTS

The holdings and deemed holdings in the ordinary shares of the Company and of its related corporations of those who were Directors at year end as recorded in the Register of Directors' Shareholdings are as follows:

	Number of ordinary shares of RM0.50 each			
	At 1.1.2006	Bought	Sold	At 31.12.2006
<b>Direct interest in the Company</b>				
Tan Sri Dato' Dr. Abu Bakar bin Suleiman	26,400	260,000	—	286,400
Datuk Dr. Jegathesan a/l N M Vasagam @ Manikavasagam	—	34,160	—	34,160
<b>Indirect interest in the Company</b>				
Tan Sri Dato' Dr. Abu Bakar bin Suleiman #	11,000	—	—	11,000
<b>Shares in the intermediate holding company, Chemical Company of Malaysia Berhad</b>				
Dato' Haji Mizanur Rahman bin S M Abdul Ghani				
– direct interest	209,300	33,500	—	242,800
– indirect interest*	2,000	500	—	2,500

# Deemed interested via shareholdings held by his son, Zufar Suleiman Abu Bakar.

\* Deemed interested via shareholdings held by his sons, Shazli Ghani bin Mizanur Rahman and Shahreza Ghani bin Mizanur Rahman.

**DIRECTORS' REPORT** (cont'd)

for the year ended 31 December 2006

**DIRECTORS' INTERESTS (CONT'D)**

	Number of Warrant B			
	Balance at 1.1.2006	Bought	Sold	Balance at 31.12.2006
<i>Warrants in the intermediate holding company, Chemical Company of Malaysia Berhad</i>				
Dato' Haji Mizanur Rahman bin S M Abdul Ghani				
– direct interest	33,500	—	33,500	—
– indirect interest*	500	—	500	—

\* Deemed interested via shareholdings held by his sons, Shazli Ghani bin Mizanur Rahman and Shahreza Ghani bin Mizanur Rahman.

The other Directors did not hold or deal in any shares of the Company or its related corporations during the financial year.

**DIRECTORS' BENEFITS**

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the subsidiary) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

**ISSUE OF SHARES AND DEBENTURES**

During the financial year, the Company issued 75,500 new ordinary shares of RM0.50 each for cash arising from the exercise of employees' share options at an issue price of RM2.32 per ordinary share.

There were no other changes in the authorised, issued and paid-up capital of the Company during the financial year. There were no debentures issued during the financial year.

## DIRECTORS' REPORT (cont'd)

for the year ended 31 December 2006

### OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the year apart from the issue of options pursuant to the Employees' Share Option Scheme ("ESOS") of the Company.

At an extraordinary general meeting held on 25 June 2004, the Company's shareholders approved the establishment of an ESOS for the eligible employees and Directors of the Group to subscribe for new ordinary shares of RM0.50 each in the Company up to 15% of the issued and paid-up share capital of the Company at any point of time during the duration of the ESOS.

The salient features of the ESOS are as follows:

- i) Eligible employees are those who have attained the age of eighteen years and have been confirmed in writing as employees of the Group for at least one year prior to the date of offer.
- ii) The option is personal to the grantee and is non-assignable.
- iii) The option price shall be determined by the weighted average of the market quotation of the Company's ordinary shares as shown in the daily official list issued by the Bursa Malaysia Securities Berhad for the five trading days prior to the Date of Offer with a discount of not more than 10% or at the par value of the ordinary shares of the Company, whichever is higher.
- iv) The options granted may be exercised at any time within a period of five years from the date of offer of the option or such shorter period as may be specifically stated in the offer upon giving notice in writing.
- v) The options granted may be exercised in full or in lesser number of ordinary shares provided that the number shall be in multiple of 100 shares.

The options offered to take up unissued ordinary shares of RM0.50 each and the option price are as follows:

Number of options over ordinary shares of RM0.50 each					
Date of offer	Exercise price	Balance at 1.1.2006	Exercised	Forfeited	Balance at 31.12.2006
26.1.2005	RM2.32	254,500	75,500	9,000	170,000

**DIRECTORS' REPORT** (cont'd)

for the year ended 31 December 2006

**OPTIONS GRANTED OVER UNISSUED SHARES (CONT'D)**

In respect of the offer of ESOS on 26 January 2005, the Company has been granted exemption by the Companies Commission of Malaysia from having to disclose the name of option holders who have been granted options of less than 110,000 options. The name of option holders and the number of options granted which are 110,000 and above are set out below:

Number of options over ordinary shares of RM0.50 each						
Name of option holders	Option price RM	Date of expiry	Granted	Balance at 1.1.2006	Exercised	Balance at 31.12.2006
Ng Chee Leong	2.32	25.1.2010	217,500	20,000	20,000	—
Krisnakumara-Reddi a/l Kesava-Reddi	2.32	25.1.2010	118,500	18,500	—	18,500

**OTHER STATUTORY INFORMATION**

Before the balance sheets and income statements of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

- i) all known bad debts have been written off and adequate provision made for doubtful debts, and
- ii) all current assets have been stated at the lower of cost and net realisable value.

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

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

## **DIRECTORS' REPORT** (cont'd)

for the year ended 31 December 2006

### **OTHER STATUTORY INFORMATION (CONT'D)**

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

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

No contingent liability or other liability of any company in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Company to meet their obligations as and when they fall due.

In the opinion of the Directors, the results of the operations of the Group and of the Company for the financial year ended 31 December 2006 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

### **AUDITORS**

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors

**Dato' Haji Mizanur Rahman bin SM Abdul Ghani**

**Dr. Mohamad Hashim bin Ahmad Tajudin**

Klang,

Date: 5 April 2007

## STATEMENT BY DIRECTORS

pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 53 to 94 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Group and of the Company at 31 December 2006 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors:

**Dato' Haji Mizanur Rahman bin SM Abdul Ghani**

**Dr. Mohamad Hashim bin Ahmad Tajudin**

Klang,

Date: 5 April 2007

## STATUTORY DECLARATION

pursuant to Section 169(16) of the Companies Act, 1965

I, **Chek Wu Kong**, the officer primarily responsible for the financial management of **CCM Duopharma Biotech Berhad (formerly known as Duopharma Biotech Bhd)**, do solemnly and sincerely declare that the financial statements set out on pages 53 to 94 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Klang in the State of Selangor Darul Ehsan on 5 April 2007.

