

14. ACCOUNTANTS' REPORT (*Cont'd*)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

- (h) *No dividend has been declared or paid by PAPL during the financial years/periods under review.*
- (i) *The gross loss/earnings per share is computed based on loss/profit before taxation divided by the weighted average number of ordinary shares in issue during the financial year/period.*
- The net loss/earnings per share is computed based on loss/profit after taxation divided by the weighted average number of ordinary shares in issue during the financial year/period.*

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14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

6. PUI

	< Financial year ended 31 March >			6-months period ended	
	2005	2006	2007	< -- 30 September -- > **2006	2007
	RM'000	RM'000	RM'000	RM'000	RM'000
Operating revenue	2,530	3,946	3,921	2,062	2,107
Cost of sales	(1,810)	(2,640)	(2,529)	(1,317)	(1,336)
Gross profit	720	1,306	1,392	745	771
Other operating revenue	-	-	-	-	-
Distribution costs	(371)	(596)	(693)	(296)	(285)
Administrative costs ⁽¹⁾	(980)	(1,090)	(1,159)	(549)	(550)
Other operating costs ⁽¹⁾	(1)	(14)	(11)	-	(24)
	(1,352)	(1,700)	(1,863)	(845)	(859)
Loss from operations	(632)	(394)	(471)	(100)	(88)
Finance costs ⁽¹⁾	(1)	(4)	(4)	(1)	(2)
Loss before taxation	(633)	(398)	(475)	(101)	(90)
Taxation	-	-	-	-	-
Loss after taxation	(633)	(398)	(475)	(101)	(90)

Loss before taxation is analysed as follows:-

Loss before depreciation and interest expense	(624)	(383)	(460)	(97)	(83)
Depreciation	(9)	(12)	(13)	(4)	(6)
Interest expense	-	(3)	(2)	-	(1)
Loss before taxation	(633)	(398)	(475)	(101)	(90)

Weighted average number of ordinary shares in issue ('000)

	250	250	250	250	250
Gross loss per share (RM)	(2.53)	(1.59)	(1.90)	⁽²⁾ (0.81)	⁽²⁾ (0.72)
Net loss per share (RM)	(2.53)	(1.59)	(1.90)	⁽³⁾ (0.81)	⁽³⁾ (0.72)
GP Margin (%)	28	33	36	36	37
LBT Margin (%)	(25)	(10)	(12)	(5)	(4)
LAT Margin (%)	(25)	(10)	(12)	(5)	(4)
Effective tax rate (%)	-	-	-	-	-
Gross dividend rate (%)	-	-	-	-	-

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

** Not audited and is included for comparison purposes only.

(1) 'General and administrative expenses' stated in the audited income statements for all the financial years/periods under review have been segregated into 'Administrative costs', 'Other operating costs' and 'Finance costs' in order to conform with the presentation in the audited income statement of HSB. 'Other operating costs' that have been reclassified from the 'General and administrative expenses' include allowance for doubtful debts, charitable contribution and penalties, whereas 'Finance costs' that have been reclassified from 'General and administrative expenses' include bank charges and interest and leasing charges.

The net effects of the above reclassifications are as follows: -

	< Financial year ended 31 March >			6-months period ended	
	2005	2006	2007	< -- 30 September -- >	
	2006	2007	2008	2006	2007
	RM'000	RM'000	RM'000	RM'000	RM'000
Administrative costs					
As per audited financial statements	(982)	(1,108)	(1,174)	(550)	(561)
Less: Reclassification to Other operating costs	1	14	11	-	9
Less: Reclassification to Finance costs	1	4	4	1	2
As adjusted	(980)	(1,090)	(1,159)	(549)	(550)
Other operating costs					
As per audited financial statements	-	-	-	-	(15)
Add: Reclassification from Administrative costs	(1)	(14)	(11)	-	(9)
As adjusted	(1)	(14)	(11)	-	(24)
Finance costs					
As per audited financial statements	-	-	-	-	-
Add: Reclassification from Administrative costs	(1)	(4)	(4)	(1)	(2)
As adjusted	(1)	(4)	(4)	(1)	(2)

(2) Based on annualised profit before taxation.

(3) Based on annualised profit after taxation.

Notes-

(a) Figures for the past three (3) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007 are translated from the audited financial statements denominated in United States Dollars using the average rate prevailing in those financial years/period of RM3.8000:USD1.00, RM3.7500:USD1.00, RM3.5750:USD1.00 and RM3.4225:USD1.00 respectively.

(b) Figures for the 6-months period ended 30 September 2006 are translated from unaudited financial statement denominated in United States Dollars using the average rate prevailing in that period of RM3.6923:USD1.00.

(c) There was no extraordinary item or exceptional item for all the financial years/periods under review.

14. ACCOUNTANTS' REPORT (Cont'd)**MOORE STEPHENS**CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

- (d) *The significant increase in the total operating revenue for the financial year ended 31 March 2005 as compared to the total operating revenue for the financial period ended 31 March 2004 of RM0.71 million was mainly due to a significant increase in the sales of the Latex Gloves lifted by the rating of 'overall best combination of characteristics resulting in highest quality before use' made by Clinical Research Associates ("CRA" is an independent non-profit dental education and product testing foundation organisation) which was published and disseminated through a monthly newsletter, namely the 'CRA Newsletter', which was circulated throughout the United States of America resulting in increased awareness of PUI's latex gloves during the financial year under review. In addition, sales of the Nitrile Gloves also rose significantly mainly due to full year's operation as compared to only eleven (11) months operation in the previous financial period and active recommendation of this category of products by PUI in view of their potentially higher gross profit margin.*

The significant increase in the total operating revenue for the financial year ended 31 March 2006 as compared to the total operating revenue for the financial year ended 31 March 2005 was mainly due to the continued increase in the demand for the Latex Gloves following the favourable rating by the CRA in the previous financial year and a significant increase in the sales of nitrile gloves boosted by another rating made by CRA during the financial year under review which rated PUI's nitrile gloves as "overall best combination of characteristics including low cost and low pinholes".

There was no material difference in the total operating revenue for the financial year ended 31 March 2007 as compared to the total operating revenue for the financial year ended 31 March 2006. For the financial year ended 31 March 2007, PUI increased the selling prices for the Latex Gloves and it also saw an increase in the demand for the Nitrile Gloves. However, the favourable effects on the total operating revenue arising from the increase in the selling prices of the Latex Gloves and the higher sales of the Nitrile Gloves were negated by the continued depreciation of the United States currency against the Ringgit Malaysia.

For the 6-months period ended 30 September 2007, PUI achieved a total operating revenue of RM2.11 million. On an annualised basis, the total operating revenue was RM4.22 million which represents an increase of 8% as compared to the total operating revenue for the financial year ended 31 March 2007. The increase in the total operating revenue for the period under review was mainly due to an increase in the in customer base for both the Latex Gloves and the Nitrile Gloves as well as an increase in the average selling prices of the Latex Gloves. However, the favourable effects arising from the increase in the demand of the Nitrile Gloves and Latex Gloves as well as the increase in selling prices of Latex Gloves was mitigated by the continued depreciation of the United States currency against the Ringgit Malaysia.

- (d) *The significant improvement in the LBT Margin for the financial year ended 31 March 2005 as compared to the LBT Margin for the financial period ended 31 March 2004 of 110% was mainly due to a significant increase in total operating revenue, relatively lower increase in costs of carriage inwards from engagement of bigger containers (40 foot containers) for shipping of goods purchased which were relatively cheaper as opposed to smaller containers (20 foot containers) engaged in the previous financial period, and relatively lower increase in the administrative costs which mainly comprised staff costs, rentals of warehouse and office premises and warehousing costs.*

The continued improvement in the LBT Margin for the financial year ended 31 March 2006 as compared to the LBT Margin for the financial year ended 31 March 2005 was mainly due to increase in gross profit margin of the Nitrile Gloves resulted from a significant sales of a new range of more elastic and lighter weight nitrile gloves which earned higher gross profit margin as compared to the existing range of the Nitrile Gloves, and a relatively lower increase in administrative costs as a result of a decrease in premises rentals and lower increase in staff costs as compared to the increase in total operating revenue.

The marginal increase in the LBT Margin for the financial year ended 31 March 2007 as compared to the LBT Margin for the financial year ended 31 March 2006 was mainly due to increase in sales and marketing costs and relatively higher increase in staff costs. The increase in sales and marketing costs was mainly due to an increase in marketing expenses to promote the Nitrile Gloves.

The significant improvement in the LBT Margin for the 6-months period ended 30 September 2007 as compared to the LBT Margin for the financial year ended 31 March 2007 was mainly due to increase in selling prices of the Latex Gloves and a significant decrease in marketing expenses resulted from the introduction of a new marketing campaign which substantially reduced free product samples distributed to PUI's customers.

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

(e) *There was no provision for taxation for all the financial years/periods under review in view of the losses suffered by PUI.*

(f) *No dividend has been declared or paid by PUI during the financial years/periods under review.*

(g) *The gross loss per share is computed based on loss before taxation divided by the weighted average number of ordinary shares in issue during the financial year/period.*

The net loss per share is computed based on loss after taxation divided by the weighted average number of ordinary shares in issue during the financial year/period.

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14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

H. BALANCE SHEETS

We set out below the balance sheets of HHB and all its subsidiary companies, prepared based on their respective company level audited balance sheets for each of the past three (3) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007, where available. We have also included, for comparison purposes, the balance sheets of HHB and all its subsidiary companies for the 6-months period ended 30 September 2006 which are prepared based on the unaudited financial statements provided by the management of the HHB Group. The balance sheets were not significantly affected by transactions and balances between the corporations to which they relate, except to the extent stated in this report.

1. HHB - company level

	* As at 31 March 2007 RM'000	< ---- As at 30 September ---- > **2006 RM'000	2007 RM'000
ASSETS			
Non-current asset			
Investment in subsidiary companies	-	-	123,700
Current asset			
Cash balances	#	#	#
TOTAL ASSETS	#	#	123,700
EQUITY AND LIABILITY			
Equity			
Share capital	#	#	121,156
Share premium	-	-	2,544
Accumulated losses	(8)	-	(11)
Total equity	(8)	#	123,689
Current liability			
Other payables	8	-	11
TOTAL EQUITY AND LIABILITY	#	#	123,700
<i>Key financial ratios:-</i>			
Current ratio (times)	0.00025	⁽¹⁾ N/A	0.00018
Net tangible (liabilities)/assets per share (RM)	(4.00)	-	0.51

* First audited financial statement.

** Not audited and is included for comparison purposes only.

This represents RM2.00.

⁽¹⁾ Not applicable (N/A) because the Company had no current liability at the balance sheet date.

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

2. HSB

	< ----- As at 31 March ----- >			< As at 30 September >	
	2005 RM'000	2006 RM'000	2007 RM'000	**2006 RM'000	2007 RM'000
ASSETS					
Non-Current Assets					
Property, plant and equipment ⁽¹⁾	81,403	111,272	129,811	119,959	129,352
Capital work in progress	-	-	1,837	279	18,842
Prepaid land lease payments ⁽¹⁾	158	156	154	155	153
Investment in subsidiary companies	1,378	1,086	116	1,086	116
Other Investments	175	175	175	175	175
	83,114	112,689	132,093	121,654	148,638
Current Assets					
Inventories	14,507	18,895	18,430	20,556	15,574
Trade receivables ⁽²⁾	17,438	34,223	34,990	33,181	38,721
Other receivables, deposits and prepayments	1,161	2,137	4,973	3,049	4,316
Amount due from subsidiary companies ⁽²⁾	197	65	142	66	191
Amount owing by holding company	-	-	-	-	11
Tax assets	828	90	-	-	-
Cash on deposits with licensed banks	8,044	231	700	6,721	21,546
Cash and bank balances	1,658	9,906	4,767	7,512	12,740
	43,833	65,547	64,002	71,085	93,099
TOTAL ASSETS	126,947	178,236	196,095	192,739	241,737
EQUITY AND LIABILITIES					
Equity					
Share capital	10,962	15,682	15,682	15,682	15,682
Share premium	853	14,068	14,068	14,068	14,068
Retained profits	79,388	97,056	125,280	115,541	145,361
Total Equity	91,203	126,806	155,030	145,291	175,111
Share application monies	10,318	-	-	-	-
Liabilities					
Non-Current Liabilities					
Term loans	1,983	14,724	9,897	12,568	26,423
Deferred taxation	10,007	13,733	14,513	15,091	16,690
	11,990	28,457	24,410	27,659	43,113
Current Liabilities					
Trade payables ⁽³⁾	5,051	7,811	7,019	4,482	8,333
Other payables and accruals ⁽³⁾	7,121	10,473	5,507	9,771	6,761
Term loans	1,264	4,689	3,905	4,558	7,350
Taxation	-	-	224	978	1,069
	13,436	22,973	16,655	19,789	23,513
Total Liabilities	25,426	51,430	41,065	47,448	66,626
TOTAL EQUITY AND LIABILITIES	126,947	178,236	196,095	192,739	241,737

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)*Key financial ratios:-*

Inventories' turnover period (months)	2.02	1.81	1.19	⁽⁵⁾ 1.30	⁽⁵⁾ 0.89
Trade receivables' turnover period (months)	1.93	2.61	1.77	⁽⁴⁾ 1.64	⁽⁴⁾ 1.71
Trade payables' turnover period (months)	0.70	0.75	0.45	⁽⁵⁾ 0.28	⁽⁵⁾ 0.48
Current ratio (times)	3.26	2.85	3.84	3.59	3.96
Debt-equity ratio (times)	0.04	0.15	0.09	0.12	0.19
Net tangible assets per share (RM)	8.32	8.09	9.89	9.26	11.17

** Not audited and is included for comparison purposes only.

⁽¹⁾ Leasehold land which were included in 'Property, plant and equipment' in the audited balance sheet as at 31 March 2005 and 2006 have been reclassified to 'Prepaid land lease payments' in order to conform with the presentation in the latest audited balance sheets as at 31 March 2007 and 30 September 2007. The net effects of these reclassifications are as follows:-

	< ----- As at 31 March ----- >			< As at 30 September >	
	2005	2006	2007	2006	2007
	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment					
As per audited financial statements	81,561	111,428	129,811	119,959	129,352
Add: Reclassification adjustments	(158)	(156)	-	-	-
As adjusted	81,403	111,272	129,811	119,959	129,352
Prepaid land lease payments					
As per audited financial statements	-	-	154	155	153
Less: Reclassification adjustments	158	156	-	-	-
As adjusted	158	156	154	155	153