**Chek Wu Kong**

Before me:

Date: 5 April 2007

## REPORT OF THE AUDITORS

to the members of CCM Duopharma Biotech Berhad (formerly known as Duopharma Biotech Bhd)

We have audited the financial statements set out on pages 53 to 94. The preparation of the financial statements is the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair view of:
  - i) the state of affairs of the Group and of the Company at 31 December 2006 and the results of their operations and cash flows for the year ended on that date; and
  - ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Company; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and the subsidiary have been properly kept in accordance with the provisions of the said Act.

We are satisfied that the financial statements of the subsidiary that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The audit report on the financial statements of the subsidiary was not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

**KPMG**  
Firm Number: AF 0758  
Chartered Accountants

**Hasman Yusri Yusoff**  
Partner  
Approval Number: 2583/08/08(J)

Kuala Lumpur,  
Date: 5 April 2007

## BALANCE SHEETS

at 31 December 2006

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<b>Assets</b>					
Property, plant and equipment	3	49,656	56,792	—	—
Investment properties	4	6,087	—	—	—
Investment in a subsidiary	5	—	—	40,187	40,187
Investment in an associate	6	—	1,342	—	1,000
<b>Total non-current assets</b>		<b>55,743</b>	<b>58,134</b>	<b>40,187</b>	<b>41,187</b>
Receivables, deposits and prepayments	7	26,744	25,193	47,838	53,907
Inventories	8	20,771	15,840	—	—
Current tax assets		1,387	—	—	—
Cash and cash equivalents	9	54,363	52,406	10,677	9,338
<b>Total current assets</b>		<b>103,265</b>	<b>93,439</b>	<b>58,515</b>	<b>63,245</b>
<b>Total assets</b>		<b>159,008</b>	<b>151,573</b>	<b>98,702</b>	<b>104,432</b>
<b>Equity</b>					
Share capital		69,716	69,679	69,716	69,679
Reserves		12,506	13,581	12,057	11,919
Retained earnings		63,208	54,610	16,570	22,711
<b>Total equity attributable to shareholders</b>	10	<b>145,430</b>	<b>137,870</b>	<b>98,343</b>	<b>104,309</b>
<b>Negative goodwill</b>	11	<b>—</b>	<b>2,885</b>	<b>—</b>	<b>—</b>
<b>Liabilities</b>					
Deferred tax liabilities	12	2,838	2,838	—	—
<b>Total non-current liabilities</b>		<b>2,838</b>	<b>2,838</b>	<b>—</b>	<b>—</b>
Payables and accruals	13	10,695	6,711	314	92
Current tax liabilities		45	1,269	45	31
<b>Total current liabilities</b>		<b>10,740</b>	<b>7,980</b>	<b>359</b>	<b>123</b>
<b>Total liabilities</b>		<b>13,578</b>	<b>10,818</b>	<b>359</b>	<b>123</b>
<b>Total equity and liabilities</b>		<b>159,008</b>	<b>151,573</b>	<b>98,702</b>	<b>104,432</b>

The notes on pages 59 to 94 are an integral part of these financial statements.

## INCOME STATEMENTS

for the year ended 31 December 2006

	Note	Group		Company	
		2006 RM'000	2005 RM'000 Restated	2006 RM'000	2005 RM'000
Revenue	14	105,100	94,298	25,500	34,000
Cost of sales		(48,150)	(45,651)	—	—
<b>Gross profit</b>		<b>56,950</b>	48,647	<b>25,500</b>	34,000
Other income		523	1,749	325	—
Distribution and marketing expenses		(9,672)	(7,860)	—	—
Administrative expenses		(9,088)	(7,791)	(546)	(673)
Other expenses		(2,070)	(2,352)	—	—
<b>Results from operating activities</b>		<b>36,643</b>	32,393	<b>25,279</b>	33,327
Interest income		1,451	684	274	202
<b>Operating profit</b>	15	<b>38,094</b>	33,077	<b>25,553</b>	33,529
Share of profit after tax and minority interest of an equity accounted associate		—	339	—	—
<b>Profit before tax</b>		<b>38,094</b>	33,416	<b>25,553</b>	33,529
Tax expense	17	(9,115)	(9,903)	(7,215)	(9,595)
<b>Profit for the year attributable to shareholders</b>		<b>28,979</b>	23,513	<b>18,338</b>	23,934
<b>Basic earnings per ordinary share (sen)</b>	18	<b>20.89</b>	17.54		
<b>Diluted earnings per ordinary share (sen)</b>	18	<b>20.88</b>	17.53		

The notes on pages 59 to 94 are an integral part of these financial statements.



## STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2006

Company	Note	Non-distributable			Distributable	Total RM'000
		Share capital RM'000	Share premium RM'000	Treasury shares RM'000	Retained profits RM'000	
<b>At 1 January 2005</b>		66,000	106	—	4,542	70,648
Total recognised income for the year						
– Profit for the year		—	—	—	23,934	23,934
Treasury shares acquired		—	—	(1,578)	—	(1,578)
ESOS exercised	10	3,679	13,391	—	—	17,070
Dividends to shareholders	19	—	—	—	(5,765)	(5,765)
<b>At 31 December 2005/1 January 2006</b>		69,679	13,497	(1,578)	22,711	104,309
Total recognised income for the year						
– Profit for the year		—	—	—	18,338	18,338
ESOS exercised	10	37	138	—	—	175
Dividends to shareholders	19	—	—	—	(24,479)	(24,479)
<b>At 31 December 2006</b>		69,716	13,635	(1,578)	16,570	98,343