⁽²⁾ Trade debts arising from sales to subsidiary companies which were included in 'Amount due from subsidiary companies' in the audited balance sheet as at 31 March 2005 has been reclassified to 'Trade receivables' in order to conform with the presentation in the audited balance sheets in the other financial years/periods under review. The net effects of these reclassifications are as follows:-

	< ----- As at 31 March ----- >			< As at 30 September >	
	2005	2006	2007	2006	2007
	RM'000	RM'000	RM'000	RM'000	RM'000
Trade receivables					
As per audited financial statements	14,297	34,223	34,990	33,181	38,721
Add: Reclassification adjustments	3,141	-	-	-	-
As adjusted	17,438	34,223	34,990	33,181	38,721
Amount due from subsidiary companies					
As per audited financial statements	3,338	65	142	66	191
Less: Reclassification adjustments	(3,141)	-	-	-	-
As adjusted	197	65	142	66	191

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

- (3) The accrued cost of raw materials purchased included in 'Other payables and accruals' in the audited balance sheet as at 31 March 2005 has been reclassified to 'Trade payables' in order to conform with the presentation in the audited balance sheets in the other financial years/periods under review. The net effects of these reclassifications are as follows:-

	< ----- As at 31 March ----- >			< As at 30 September >	
	2005 RM'000	2006 RM'000	2007 RM'000	2006 RM'000	2007 RM'000
Trade payables					
As per audited financial statements	4,224	7,811	7,019	4,482	8,333
Add: Reclassification adjustments	827	-	-	-	-
As adjusted	5,051	7,811	7,019	4,482	8,333
Other payables and accruals					
As per audited financial statements	7,948	10,473	5,507	9,771	6,761
Less: Reclassification adjustments	(827)	-	-	-	-
As adjusted	7,121	10,473	5,507	9,771	6,761

(4) Based on annualised operating revenue.

(5) Based on annualised costs of sales.

Notes:

- a. The audited balance sheets for the past two (2) financial years ended 31 March 2006 have been re-presented in order to conform to the format of presentation required by FRS 101 on Presentation of Financial Statements.
- b. The normal credit terms extended to trade receivables of HSB ranges from 30 days to 60 days. The aging of trade receivables as at 30 September 2007 are as follows:-

Days	1 - 30	31 - 60	61 - 90	91 - 180	> 180	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External trade receivables	19,990	13,696	904	(1)	(29)	34,560
Related companies	451	658	436	1,256	1,360	4,161
Total trade receivables	20,441	14,354	1,340	1,255	1,331	38,721
% of trade receivables (%)	53	37	4	3	3	100

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

3. SEMSB

	< ----- As at 31 March ----- >			< As at 30 September >	
	2005 RM'000	2006 RM'000	2007 RM'000	**2006 RM'000	2007 RM'000
ASSETS					
Current Assets					
Other receivables	12	12	41	12	71
Cash on deposits with licensed banks	-	-	32	-	32
Cash and bank balances	-	8	17	9	34
TOTAL ASSETS	12	20	90	21	137
EQUITY AND LIABILITIES					
Equity					
Share capital	1	1	1	1	1
Share premium	31	31	31	31	31
Accumulated losses	(79)	(80)	(87)	(80)	(90)
Total Equity	(47)	(48)	(55)	(48)	(58)
Liabilities					
Current Liabilities					
Other payables	2	1	1	-	1
Amount owing to directors	2	3	2	3	3
Amount due to holding company	55	64	142	66	191
Total Liabilities	59	68	145	69	195
TOTAL EQUITY AND LIABILITIES	12	20	90	21	137

Key financial ratios:-

Current ratio (times)	0.20	0.29	0.62	0.30	0.70
Net tangible liabilities per share (RM)	(47.00)	(48.00)	(55.00)	(48.00)	(58.00)

** Not audited and is included for comparison purposes only.

Note: The audited balance sheets for the past two (2) financial years ended 31 March 2006 have been re-presented in order to conform to the format of presentation required by FRS 101 on Presentation of Financial Statements.

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

4. PAPL

	< ----- As at 31 March ----- >			< As at 30 September >	
	2005 RM'000	2006 RM'000	2007 RM'000	**2006 RM'000	2007 RM'000
ASSETS					
Non-Current Assets					
Property, plant and equipment	11	6	8	9	21
Current Assets					
Inventories	867	903	999	901	1,140
Trade receivables	405	724	936	952	1,158
Other receivables and prepayments	18	13	9	24	47
Cash and bank balances	8	150	98	107	130
	1,298	1,790	2,042	1,984	2,475
TOTAL ASSETS	1,309	1,796	2,050	1,993	2,496
EQUITY AND LIABILITIES					
Equity and Reserves					
Share capital	142	142	142	142	142
Translation reserve	26	30	36	31	65
Accumulated (losses)/profit	(161)	(230)	104	(40)	264
Total Equity	7	(58)	282	133	471
Liabilities					
Current Liabilities					
Trade payables	1,194	1,643	1,473	1,694	1,559
Other payables and accruals	108	211	279	166	350
Short term bank borrowing	-	-	-	-	53
Taxation	-	-	16	-	63
Total Liabilities	1,302	1,854	1,768	1,860	2,025
TOTAL EQUITY AND LIABILITIES	1,309	1,796	2,050	1,993	2,496
<i>Key financial ratios:-</i>					
Inventories' turnover period (months)	7.89	4.07	3.94	⁽²⁾ 3.32	⁽²⁾ 3.78
Trade receivables' turnover period (months)	2.73	2.26	2.43	⁽¹⁾ 2.28	⁽¹⁾ 2.68
Trade payables' turnover period (months)	10.87	7.41	5.81	⁽²⁾ 6.24	⁽²⁾ 5.17
Current ratio (times)	1.00	0.97	1.15	1.07	1.22
Net tangible assets/(liabilities) per share (RM)	0.10	(0.83)	4.03	1.90	6.73

** Not audited and is included for comparison purposes only.

⁽¹⁾ Based on annualised operating revenue.⁽²⁾ Based on annualised costs of sales.

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENSCHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

Notes:

- a. The audited balance sheets for all the financial years/period under review have been re-presented in accordance to the format of presentation required by FRS 101 on Presentation of Financial Statements in order to be comparable with the balance sheets presented for HHB, HSB and SEMSB as set out in the preceding paragraphs.
- b. Figures as at 31 March 2005, 2006 and 2007 and 30 September 2007 are translated from the audited financial statements denominated in Australian Dollars using the exchange rate as at those dates of RM2.9320:AUD1.00, RM2.6365:AUD1.00, RM2.7910:AUD1.00 and RM3.0236:AUD1.00 respectively.
- c. Figures as at 30 September 2006 are translated from the unaudited financial statement denominated in Australian Dollars using the exchange rate as at that date of RM2.7549:AUD1.00.
- d. Where the figures for an item in the audited balance sheet had been reclassified when presented as comparative for the following year/period audited balance sheet, the reclassified figures are used for the preparation of the above balance sheet.
- e. The normal credit terms extended to trade receivables of PAPL ranges from 30 days to 60 days. The aging of trade receivables as at 30 September 2007 are as follows:-

	Days	1 - 30	31 - 60	61 - 90	91 - 180	> 180	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External trade receivables		532	614	10	2	-	1,158
% of trade receivables (%)		46	53	1	-	-	100

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14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF0282)