## CASH FLOW STATEMENTS

for the year ended 31 December 2006

	Group		Company	
	2006 RM'000	2005 RM'000 Restated	2006 RM'000	2005 RM'000
<b>Cash flows from operating activities</b>				
Profit before tax	38,094	33,416	25,553	33,529
Adjustments for:				
Amortisation of negative goodwill	—	(481)	—	—
Depreciation of property, plant and equipment	4,656	4,205	—	—
Dividend income	—	—	(25,500)	(34,000)
Gain on disposal of property, plant and equipment	(48)	(49)	—	—
Loss/(Gain) on disposal of an associate	17	—	(325)	—
Interest income	(1,451)	(684)	(274)	(202)
Share of profit of an equity accounted associate	—	(339)	—	—
<b>Operating profit/(loss) before changes in working capital</b>	<b>41,268</b>	<b>36,068</b>	<b>(546)</b>	<b>(673)</b>
Inventories	(4,931)	(2,078)	—	—
Payables and accruals	3,984	(1,857)	222	(22)
Receivables, deposits and prepayments	(1,551)	(2,743)	6,069	(31,108)
<b>Cash generated from/(used in) operations</b>	<b>38,770</b>	<b>29,390</b>	<b>5,745</b>	<b>(31,803)</b>
Tax paid	(11,726)	(6,321)	(61)	(50)
<b>Net cash from/(used in) operating activities</b>	<b>27,044</b>	<b>23,069</b>	<b>5,684</b>	<b>(31,853)</b>
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment	(4,601)	(7,115)	—	—
Dividends received	—	—	18,360	24,480
Interest received	1,451	684	274	202
Proceeds from disposal an associate	1,325	—	1,325	—
Proceeds from disposal of property, plant and equipment	1,042	49	—	—
<b>Net cash (used in)/from investing activities</b>	<b>(783)</b>	<b>(6,382)</b>	<b>19,959</b>	<b>24,682</b>

## CASH FLOW STATEMENTS (cont'd)

for the year ended 31 December 2006

	Group		Company	
	2006 RM'000	2005 RM'000 Restated	2006 RM'000	2005 RM'000
<b>Cash flows from financing activities</b>				
Dividends paid to shareholders of the Company	(24,479)	(5,765)	(24,479)	(5,765)
Proceeds from the exercise of ESOS	175	17,070	175	17,070
Repurchase of treasury shares	—	(1,578)	—	(1,578)
<b>Net cash (used in)/from financing activities</b>	<b>(24,304)</b>	9,727	<b>(24,304)</b>	9,727
Net increase in cash and cash equivalents	1,957	26,414	1,339	2,556
Cash and cash equivalents at 1 January (i)	52,406	25,992	9,338	6,782
<b>Cash and cash equivalents at 31 December (i)</b>	<b>54,363</b>	52,406	<b>10,677</b>	9,338

### i) Cash and cash equivalents

Cash and cash equivalents included in the cash flow statements comprise the following balance sheet amounts:

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Cash and bank balances	9	9,402	11,282	1,005	722
Deposits with licensed banks	9	44,961	41,124	9,672	8,616
		<b>54,363</b>	52,406	<b>10,677</b>	9,338

The notes on pages 59 to 94 are an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

CCM Duopharma Biotech Berhad (formerly known as Duopharma Biotech Bhd) is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Board of the Bursa Malaysia Securities Berhad. The addresses of its registered office and principal place of business are as follows:

### Registered office

No. 10A Lebuh Gopeng  
41400 Klang  
Selangor Darul Ehsan  
Malaysia

### Principal place of business

Lot 2599, Jalan Seruling 59  
Kawasan 3, Taman Klang Jaya  
41200 Klang  
Selangor Darul Ehsan  
Malaysia

The consolidated financial statements as at and for the year ended 31 December 2006 comprise the Company and its subsidiary (together referred to as the Group) and the Group's interest in an associate. The financial statements of the Company as at and for the year ended 31 December 2006 do not include other entities.

The Company is principally engaged in investment holding while the subsidiary is primarily involved in carrying on business as manufacturer, distributor, importer and exporter of pharmaceutical products and medicines.

The immediate and intermediate holding companies during the financial year were CCM Marketing Sdn. Bhd. (formerly known as Tekan Maju Sdn. Bhd.) and Chemical Company of Malaysia Berhad respectively. The ultimate holding company is Permodalan Nasional Berhad. All the holding companies were incorporated in Malaysia.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 1. BASIS OF PREPARATION

#### (a) Statement of compliance

The financial statements of the Group and of the Company have been prepared in accordance with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board (MASB), accounting principles generally accepted in Malaysia and the provisions of the Companies Act, 1965. These financial statements also comply with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad.

The MASB has issued the following new and revised Financial Reporting Standards (FRSs) and Interpretations that are effective for annual periods beginning after 1 January 2006, and that have not been applied in preparing these financial statements:

Standard / Interpretation	Effective date
FRS 117, <i>Leases</i>	1 October 2006
FRS 124, <i>Related Party Disclosures</i>	1 October 2006
FRS 139, <i>Financial Instruments: Recognition and Measurement</i>	To be announced
Amendment to FRS 119 <sub>2004</sub> , <i>Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures</i>	1 January 2007
FRS 6, <i>Exploration for and Evaluation of Mineral Resources</i>	1 January 2007
Amendment to FRS 121, <i>The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation</i>	1 July 2007
IC Interpretation 1, <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	1 July 2007
IC Interpretation 2, <i>Members' Shares in Co-operative Entities and Similar Instruments</i>	1 July 2007
IC Interpretation 5, <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	1 July 2007

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 1. BASIS OF PREPARATION (CONT'D)

#### (a) Statement of compliance (Cont'd)

Standard / Interpretation	Effective date
IC Interpretation 6, <i>Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i>	1 July 2007
IC Interpretation 7, <i>Applying the Restatement Approach under FRS 129<sub>2004</sub> Financial Reporting in Hyperinflationary Economies</i>	1 July 2007
IC Interpretation 8, <i>Scope of FRS 2</i>	1 July 2007

The Group and the Company plan to apply FRS 117, FRS 124 and the Amendment to FRS 119<sub>2004</sub> initially for the annual period beginning 1 January 2007 and to apply the rest of the above-mentioned FRSs (except for FRS 6, IC Interpretation 2, IC Interpretation 5, IC Interpretation 6 and IC Interpretation 7 as explained below and FRS 139 which its effective date has yet to be announced) and Interpretations for the annual period beginning 1 January 2008.

The impact of applying FRS 117, FRS 124 and FRS 139 on the financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors* is not disclosed by virtue of the exemptions given in the respective standards.

FRS 6 IC Interpretation 2, IC Interpretation 5, IC Interpretation 6 and IC Interpretation 7 are not applicable to the Group and the Company. Hence, no further disclosure is warranted.

The initial application of the other standards and interpretations are not expected to have any material impact on the financial statements of the Group and the Company.

The financial statements were approved by the Board of Directors on 5 April 2007.

#### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following assets as explained in their respective accounting policy notes:

- Property, plant and equipment
- Investment property

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 1. BASIS OF PREPARATION (CONT'D)

#### (c) Functional and presentation currency

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

#### (d) Use of estimates and judgements

The preparation of financial statements 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 estimate is revised and in any future periods affected.

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

Certain comparative amounts have been reclassified to conform to the current year's presentation (see note 24).

#### (a) Basis of consolidation

##### (i) Subsidiaries

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

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are stated in the Company's balance sheet at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (a) Basis of consolidation (Cont'd)

##### (ii) Associates

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

Associates are accounted for in the consolidated financial statements using the equity method unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated financial statements include the Group's share of the income and expenses of the equity accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

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

Investments in associates are stated in the Company's balance sheet at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

##### (iii) Transactions eliminated on consolidation

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

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

#### (b) 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 transaction.

**NOTES TO THE FINANCIAL STATEMENTS** (cont'd)**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(b) Foreign currency transactions (Cont'd)**

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

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

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

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

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

Cost includes expenditure that are directly attributable to the acquisition of the asset, 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. 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 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. The fair value of other items of plant and equipment is based on the quoted market prices for similar items.

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.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (c) Property, plant and equipment (Cont'd)

##### (ii) *Subsequent costs*

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

##### (iii) *Depreciation*

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

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

• buildings	50 years
• plant and machineries	5 - 10 years
• office equipment, furniture and fittings	10 - 20 years
• motor vehicles	4 - 10 years
• renovation	10 years

The depreciation amount is determined after deducting the residual value. Depreciation methods, useful lives and residual values are reassessed at the reporting date.

#### (d) *Intangible assets*

##### (i) *Negative Goodwill*

Negative goodwill arises on the acquisition of subsidiaries.

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

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (d) Intangible assets (Cont'd)

##### (i) Negative Goodwill (Cont'd)

In the previous years, negative goodwill was amortised on a straight line basis over a maximum of 10 years from the date of acquisition.

Following the adoption of FRS 3 on 1 January 2006, excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquirer over the cost of the acquisition is recognised immediately in the income statement. The carrying amount of negative goodwill at 1 January 2006 is derecognised with a corresponding adjustment to the opening balance of retained earnings. The effects of adopting FRS 3 are set out in Note 23.

##### (ii) Research and development

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

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

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

#### (e) Investment properties

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

In the previous years, all investment properties were stated at revalued amount less accumulated depreciation and impairment loss and are classified in property, plant and equipment. Following the adoption of FRS 140, *Investment Property*, all investment property are measured initially at cost and subsequently at fair value with any change therein recognised in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (e) Investment properties (Cont'd)

This change in accounting policy has been applied prospectively as allowed by the transitional provisions in FRS 140.80 as an adjustment to the opening balance of retained earnings and comparatives are not restated. The effects of adopting FRS 140 are set out in note 23.

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

The Directors of The Company value the Group's investment property portfolio every year. An external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, will be used whenever there is indication of significant changes in fair values of the investment properties. 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.

#### (f) 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 bringing them to their existing location and condition. In the case of work-in-progress and manufactured inventories, 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 selling expenses.

#### (g) Receivables

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts.

Receivables are not held for the purpose of trading.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (h) Non-current assets that are held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell.

Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

In the previous years, non-current assets held for sale (or disposal group) were not classified separately on the balance sheet and were measured in accordance with the respective accounting policy. Following the adoption of FRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, non-current assets held for sale (or disposal group) are classified separately as current assets / liabilities. This change in accounting policy is applied prospectively from 1 January 2006.

#### (i) Cash and cash equivalents

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

#### (j) Impairment of assets

The carrying amounts of assets except for inventories, investment properties and financial assets (other than investments in subsidiary and associate) and non-current assets (or disposal groups) classified as held for sale are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (j) Impairment of assets (Cont'd)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a *pro rata* basis.

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.

Impairment losses recognised in prior periods are assessed at each reporting date 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. 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 the income statement in the year in which the reversals are recognised, unless it reverses an impairment loss on a revalued asset, in which case it is credited directly to revaluation surplus. Where an impairment loss on the same revalued asset was previously recognised in the income statement, a reversal of that impairment loss is also recognised in the income statement.

#### (k) Share capital

##### (i) Shares issue expenses

Incremental costs directly attributable to issue at shares are recognised as a deduction from equity.

##### (ii) Repurchases of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares and are presented as a deduction from total equity.