5. PUI

	< ----- As at 31 March ----- >			< As at 30 September >	
	2005 RM'000	2006 RM'000	2007 RM'000	**2006 RM'000	2007 RM'000
ASSETS					
Non-Current Assets					
Property, plant and equipment ⁽¹⁾	36	47	31	43	35
Current Assets					
Inventories	468	440	341	423	263
Trade receivables	416	573	455	503	388
Other receivables, deposits and prepayments ⁽²⁾	79	54	51	52	35
Cash and bank balances	245	219	200	248	73
	1,208	1,286	1,047	1,226	759
TOTAL ASSETS	1,244	1,333	1,078	1,269	794
EQUITY AND LIABILITIES					
Equity and Reserve					
Share capital	950	950	950	950	950
Translation reserve	-	17	91	21	112
Accumulated losses	(1,412)	(1,810)	(2,285)	(1,911)	(2,375)
Total Equity	(462)	(843)	(1,244)	(940)	(1,313)
Liabilities					
Non-Current Liability					
Lease payable	-	10	3	2	-
Current Liabilities					
Trade payable	1,693	2,152	2,298	2,163	2,077
Other payables and accruals ⁽³⁾	13	7	14	33	24
Lease payable	-	7	7	11	6
	1,706	2,166	2,319	2,207	2,107
Total Liabilities	1,706	2,176	2,322	2,209	2,107
TOTAL EQUITY AND LIABILITIES	1,244	1,333	1,078	1,269	794

Key financial ratios:-

Inventories' turnover period (months)	3.10	2.00	1.62	⁽⁵⁾ 1.93	⁽⁵⁾ 1.18
Trade receivables' turnover period (months)	1.97	1.74	1.39	⁽⁴⁾ 1.46	⁽⁴⁾ 1.10
Trade payables' turnover period (months)	11.22	9.78	10.90	⁽⁵⁾ 9.85	⁽⁵⁾ 9.33
Current ratio (times)	0.71	0.59	0.45	0.56	0.36
Debt-equity ratio (times)	-	⁽⁶⁾ N/A	⁽⁶⁾ N/A	⁽⁶⁾ N/A	⁽⁶⁾ N/A
Net tangible liabilities per share (RM)	(1.85)	(3.37)	(4.98)	(3.76)	(5.25)

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS
 CHARTERED ACCOUNTANTS
 (FIRM NO: AF.0282)

- ** *Not audited and is included for comparison purposes only.*
- (1) *The 'Equipment' and 'Credit card software' as presented in the audited balance sheets of PUI for all the financial years/periods under review have been aggregated and presented as 'Property, plant and equipment' in order to conform with the classification in the audited balance sheet of HSB.*
- (2) *The 'Employee advance', 'Prepaid expenses', 'Security deposits' and 'Due from American Gloves Inc.' as presented in the audited balance sheets of PUI for all the financial years/periods under review have been aggregated and presented as 'Other receivables, deposits and prepayments' in order to conform with the classification in the audited balance sheet of HSB.*
- (3) *The 'Accrued expenses', 'Sales tax payable' and 'Payroll taxes payable' as presented in the audited balance sheets of PUI for all the financial years/periods under review have been aggregated and presented as 'Other payables and accruals' in order to conform with the classification in the audited balance sheet of HSB.*
- (4) *Based on annualised operating revenue.*
- (5) *Based on annualised costs of sales.*
- (6) *Not applicable (N/A) because PUI had negative shareholders' equity as at end of the financial year/period under review.*

Notes:

- a. The audited balance sheets for all the financial years/periods under review have been re-presented in accordance to the format of presentation required by FRS 101 on Presentation of Financial Statements in order to be comparable with the balance sheets presented for HHB, HSB and SEMSB as set out in the preceding paragraphs.
- b. Figures as at 31 March 2005, 2006 and 2007 and 30 September 2007 are translated from the audited financial statements denominated in United States Dollars using the exchange rate as at those dates of RM3.8000:USD1.00, RM3.7000:USD1.00, RM3.4500:USD1.00 and RM3.3950:USD1.00 respectively.
- c. Figures as at 30 September 2006 are translated from the unaudited financial statements denominated in United States Dollars using the exchange rate as at that date of RM3.6845:USD1.00.
- d. The normal credit terms extended to trade receivables of PUI ranges from 30 days to 60 days. The aging of trade receivables as at 30 September 2007 are as follows:-

Days	1 - 30	31 - 60	61 - 90	91 - 180	> 180	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External trade receivables	232	80	51	25	-	388
% of trade receivables (%)	60	21	13	6	-	100

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENSCHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

1. CASH FLOW STATEMENTS

We set out below the cash flow statements of the companies in the HHB Group prepared based on their respective company level audited cash flow statements for each of the past three (3) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007, where available. We have also included, for comparison purposes, the cash flow statements of HHB and all its subsidiary companies as well as the proforma consolidated cash flow statement of the HHB Group for the 6-months period ended 30 September 2006 which are prepared based on the unaudited financial statements provided by the management of the HHB Group

1. HHB - company

	* Period from 24 July 2006 (date of incorporation) to 31 March 2007 RM'000	6-months period ended <-- 30 September --> **2006 2007 RM'000 RM'000	
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation	(8)	-	(3)
Working Capital Changes			
Increase in trade and other payables	8	-	3
Net Cash Used In Operating Activities	-	-	-
CASH FLOWS FROM INVESTING ACTIVITY	-	-	-
CASH FLOWS FROM FINANCING ACTIVITY	-	-	-
CASH IN HAND AT END OF THE PERIOD	-	-	-

* First audited financial statement.

** Not audited and is included for comparison purposes only.

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14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

2. HSB

	< Financial year ended 31 March >			6-months period ended	
	2005	2006	2007	< --30 September -- > **2006	2007
	RM'000	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation	16,997	24,100	41,261	21,259	24,324
Adjustments for:-					
Allowance for doubtful debts	-	215	-	-	-
Amortisation of prepaid land lease payments	-	-	2	1	1
Bad debts written off	-	29	-	-	-
Depreciation of property, plant and equipment	4,626	6,323	9,362	4,517	5,026
Loss/(Gain) on disposal of a subsidiary company	-	4	(438)	-	-
(Gain)/Loss on disposal of property, plant and equipment	(5)	(23)	117	-	(17)
Gain on partial disposal of investment in subsidiary company	-	(32)	-	-	-
Impairment loss on investment in subsidiary companies	278	283	-	-	-
Interest expense	261	635	1,003	546	387
Interest revenue	(158)	(225)	(368)	(149)	(241)
Reversal of impairment loss on investment in subsidiary company	-	-	(111)	-	-
Unrealised gain on foreign exchange	-	(349)	(442)	-	(484)
Operating Profit Before Working Capital Changes	21,999	30,960	50,386	26,174	28,996
(Increase)/Decrease in inventories	(5,963)	(4,388)	466	(1,661)	2,856
(Increase)/Decrease in trade and other receivables	(5,227)	(17,790)	(4,165)	130	(3,084)
Increase/(Decrease) in trade and other payables	2,898	6,112	(5,758)	(4,031)	2,569
Cash Generated From Operations	13,707	14,894	40,929	20,612	31,337
Interest paid	(261)	(635)	(1,003)	(546)	(387)
Interest received	158	225	368	149	241
Income tax paid	(963)	(400)	(2,534)	(349)	(1,221)
Net Cash Generated From Operating Activities ⁽¹⁾	12,641	14,084	37,760	19,866	29,970
CASH FLOWS FROM INVESTING ACTIVITIES					
Advances to a subsidiary company	(144)	(83)	(78)	(1)	(49)
Capital work-in-progress incurred	-	-	(13,717)	(279)	(17,006)
Withdrawal/(Placement) of fixed deposits on lien	220	(6)	217	(4)	-
Proceed from disposal of property, plant and equipment	11	55	55	-	245
Proceed from disposal of a subsidiary company	-	4	1,518	-	-
Purchase of property, plant and equipment	(23,443)	(36,222)	(16,193)	(13,204)	(4,795)
Proceed from partial disposal of investment in subsidiary company	-	33	-	-	-
Net Cash Used In Investing Activities carried down ⁽¹⁾	(23,356)	(36,219)	(28,198)	(13,488)	(21,605)

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

	< Financial year ended 31 March >			6-months period ended	
	2005	2006	2007	< -- 30 September -- > **2006	2007
	RM'000	RM'000	RM'000	RM'000	RM'000
Net Cash Used In Investing Activities brought down ⁽¹⁾	(23,356)	(36,219)	(28,198)	(13,488)	(21,605)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid	-	(1,568)	(9,409)	-	-
Drawdown of term loans	-	18,870	-	-	22,371
Proceeds from issuance of shares	-	7,617	-	-	-
Share application monies received	10,318	-	-	-	-
Repayments of term loan	(1,182)	(2,355)	(4,606)	(2,286)	(1,916)
Net Cash Generated From/(Used In) Financing Activities ⁽¹⁾	9,136	22,564	(14,015)	(2,286)	20,455
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,579)	429	(4,453)	4,092	28,820
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	11,070	9,491	9,920	9,920	5,467
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD ⁽¹⁾	9,491	9,920	5,467	14,012	34,287

** Not audited and is included for comparison purposes only.

⁽¹⁾ The following reclassifications and adjustments have been made to the audited cash flow statement for the financial year ended 31 March 2005 in order to conform with the presentation in the audited cash flow statement of HSB for the two (2) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007:-

- (i) Reclassification of interest received which were included in the 'Cash Flows from Investing Activities' in the audited cash flow statement for the past financial year ended 31 March 2005 into 'Cash Flows from Operating Activities'.
- (ii) Reclassification of interest paid which were included in the 'Cash Flows From Financing Activities' in the audited cash flow statement for the past financial year ended 31 March 2005 into 'Cash Flows From Operating Activities'.
- (iii) Reclassification of amounts due from subsidiary companies which were included in the 'Cash Flows From Financing Activities' in the audited cash flow statement for the financial year ended 31 March 2005 into 'Cash Flows From Operating Activities' for trade cash flows and into 'Cash Flows From Investing Activities' for non-trade cash flows.
- (iv) Reclassification of share application monies which were included in the 'Cash Flows From Operating Activities' in the audited cash flow statement for the financial year ended 31 March 2005 into 'Cash Flows From Financing Activities'.
- (v) Adjustments to reverse cash deposits on lien to licensed bank which were included in the 'Cash and Cash Equivalents' in the audited cash flow statement for the financial year ended 31 March 2005 and to reflect the withdrawal and placement of these cash deposits in 'Cash Flows From Investing Activities'.

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

The net effects of these reclassifications and adjustments are as follows:-

	< Financial year ended 31 March >			< Period ended 30 September >	
	2005 RM'000	2006 RM'000	2007 RM'000	2006 RM'000	2007 RM'000
Cash Flows From Operating Activities					
As per audited financial statements	24,651	14,084	37,760	19,866	29,970
(i) Interest received	158	-	-	-	-
(ii) Interest paid	(261)	-	-	-	-
(iii) Changes in trade balances with subsidiary companies	(1,589)	-	-	-	-
(iv) Reversal of share application monies	(10,318)	-	-	-	-
As adjusted	12,641	14,084	37,760	19,866	29,970
Cash Flows From Investing Activities					
As per audited financial statements	(23,274)	(36,219)	(28,198)	(13,488)	(21,605)
(i) Reversal of interest received	(158)	-	-	-	-
(iii) Advances to subsidiary company	(144)	-	-	-	-
(v) Withdrawal of cash deposits on lien	220	-	-	-	-
As adjusted	(23,356)	(36,219)	(28,198)	(13,488)	(21,605)
Cash Flows From Financing Activities					
As per audited financial statements	(3,176)	22,564	(14,015)	(2,286)	20,455
(ii) Reversal of interest paid	261	-	-	-	-
(iii) Reversal of amount due from subsidiaries	1,733	-	-	-	-
(iv) Share application monies	10,318	-	-	-	-
As adjusted	9,136	22,564	(14,105)	(2,286)	20,455
Cash And Cash Equivalents At End Of The Year/Period					
As per audited financial statements	9,702	9,920	5,467	14,012	34,287
(v) Reversal of cash deposits on lien	(211)	-	-	-	-
As adjusted	9,491	9,920	5,467	14,012	34,287

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS
 CHARTERED ACCOUNTANTS
 (FIRM NO: AF.0282)

3. SEMSB

	<Financial year ended 31 March>			6-months period ended < -- 30 September -- >	
	2005	2006	2007	**2006	2007
	RM'000	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss before taxation	(1)	(1)	(6)	-	(3)
Working capital change					
Increase in other receivables	-	-	(29)	-	(29)
Decrease in other payables	-	-	(1)	(1)	-
Net cash used in operation	(1)	(1)	(36)	(1)	(32)
Tax paid	-	-	(1)	-	-
Net cash used in operating activities	(1)	(1)	(37)	(1)	(32)
CASH FLOWS FROM INVESTING ACTIVITY					
Placement of cash deposit with licensed bank	-	-	(32)	-	-
CASH FLOWS FROM FINANCING ACTIVITY					
Advances from holding company	1	9	78	2	49
NET INCREASE IN CASH AND CASH EQUIVALENTS					
	-	8	9	1	17
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	-	-	8	8	17
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	-	8	17	9	34

** Not audited and is included for comparison purposes only.

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

4. PAPL

	<Financial year ended 31 March>			6-months period ended <-- 30 September -->	
	2005	2006	2007	**2006	2007
	RM'000	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES ⁽¹⁾					
(Loss)/Profit before taxation	(191)	(69)	350	190	220
Adjustments for:-					
Depreciation of property, plant and equipment	4	4	5	1	5
Property, plant and equipment written off	-	-	2	-	-
Interest revenue	-	(2)	(7)	(5)	(3)
Operating (Loss)/Profit Before Working Capital Changes	(187)	(67)	350	186	222
Decrease/(Increase) in inventories	78	(130)	(42)	2	(141)
Increase in trade and other receivables	(210)	(376)	(161)	(239)	(260)
Increase/(Decrease) in trade and other payables	311	721	(204)	6	209
Cash (Used In)/Generated From Operations	(8)	148	(57)	(45)	30
Interest received	-	2	7	5	3
Income tax paid	-	-	-	-	(13)
Net Cash (Used In)/Generated From Operating Activities	(8)	150	(50)	(40)	20
CASH FLOWS FROM INVESTING ACTIVITY					
Purchase of property, plant and equipment	(5)	-	(9)	(6)	(18)
Translation differences	-	(8)	(2)	10	38
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(13)	142	(61)	(36)	40
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	21	8	150	150	98
Effect of exchange rate changes on cash and cash equivalents	-	-	9	(7)	(8)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	8	150	98	107	130

** Not audited and is included for comparison purposes only.

⁽¹⁾ The 'Cash Flows From Operating Activities' which were presented based on the 'direct method' in the audited cash flow statements for the past three (3) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007 have been re-presented using the 'indirect method' in order to be comparable with the presentation in the audited cash flow statements of HHB, HSB and SEMSB as set out in the preceding paragraphs.