**NOTES TO THE FINANCIAL STATEMENTS** (cont'd)**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(l) Employee benefits****(i) Short term employee benefits**

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

A provision 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. The Group's contribution to the Employees Provident Fund are charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

**(ii) Share-based payment transactions**

The share option programme allows Group employees to acquire shares of the Company. In the previous year, share options granted to employees is not recognised as an employee cost. Following the adoption of FRS 2, *Share-based Payment*, the grant date fair value of share options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The change in accounting policy is applied retrospectively only for those shares options granted after 31 December 2004 and have not vested as of 1 January 2006 as provided in the transitional provision of FRS 2. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

**(m) Provisions**

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

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### (n) Payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

#### (o) Revenue

##### (i) Goods sold

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

##### (ii) Dividend income

Dividend income is recognised when the right to receive payment is established.

#### (p) Interest income

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

#### (q) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

**NOTES TO THE FINANCIAL STATEMENTS** (cont'd)**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(q) Tax expense (Cont'd)**

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

Deferred tax liability is recognised for all taxable temporary differences.

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

Additional taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

**(r) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

**(s) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segmental information is not provided as the Group is primarily engaged in the pharmaceutical industry and its operations are carried out primarily in Malaysia.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 3. PROPERTY, PLANT AND EQUIPMENT

Group	Note	Freehold land RM'000	Buildings RM'000	Plant and machineries RM'000	Office equipment, furniture and fittings RM'000	Motor vehicles RM'000	Renovations RM'000	Capital work-in- progress RM'000	Total RM'000
<b>Cost /Valuation</b>									
At 1 January 2005		11,357	22,523	31,733	1,576	2,578	258	1,830	71,855
Additions		—	682	2,256	203	182	—	3,792	7,115
Disposals		—	—	—	—	(209)	—	—	(209)
Transfer		—	—	3,735	—	—	—	(3,735)	—
Elimination of accumulated depreciation with cost on revaluation		—	(1,496)	—	—	—	—	—	(1,496)
Revaluation surplus		1,517	307	—	—	—	—	—	1,824
At 31 December 2005/ 1 January 2006		12,874	22,016	37,724	1,779	2,551	258	1,887	79,089
Effect of adopting FRS 140	23	(6,087)	—	—	—	—	—	—	(6,087)
At 1 January 2006, restated		6,787	22,016	37,724	1,779	2,551	258	1,887	73,002
Additions		—	34	1,529	1,130	464	—	1,444	4,601
Transfer		30	273	1,700	—	—	—	(2,003)	—
Disposals		(193)	—	—	—	(1,662)	—	—	(1,855)
At 31 December 2006		6,624	22,323	40,953	2,909	1,353	258	1,328	75,748

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Note	Freehold land RM'000	Buildings RM'000	Plant and machineries RM'000	Office equipment, furniture and fittings RM'000	Motor vehicles RM'000	Renovations RM'000	Capital work-in- progress RM'000	Total RM'000
<b>Accumulated depreciation</b>								
At 1 January 2005	—	1,150	16,134	1,003	1,272	238	—	19,797
Depreciation for the year	15	462	3,327	139	269	8	—	4,205
Disposal	—	—	—	—	(209)	—	—	(209)
Elimination of accumulated depreciation with cost on revaluation	—	(1,496)	—	—	—	—	—	(1,496)
At 31 December 2005/ 1 January 2006	—	116	19,461	1,142	1,332	246	—	22,297
Depreciation for the year	15	471	3,739	279	161	6	—	4,656
Disposals	—	—	—	—	(861)	—	—	(861)
At 31 December 2006	—	587	23,200	1,421	632	252	—	26,092
<b>Carrying amounts</b>								
At 1 January 2005	11,357	21,373	15,599	573	1,306	20	1,830	52,058
At 31 December 2005	12,874	21,900	18,263	637	1,219	12	1,887	56,792
At 1 January 2006, restated	6,787	21,900	18,263	637	1,219	12	1,887	50,705
At 31 December 2006	6,624	21,736	17,753	1,488	721	6	1,328	49,656

The Group's freehold land and buildings were revalued in November 2005 by independent professional qualified valuers using an open market value method.

Had the freehold land and buildings been carried under the cost model, their carrying amounts would have been RM6,354,000 (2005 – RM11,357,000) and RM21,673,000 (2005 – RM21,801,000) respectively.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 4. INVESTMENT PROPERTIES

	Note	Group	
		2006 RM'000	2005 RM'000
Freehold land			
At 1 January		—	—
Arising from adoption of FRS 140	23	6,087	—
At 1 January, restated/At 31 December		6,087	—

### 5. INVESTMENT IN A SUBSIDIARY

	Company	
	2006 RM'000	2005 RM'000
Unquoted share, at cost	40,187	40,187

Details of the subsidiary are as follows:

Name of subsidiary	Country of incorporation	Principal activities	Effective ownership interest	
			2006 %	2005 %
Duopharma (M) Sdn Berhad	Malaysia	Manufacturing, distributing, importing and exporting of pharmaceutical products and medicines	100	100

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 6. INVESTMENT IN AN ASSOCIATE

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
At cost:				
Unquoted shares	—	1,000	—	1,000
Share of post-acquisition reserves	—	342	—	—
	—	1,342	—	1,000

During the year, the Group disposed of its investment in Altratec Sdn. Bhd. The summary financial information of the associate for previous year is as follows:

	Country of incorporation	Effective ownership interest	Revenue	Net profit	Net assets
		%	(100%) RM'000	(100%) RM'000	(100%) RM'000
<b>2005</b>					
Altratec Sdn. Bhd.	Malaysia	40	26,530	848	3,355

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 7. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<b>Trade</b>				
Trade receivables	26,077	26,009	—	—
Less: Allowance for doubtful debts	(781)	(931)	—	—
	25,296	25,078	—	—
Amount due from related corporations	1,206	25	—	—
	26,502	25,103	—	—
<b>Non-trade</b>				
Amount due from a subsidiary	—	—	47,820	53,893
Other receivables	177	37	18	14
Deposits	65	53	—	—
	242	90	47,838	53,907
	26,744	25,193	47,838	53,907

The trade receivables due from related corporations are subject to the normal trade terms. The amount due from a subsidiary is unsecured, interest free and repayable on demand.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 8. INVENTORIES

	Group	
	2006 RM'000	2005 RM'000
Raw materials and consumables	10,082	6,942
Work-in-progress	1,733	906
Packing materials	2,003	1,301
Finished goods	6,953	6,691
	<b>20,771</b>	<b>15,840</b>

In 2006, inventories recognised as cost of sales (excluding inventories written off) amounted to RM46,583,000 (2005: RM44,712,000).