Note: In arriving at the cash flow statements of PAPL for the past three (3) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007, all receipts and payments have been translated at the average rates prevailing in the respective financial year/period. Cash and cash equivalents were translated at the closing rate prevailing as at the end of the respective financial year/period.

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

5. PUI

	<Financial year ended 31 March>			6-months period ended <-- 30 September -->	
	2005 RM'000	2006 RM'000	2007 RM'000	**2006 RM'000	2007 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Loss before taxation	(633)	(398)	(475)	(101)	(90)
Adjustments for:-					
Allowance for doubtful debts	-	14	11	-	8
Bad debts written off	-	-	-	-	16
Depreciation of property, plant and equipment	9	12	13	4	6
Interest expense	-	3	2	-	1
Operating Loss Before Working Capital Changes	(624)	(369)	(449)	(97)	(59)
(Increase)/Decrease in inventories	(286)	16	71	17	78
(Increase)/Decrease in trade and other receivables	(256)	(161)	71	72	59
Increase/(Decrease) in trade and other payables	1,232	504	311	37	(211)
Cash Generated From/(Used In) Operations	66	(10)	4	29	(133)
Interest paid	-	(3)	(2)	-	(1)
Net Cash Generated From/(Used In) Operating Activities ⁽¹⁾	66	(13)	2	29	(134)
CASH FLOWS FROM INVESTING ACTIVITY ⁽¹⁾					
Purchase of property, plant and equipment	(2)	(3)	-	-	(10)
CASH FLOWS FROM FINANCING ACTIVITY ⁽¹⁾					
Payments of finance lease payable	-	(4)	(7)	(3)	(4)
Translation differences	-	-	-	2	18
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	64	(20)	(5)	28	(130)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	181	245	219	219	200
Effect of exchange rate changes on cash and cash equivalents	-	(6)	(14)	1	3
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	181	239	205	220	203
	245	219	200	248	73

** Not audited and is included for comparison purposes only.

⁽¹⁾ The following reclassifications and adjustments have been made to the audited cash flow statements for the financial year ended 31 March 2006 in order to conform with the presentation in the audited cash flow statements of HSB:-

(i) Reclassification of sundry deposits paid and refunded which were included in the 'Cash Flows from Financing Activities' in the audited cash flow statement for the financial year ended 31 March 2006 into 'Cash Flows from Operating Activities'.

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

- (ii) Adjustments to set-off the cost of assets acquired under finance lease which were included in the 'Cash Flows From Investing Activities' in the audited cash flow statement for the financial year ended 31 March 2006 with the proceed from the leasing reflected in the 'Cash Flows From Financing Activities' in order to better reflect the actual cash transaction.

The net effects of these reclassification and representation are as follows:-

	< Financial year ended 31 March >			< Period ended 30 September >	
	2005 RM'000	2006 RM'000	2007 RM'000	2006 RM'000	2007 RM'000
Cash Flows From Operating Activities					
As per audited financial statements	66	(15)	2	29	(134)
(i) Sundry deposits refunded	-	2	-	-	-
As adjusted	66	(13)	2	29	(134)
Cash Flows From Investing Activities					
As per audited financial statements	(2)	(24)	-	-	(10)
(ii) Reversal of cost of assets under finance lease	-	21	-	-	-
As adjusted	(2)	(3)	-	-	(10)
Cash Flows From Financing Activities					
As per audited financial statements	-	19	(7)	(3)	(4)
(i) Reversal of sundry deposits refunded	-	(2)	-	-	-
(ii) Cost of assets under finance lease set-off against proceed from finance lease	-	(21)	-	-	-
As adjusted	-	(4)	(7)	(3)	(4)

Note: In arriving at the cash flow statements of PUI for the past three (3) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007, all receipts and payments have been translated at the average rates prevailing in the respective financial year/period. Cash and cash equivalents were translated at the closing rate prevailing as at the end of the respective financial year/period.

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

J. STATEMENT OF CHANGES IN EQUITY

We set out below the statement of changes in equity of the companies in the HHB Group prepared based on their respective company level audited statement of changes in equity for each of the past three (3) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007, where available.

1. HHB – company

	Share Capital RM'000	Non- Distributable Share RM'000	Accumulated losses RM'000	Total Shareholders' Equity RM'000
As at 24.07.2006 (date of incorporation)	#	-	-	#
Net loss for the period	-	-	(8)	(8)
As at 31.03.2007	#	-	(8)	(8)
Issuance of shares	121,156	2,544	-	123,700
Net loss for the period	-	-	(3)	(3)
As at 30.09.2007	121,156	2,544	(11)	123,689

This represents RM2.00.

2. HSB

	Share Capital RM'000	Share Premium RM'000	Retained Profits RM'000	Total Shareholders' Equity RM'000
As at 01.04.2004	10,962	853	65,400	77,215
Net profit for the year	-	-	13,988	13,988
As at 31.03.2005	10,962	853	79,388	91,203
Issuance of shares	4,720	13,215	-	17,935
Net profit for the year	-	-	19,236	19,236
Dividends	-	-	(1,568)	(1,568)
As at 31.03.2006	15,682	14,068	97,056	126,806
Net profit for the year	-	-	37,633	37,633
Dividends	-	-	(9,409)	(9,409)
As at 31.03.2007	15,682	14,068	125,280	155,030
Net profit for the period	-	-	20,081	20,081
As at 30.09.2007	15,682	14,068	145,361	175,111

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENSCHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

3. SEMSB

	Share Capital RM'000	Share Premium RM'000	Accumulated Losses RM'000	Total Shareholders' Equity RM'000
As at 01.04.2004	1	31	(78)	(46)
Net loss for the year	-	-	(1)	(1)
As at 31.03.2005	1	31	(79)	(47)
Net loss for the year	-	-	(1)	(1)
As at 31.03.2006	1	31	(80)	(48)
Net loss for the year	-	-	(7)	(7)
As at 31.03.2007	1	31	(87)	(55)
Net loss for the period	-	-	(3)	(3)
As at 30.09.2007	1	31	(90)	(58)

4. PAPL

	Share Capital RM'000	Translation Reserve RM'000	(Accumulated Losses) / Retained profits RM'000	Total Shareholders' Equity RM'000
As at 01.04.2004	142	25	30	197
Foreign currency translation difference	-	1	-	1
Net loss for the year	-	-	(191)	(191)
As at 31.03.2005	142	26	(161)	7
Foreign currency translation difference	-	4	-	4
Net loss for the year	-	-	(69)	(69)
As at 31.03.2006	142	30	(230)	(58)
Foreign currency translation difference	-	6	-	6
Net profit for the year	-	-	334	334
As at 31.03.2007	142	36	104	282
Foreign currency translation difference	-	29	-	29
Net profit for the period	-	-	160	160
As at 30.09.2007	142	65	264	471