In 2006, inventories amounting to RM1,567,000 (2005: RM939,000) were written off. The write-off is included in cost of sales.

### 9. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Deposits with licensed banks	44,961	41,124	9,672	8,616
Cash and bank balances	9,402	11,282	1,005	722
	<b>54,363</b>	<b>52,406</b>	<b>10,677</b>	<b>9,338</b>

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 10. CAPITAL AND RESERVES

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Share capital	69,716	69,679	69,716	69,679
Non-distributable reserves				
Share premium	13,635	13,497	13,635	13,497
Revaluation reserve	449	1,662	—	—
Treasury shares	(1,578)	(1,578)	(1,578)	(1,578)
Retained earnings (distributable)	63,208	54,610	16,570	22,711
	145,430	137,870	98,343	104,309

#### Share capital

	Group and Company	
	2006 '000	2005 '000
<b>Number of ordinary shares of RM0.50 each</b>		
Authorised	200,000	200,000
Issued and fully paid:		
On issue at 1 January	139,357	132,000
Issue of shares under the Employee Share Option Scheme	75	7,357
On issue at 31 December	139,432	139,357

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In respect of the Company's treasury shares that are held by the Company (see below), all rights are suspended until those shares are reissued.

**NOTES TO THE FINANCIAL STATEMENTS** (cont'd)**10. CAPITAL AND RESERVES (CONT'D)****Revaluation reserve**

The revaluation reserve relates to the revaluation of property, plant and equipment.

**Treasury shares**

The shareholders of the Company, by a special resolution passed at the Extraordinary General Meeting held on 25 June 2004, approved the Company's plan to purchase its own shares and the authority was renewed at the Fourth Annual General Meeting of the Company held on 29 June 2005. The renewal of authority for purchase of its own shares lapsed at the conclusion of the Fifth Annual General Meeting held on 18 May 2006 and no further renewal was sought.

There was no purchase of its issued share capital during the year. For the year ended 31 December 2005, the Company purchased 658,000 of its issued share capital from the open market. The average price paid for the purchase of its own shares was RM2.40 per share. The purchase of its own shares transactions were financed by internally generated funds. The shares purchased were retained as treasury shares in accordance with the requirement of Section 67A of the Companies Act, 1965 and carried at cost. The number of outstanding shares as at 31 December 2006 after deducting treasury shares held is 138,775,000 (2005: 138,699,000).

**Retained profits**

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank all of its retained profits at 31 December 2006 if paid out as dividends.

**Employees' Share Option Scheme ("ESOS")**

On 25 June 2004, the Group established a share option scheme that entitles eligible employees and Directors of the Group to purchase shares in the Company. On 26 January 2005, the Company granted vested options to eligible employees and Directors at an exercise price of RM2.32 per ordinary share of RM0.50 each.

As allowed by the transitional provisions in FRS 2, the recognition and measurement principles in FRS 2 have not been applied to the options granted since it was granted and vested prior to 1 January 2006.

The terms and conditions of the grants are as follows:

Grant date	Number of instruments '000	Vesting conditions	Contractual life of options
26 January 2005	7,938	At least 1 year service on the Date of Offer on 26 January 2005	5 years

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 10. CAPITAL AND RESERVES (CONT'D)

The number of share options is as follows:

	2006 '000	2005 '000
Outstanding at 1 January	254	—
Granted during the year	—	7,938
Forfeited during the year	(9)	(327)
Exercised during the year	(75)	(7,357)
Outstanding and exercisable at 31 December	170	254

The options outstanding at 31 December 2006 have a remaining contractual life of approximately 3 years.

During the year, 75,500 share options were exercised (2005 - 7,357,500). The weighted average share price for the year was RM2.61 (2005: RM2.62).

### 11. NEGATIVE GOODWILL

	Note	Group	
		2006 RM'000	2005 RM'000
<b>Cost</b>			
At 1 January		4,809	4,809
Effect of adopting FRS 3	23	(4,809)	—
At 1 January, restated/31 December		—	4,809
<b>Accumulated amortisation</b>			
At 1 January		1,924	1,443
Effect of adopting FRS 3	23	(1,924)	—
At 1 January, restated		—	1,443
Amortisation charge for the year		—	481
At 31 December		—	1,924
<b>Net carrying value</b>			
At 31 December		—	2,885

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 12. DEFERRED TAX LIABILITIES

Movement in taxable/(deductible) temporary differences during the year

Group	Property, plant and equipment RM'000	Allowance for doubtful debts RM'000	Others RM'000	Total RM'000
At 1 January 2005	2,849	(708)	(334)	1,807
Recognised in equity	162	—	—	162
Recognised in income statement	394	447	28	869
At 31 December 2005 / 1 January 2006	3,405	(261)	(306)	2,838
Recognised in income statement	(98)	58	40	—
At 31 December 2006	3,307	(203)	(266)	2,838

### 13. PAYABLES AND ACCRUALS

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<b>Trade</b>				
Trade payables	4,078	3,307	—	—
Amount due to a related company	75	—	—	—
	4,153	3,307	—	—
<b>Non-trade</b>				
Amount due to intermediate holding company	206	—	—	—
Other payables	277	185	179	92
Accrued expenses	5,035	2,127	135	—
Others	1,024	1,092	—	—
	6,542	3,404	314	92
	10,695	6,711	314	92

The trade payable due to a related company is subject to normal trade terms.

The amount due to the intermediate holding company is unsecured, interest free and repayable on demand.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 14. REVENUE

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<b>Group</b>				
Sale of goods	105,100	94,298	—	—
Dividend income from unquoted subsidiary	—	—	25,500	34,000
	105,100	94,298	25,500	34,000

### 15. OPERATING PROFIT

	Note	Group		Company	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<b>Operating profit is arrived at after charging:</b>					
Auditors' remuneration					
– audit		59	55	15	11
– non-audit services		46	43	46	16
Depreciation on property, plant and equipment	3	4,656	4,205	—	—
Intermediate holding company management fees		1,500	—	—	—
Inventories written off		1,567	939	—	—
Loss on disposal of an associate		17	—	—	—
Net foreign exchange loss		—	62	—	—
Personnel expenses (including key management personnel):					
– Contributions to Employees Provident Fund		1,535	1,239	—	—
– Wages, salaries and others		14,146	14,618	—	—
Rental of premises		102	109	—	—
Research and development expensed as incurred		500	546	—	—
<b>and after crediting:</b>					
Allowance for doubtful debts written back		150	1,004	—	—
Gain on disposal of an associate		—	—	325	—
Gain on disposal of property, plant and equipment		48	49	—	—
Net foreign exchange gain		9	—	—	—
Amortisation of negative goodwill		—	481	—	—

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 16. KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation is as follows:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<b>Directors</b>				
– Fees	213	386	213	276
– Gratuity	–	835	–	–
– Remuneration	602	908	–	–
– Other short term employee benefits (including estimated monetary value of benefits-in-kind)	23	595	–	–
Total short-term employee benefits	838	2,724	213	276

### 17. TAX EXPENSE

Recognised in the income statement

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Tax expense	9,115	9,903	7,215	9,595
Share of tax of an equity accounted associate	–	43	–	–
Total tax expense	9,115	9,946	7,215	9,595
Major components of tax expense include:				
<b>Current tax expense</b>				
Malaysian				
– current year	9,710	7,703	7,215	9,595
– prior year	(595)	1,331	–	–
Total current tax	9,115	9,034	7,215	9,595
<b>Deferred tax expense</b>				
Origination and reversal of temporary differences	–	869	–	–
Share of tax of an equity accounted associate	–	43	–	–
Total tax expense	9,115	9,946	7,215	9,595

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 17. TAX EXPENSE (CONT'D)

#### Reconciliation of effective tax expense

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Profit for the year	28,979	23,513	18,338	23,934
Total tax expense	9,115	9,946	7,215	9,595
Profit excluding tax	38,094	33,459	25,553	33,529
Tax at Malaysian tax rate of 28%	10,666	9,368	7,155	9,388
Effect of change in tax rate*	(440)	—	—	—
Non-deductible expenses	236	515	34	162
Non taxable income	—	(135)	—	—
Tax incentives	(163)	(40)	—	—
Utilisation of reinvestment allowance	(598)	(1,004)	—	—
Other items	9	(89)	26	45
(Over)/Under provided in prior years	(595)	1,331	—	—
	9,115	9,946	7,215	9,595

\* With effect from year of assessment 2007, corporate tax rate is at 27%. The Malaysian Budget 2007 also announced the reduction of corporate tax rate to 26% in 2008. Consequently, deferred tax assets and liabilities are measured using these tax rates.

#### Tax recognised directly in equity

	Group	
	2006 RM'000	2005 RM'000
Revaluation of property, plant and equipment	—	162

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 18. EARNINGS PER ORDINARY SHARE

#### Basic earnings per ordinary share

The calculation of basic earnings per ordinary share at 31 December 2006 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	2006 RM'000	2005 RM'000
<b>Group</b>		
Profit for the year attributable to ordinary shareholders	28,979	23,513

Weighted average number of ordinary shares

	Group	
	2006 '000	2005 '000
Issued ordinary shares at 1 January	139,357	132,000
Effect of treasury shares held	(658)	(455)
Effect of exercise of share option under ESOS	49	2,532
Weighted average number of ordinary shares at 31 December	138,748	134,077

	Group	
	2006 Sen	2005 Sen
Basic earnings per ordinary share	20.89	17.54

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 18. EARNINGS PER ORDINARY SHARE (CONT'D)

#### Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share at 31 December 2006 was based on profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:

	Group	
	2006 RM'000	2005 RM'000
Profit for the year attributable to ordinary shareholders	28,979	23,513

Weighted average number of ordinary shares (diluted)

	Group	
	2006 '000	2005 '000
Weighted average number of ordinary shares at 31 December	138,748	134,077
Effect of share options under ESOS on issue	22	29
Weighted average number of ordinary shares (diluted) at 31 December	138,770	134,106

	2006 Sen	2005 Sen
Diluted earnings per ordinary share	20.88	17.53

The average market value of the Company's shares for purpose of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 19. DIVIDENDS

Dividends recognised in the current year by the Company are:

	Sen per share (Net of tax)	Total amount RM'000	Date of payment
<b>2006</b>			
Interim 2006 ordinary	5.04	6,994	22 September 2006
Final 2005 ordinary	12.60	17,485	8 June 2006
		24,479	
<b>2005</b>			
Final 2005 ordinary	4.32	5,765	18 August 2005

After the balance sheet date the Directors proposed a final dividend of 10.58 sen per share (net of tax) totalling RM14,689,000. These dividends will be recognised in subsequent financial reports upon approval by the shareholders.

### 20. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business.

#### Credit risk

The Group has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers who require credit facility. When the credit limit and/or credit period is exceeded, further transaction may not be allowed until the credit limit or credit period is regularised to appropriate levels. The Group does not require collateral.