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS
 CHARTERED ACCOUNTANTS
 (FIRM NO: AF.0282)

5. PUI

	Share Capital RM'000	Translation Reserve RM'000	Accumulated Losses RM'000	Total Shareholders' Equity RM'000
As at 01.04.2004	950	-	(779)	171
Net loss for the year	-	-	(633)	(633)
As at 31.03.2005	950	-	(1,412)	(462)
Foreign currency translation difference	-	17	-	17
Net loss for the year	-	-	(398)	(398)
As at 31.03.2006	950	17	(1,810)	(843)
Foreign currency translation difference	-	74	-	74
Net loss for the year	-	-	(475)	(475)
As at 31.03.2007	950	91	(2,285)	(1,244)
Foreign currency translation difference	-	21	-	21
Net loss for the period	-	-	(90)	(90)
As at 30.09.2007	950	112	(2,375)	(1,313)

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14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENSCHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)**K. DETAILED PROFORMA CONSOLIDATED BALANCE SHEET AS AT 30 SEPTEMBER 2007**

The following are the detailed audited consolidated balance sheet ("Audited Group") and the proforma consolidated balance sheets ("Proforma Group") of the Group as at 30 September 2007 and should be read in conjunction with the Notes to the Detailed Proforma Consolidated Balance Sheet. The proforma consolidated balance sheet of the Group has been prepared for illustrative purposes only based on the audited consolidated balance sheet of HHB as at 30 September 2007 and on assumption that the Offer for Sale and EES as mentioned in paragraph B have been effected on 30 September 2007.

	Note	Audited Group RM'000	Proforma Group RM'000
ASSETS			
Non-Current Assets			
Property, plant and equipment	1	129,408	129,408
Capital work-in-progress	2	18,843	18,843
Prepaid land lease payments	3	153	153
Other investment	4	175	175
		<u>148,579</u>	<u>148,579</u>
Current Assets			
Inventories	5	17,219	17,219
Trade and other receivables	6	40,573	39,571
Cash and bank balances	7	34,555	21,641
		<u>92,347</u>	<u>78,431</u>
TOTAL ASSETS		<u>240,926</u>	<u>227,010</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	8	121,156	121,156
Reserves	9	52,502	38,586
Total Equity Attributable to Shareholders of the Company		<u>173,658</u>	<u>159,742</u>
Minority interest		85	85
Total Equity		<u>173,743</u>	<u>159,827</u>
Liabilities			
Non-Current Liabilities			
Other borrowings	10	26,422	26,422
Deferred taxation	13	16,690	16,690
		<u>43,112</u>	<u>43,112</u>
Current Liabilities			
Trade and other payables	14	15,530	15,530
Other borrowings	10	7,409	7,409
Taxation		1,132	1,132
		<u>24,071</u>	<u>24,071</u>
Total Liabilities		<u>67,183</u>	<u>67,183</u>
TOTAL EQUITY AND LIABILITIES		<u>240,926</u>	<u>227,010</u>

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENSCHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

NOTES TO THE DETAILED PROFORMA CONSOLIDATED BALANCE SHEET

1. PROPERTY, PLANT AND EQUIPMENT

Audited Group/ Proforma Group	Cost RM'000	Accumulated Depreciation RM'000	Net Book Value RM'000
Freehold land	14,911	-	14,911
Factory building	27,047	3,222	23,825
Plant and machinery	118,432	40,084	78,348
Furniture, fitting and equipments	13,974	5,343	8,631
Motor vehicles	3,700	1,335	2,365
Renovation	1,383	55	1,328
	<u>179,447</u>	<u>50,039</u>	<u>129,408</u>

- (a) All the property, plant and equipment belongs to HSB are pledged for banking facilities granted to HSB as mentioned in note 12 to the detailed proforma consolidated balance sheet.
- (b) Included in the above property, plant and equipment are furniture, fittings and equipment acquired under the finance lease plan with cost of RM19,820 and net book value of RM13,263.

2. CAPITAL WORK-IN-PROGRESS

Audited Group/Proforma Group

This is in respect of expenditure incurred for construction of new factory building and set up of new production line.

Capital work-in-progress are pledged for banking facilities granted to HSB as disclosed in note 12 to the detailed proforma consolidated balance sheet.

3. PREPAID LAND LEASE PAYMENTS

Audited Group/Proforma Group

This is in respect of unamortised prepaid lease premium for the long term leasehold land of HSB.

- i) The long term leasehold land has an unexpired lease period of more than 50 years.
- ii) The leasehold land is pledged for banking facilities granted to HSB as disclosed in note 12 to the detailed proforma consolidated balance sheet.

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENSCHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

4. OTHER INVESTMENT

Audited Group/Proforma Group

This is in respect of cost of acquiring golf club memberships.

5. INVENTORIES

	Audited Group/ Proforma Group RM'000
At cost:	
Finished goods	6,766
Work-in-progress	4,340
Raw materials	3,438
Goods-in-transit	73
Spare parts and consumables	2,602
	<u>17,219</u>

There were no inventories carried at net realisable value and all inventories are pledged for banking facilities granted to HSB as mentioned in note 12 to the detailed proforma consolidated balance sheet.

6. TRADE AND OTHER RECEIVABLES

	Audited Group RM'000	Proforma Group RM'000
Trade receivables		
Balance outstanding	36,137	36,137
Less: Allowance for doubtful debts	<u>(32)</u>	<u>(32)</u>
	36,105	36,105
Other receivables		
Other receivables	732	732
Deposits	1,537	1,537
Prepayments	2,199	2,199
Less: Prepaid expenses relating to the flotation exercise	<u>-</u>	<u>(1,002)</u>
	4,468	3,466
	<u>40,573</u>	<u>39,571</u>

The normal trade credit terms extended to trade receivables ranges from 30 to 60 days.

Included in the trade receivables are amounts recoverable in USD with RM equivalent totalling RM34,462,184.

Included in prepayments is an amount of RM589,510 in respect of prepayments for purchase of raw materials.

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

7. CASH AND BANK BALANCES

	Audited Group RM'000	Proforma Group RM'000
Cash at banks and in hand	12,977	12,977
Cash deposits with licensed banks		
- pledged	32	32
- not pledged	21,546	21,546
	21,578	21,578
Less: Balance of estimated expenses relating to the flotation exercise	-	(798)
Less: Dividend of HHB paid on 30 January 2008	-	(12,116)
	<u>34,555</u>	<u>21,641</u>

The cash deposits with licensed banks bear effective interest at rates ranging from 2.45% to 3.70% per annum.

Pledged cash deposits are pledged as securities for bank guarantee facility of SEMSB.

8. SHARE CAPITAL

	Audited Group/ Proforma Group RM'000
Authorised ordinary shares of RM0.50 each	<u>250,000</u>
Issued and fully paid ordinary shares	
2 subscribers' shares at RM1.00 each	@
Share Split	-
4 ordinary shares of RM0.50 each	@
242,311,996 ordinary shares of RM0.50 each issued pursuant to the Acquisition	<u>121,156</u>
	<u>121,156</u>

@ This represents RM2.00.