At balance sheet date of the financial year 2005, a significant concentration of credit risk arises in respect of debts owing from 2 (2005 – 3) major customers amounting to RM9,124,000 (2005 – RM9,275,000). The management closely monitor the Group's credit risk exposure to these major customers and are confident in recovering these amounts. The maximum exposure to credit risk for the Group is represented by the carrying amounts of the financial assets.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 20. FINANCIAL INSTRUMENTS (CONT'D)

#### Interest rate risk

The Group places cash balances with reputable banks to generate interest income for the Group. The Group manages its interest risk by placing such balances on varying maturities and interest rate terms.

#### Effective interest rates and repricing analysis

In respect of interest-earning financial assets, the following table indicates their average effective interest rates at the balance sheet date and the periods in which they mature, or if earlier, reprice.

		2006			2005		
	Note	Average effective interest rate %	Total RM'000	Less than 1 year RM'000	Average effective interest rate %	Total RM'000	Less than 1 year RM'000
<b>Fixed rate instruments</b>							
<b>Group</b>							
Deposits with licensed banks	9	3.40-3.50	44,961	44,961	2.60	41,124	41,124
<b>Company</b>							
Deposits with licensed banks	9	3.40-3.50	9,672	9,672	2.66	8,616	8,616

#### Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities. The currencies giving rise to this risk are primarily USD and EUR.

#### Fair values

The carrying amounts of cash and cash equivalents, receivables and payables, approximate fair values due to the relatively short term nature of these financial instruments.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 21. CAPITAL AND OTHER COMMITMENTS

	Group	
	2006 RM'000	2005 RM'000
<b>Plant and equipment</b>		
Contracted but not provided for	2,475	165

### 22. RELATED PARTIES

#### Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Group has a related party relationship with its subsidiary (see note 5), holding companies, associate (Note 6), related corporations, Directors and key management personnel.

#### Transactions with key management personnel

Key management personnel compensation is disclosed in note 16.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

Group			Transaction value year ended 31 December		Balance outstanding as at 31 December	
Former Directors	Transaction	Note	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Madam Ang Bee Lian and Mr. Chia Ting Poh @ Cheah Ting Poh	Sales	(a)	—	2,015	—	2,079

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 22. RELATED PARTIES (CONT'D)

#### Note (a)

This is related to sales to CCM Pharmaceuticals (S) Pte. Ltd. (formerly known as Duopharma Trading (S) Pte. Ltd.) in which the former directors had interest in the entity.

#### Other related party transactions

(other than disclosed elsewhere in the financial statements)

Group	Transaction value year ended 31 December		Balance outstanding as at 31 December	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<b>Sale of goods with related corporations</b>				
CCM Pharmaceuticals (S) Pte. Ltd. (formerly known as Duopharma Trading (S) Pte. Ltd.)	2,409	2,015	1,181	2,079
CCM Fertilizers Sdn. Bhd.	2	—	2	—
Prima Health Pharmacy (Retail) Sdn. Bhd.	119	36	23	25
<b>Purchases with related corporations</b>				
CCM Chemicals Sdn. Bhd.	(688)	—	—	—
CCM Pharmaceuticals Sdn. Bhd.	(148)	—	(75)	—
<b>Management fees paid to holding company</b>				
Chemical Company of Malaysia Berhad	(1,500)	—	(206)	—
<b>Research and development expenditure paid to related corporation</b>				
Innovax Sdn. Bhd.	(500)	—	—	—

**NOTES TO THE FINANCIAL STATEMENTS** (cont'd)**23. CHANGES IN ACCOUNTING POLICIES**

The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended 31 December 2006.

The significant changes in accounting policies arising from the adoption FRS 3, Business Combinations and FRS 140, Investment Property are summarised below:

***FRS 3, Business Combinations***

The adoption of FRS 3 has resulted in a change in the accounting policy for negative goodwill. The change in accounting policy is made in accordance with its transitional provisions.

In the past, negative goodwill on consolidation which represents the excess of the fair values of the net identifiable assets acquired over the cost of acquisition, was amortised on a straight line basis over a maximum of 10 years from the date of acquisition. Following the adoption of FRS 3, the excess of the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree over the cost of acquisition is recognised immediately in income statement.

In accordance to the transitional provisions of FRS 3, the carrying value of negative goodwill at 1 January 2007 is derecognised with a corresponding adjustment to the opening balance of retained earnings.

Accordingly, the adoption of the new accounting policy has no effect on prior years.

The effects on the current year are as follows:

- (i) increase in the group's retained earnings and total equity at 1 January 2006 by RM2,885,000; and
- (ii) decrease in the group's net profit for the year by RM481,000.

This change in accounting policy has no significant impact on earnings per share for the current year.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 23. CHANGES IN ACCOUNTING POLICIES (CONT'D)

#### *FRS 140, Investment Property*

The Group now measures all investment properties at fair value with any change therein recognised in the income statement. In the previous years, all investment properties were stated at revalued amounts less accumulated depreciation and impairment loss and were classified in property, plant and equipment. Following the adoption of FRS 140, *Investment Property*, all investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in the income statement. This change in accounting policy has been applied prospectively as allowed by the transitional provisions in FRS 140.80 as an adjustment to the opening balance of retained earnings and comparatives are not restated.

The effects on the current year are as follows:

- (i) freehold land amounting to RM6,087,000 as at 1 January 2006 is reclassified from property, plant and equipment to investment properties; and
- (ii) related revaluation surplus on the freehold land amounting to RM1,213,000 as at 1 January 2006 is reclassified to retained earnings.

This change in accounting policy has no significant impact on income statement and earnings per share for the current year.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd)

### 24. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation requirements of FRS 101.

	Group		Company	
	As restated RM'000	As previously stated RM'000	As restated RM'000	As previously stated RM'000
<b>Income statement</b>				
Share of profit after tax and minority interest of an equity accounted associate	339	382	—	—
Profit before tax	33,416	33,459	—	—
Tax expense	(9,903)	(9,946)	—	—
<b>Cash flow statements</b>				
Profit before tax	33,416	33,459	—	—
Share of profit of an equity accounted associate	(339)	(382)	—	—