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

9. RESERVES

	Audited Group RM'000	Proforma Group RM'000
Distributable		
Retained profits	49,928	49,928
Less: Interim dividend paid by HHB on 30 January 2008	-	(12,116)
	49,928	37,812
Non-distributable		
Share premium		
- Share premium arising from the Acquisition	2,544	2,544
- Less: Estimate expenses relating to the flotation exercise	-	(1,800)
	2,544	744
Translation reserve	30	30
Total reserves	<u>52,502</u>	<u>38,586</u>

10. OTHER BORROWINGS

	Audited Group/ Proforma Group RM'000
Current Liabilities	
Finance guarantee contract	53
Finance lease payable (note 11)	6
Term loans – secured (note 12)	7,350
	<u>7,409</u>
Non-Current Liabilities	
Term loans – secured (note 12)	26,422
	<u>26,422</u>

11. FINANCE LEASE PAYABLE

	Audited Group/ Proforma Group RM'000
Minimum lease payments	6
Less: Future finance charges	-
Present value of minimum lease payments	<u>6</u>
Repayable within one (1) year included in Current Liabilities	<u>6</u>

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS
 CHARTERED ACCOUNTANTS
 (FIRM NO: AF.0282)

The finance lease payable bear effective interest at a rate of 8.38% per annum.

12. TERM LOANS - SECURED

	Audited Group/ Proforma Group RM'000
Repayable within one (1) year included in Current Liabilities	7,350
Repayable after one (1) year but not later than five (5) years included in Non-Current Liabilities	26,422
	33,772

The term loans bear effective interest at rates ranging from 6.00% to 8.05% per annum and are secured and supported by;

- (i) legal charges over a freehold land of HSB;
- (ii) fixed and floating charges over the assets of HSB; and
- (iii) jointly and severally guaranteed by certain directors of HSB.

13. DEFERRED TAX LIABILITIES

This is in respect of estimated tax liabilities arising from temporary differences as follows:-

	Audited Group/ Proforma Group RM'000
Differences between the carrying amount of property, plant and equipment and their tax base	16,564
Unrealised gain on foreign exchange	126
	16,690

The estimated temporary differences for which no deferred tax assets have been recognised in the financial statements are as follows:-

	Audited Group/ Proforma Group RM'000
Unrelieved tax losses	7

The availability of the unrelieved tax losses for offsetting against future taxable profits of the respective subsidiary companies are subject to no substantial changes in shareholding of these subsidiary companies under Section 44 (5A) and (5B) of Income Tax Act, 1965.

14. ACCOUNTANTS' REPORT (Cont'd)**MOORE STEPHENS**CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)**14. TRADE AND OTHER PAYABLES**

	Audited Group/ Proforma Group RM'000
Trade payables	
Third parties	8,478
Other payables	
Amount owing to directors	3
Other payables	2,617
Accruals	4,432
	7,052
	<u>15,530</u>

The normal trade credit terms granted by the trade creditors ranges from 30 to 60 days.

The amount owing to directors is non-trade in nature, unsecured, interest free and with no fixed term of repayment.

Included in accruals is an amount of RM1,070,356 in respect of balance outstanding for the acquisition of property, plant and equipment.

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the followings: -

	Audited Group RM'000	Proforma Group RM'000
Cash deposits with licensed banks (note 7)	21,578	21,578
Less: Cash deposits on lien (note 7)	(32)	(32)
	<u>21,546</u>	<u>21,546</u>
Cash at banks and in hand (note 7)	12,977	12,977
Less: Balance of estimated expenses relating to the flotation exercise	-	(798)
Less: Interim dividend paid by HHB on 30 January 2008	-	(12,116)
	<u>34,523</u>	<u>21,609</u>

Included in cash at banks and in hand is an amount of RM11,697,360 which bears effective interest at a rate of 1.80% per annum.

The foreign currency exposure for cash and cash equivalents is as follows:-

	Audited Group/ Proforma Group RM'000
United States Dollar	<u>11,689</u>

14. ACCOUNTANTS' REPORT (Cont'd)**MOORE STEPHENS**CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)**16. CAPITAL COMMITMENT**

In respect of acquisition of property, plant and equipment:-

	Audited Group/ Proforma Group RM'000
Approved and contracted for	<u>11,681</u>
Approved but not contracted for	<u>68,903</u>

17. CONTINGENT LIABILITIES

On 30 May 2007, Tillotson Corporation filed a complaint with the United States International Trade Commission ("ITC") alleging wilful infringement of its patent by several manufacturers and re-sellers of nitrile gloves imported into the United States. Tillotson Corporation is seeking a 'general exclusion order' which, if granted, would blocked the importation of all infringing nitrile gloves except those made by manufacturers who have obtained a licence from Tillotson Corporation.

On 27 September 2007, Tillotson Corporation also filed suit in the United States District Court for the Northern District of Georgia, Rome Division ("Georgia Court"), alleging same. Tillotson Corporation is seeking an unspecified damages against all defendants.

HHB, HSB (manufacturer of the products) and PUI, are named in both instances. As to the case filed with the ITC, the dates of evidentiary hearing have been fixed between 19 and 23 of May 2008 and between 27 and 30 May 2008. As to the suit filed in the Georgia Court, to-date HHB, HSB and PUI have not been formally served with a copy of the complaint.

Since the trial by the ITC has not commenced, the outcome cannot be determined as this juncture.

18. FINANCIAL INSTRUMENTS**(a) Financial Risk Management Policies**

The Group is exposed to a variety of risks in the normal course of business. The Group's risk management seeks to minimise the potential adverse effects from these exposures. The management reviews and agrees policies for managing each of these risks as follows: -

i) Foreign Exchange Risk

The Group is exposed to foreign currency risk when the currency denomination differs from its functional currency. The Group enters into foreign currency forward contracts to protect from movements in exchange rates by establishing the rate at which a foreign currency asset or liability will be settled.

As at balance sheet date, the Group has entered into forward foreign exchange contracts with the following notional amounts and maturities:-

Currency	Contract rates	Total notional amounts RM'000	Maturity within 1 year RM'000
USD	RM3.40 to RM3.44	30,833	30,833

The net unrecognised losses as at 30 September 2007 on forward contracts used to hedge foreign currency sales amounted to RM46,260. This net exchange loss is deferred until the related sales proceeds are received.

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENSCHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)**ii) Interest Rate Risk**

The Group's exposure to interest rate risk relates to interest bearing financial assets and financial liabilities

- Interest bearing financial assets

Cash on deposits with licensed banks are short term in nature, placed for better yield returns than cash at banks and to satisfy conditions for bank guarantee facility granted to the Group.

- Interest bearing financial liabilities

The Group's exposure to interest rate risk relates to interest bearing financial liabilities comprising term loans and lease payables.

The Group manages its interest rate risk by maintaining a prudent mix of fixed and floating rate borrowings. The Group actively reviews its debts portfolio to ensure favourable rates are obtained.

iii) Credit Risk

The Group's exposure to credit risk arises from its receivables and the maximum risk associated with the recognised financial assets is the carrying amounts as presented in the balance sheet.

The Group has a credit policy in place and the exposure to credit risk is managed through the application of credit approvals, credit limits and monitoring procedures.

The Group does not have any significant exposure to any individual customer.

iv) Liquidity and Cash Flow Risks

The Group actively manages its operating cash flows and the availability of funding so as to ensure that all refinancing, repayments and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash to meet its working capital requirements. In addition, the Group strives to maintain available banking facilities of a reasonable level to its overall debts position.

(b) Fair Values

The methods and assumptions used to estimate the fair values of the following classes of financial assets and liabilities are as follows: -

i) Cash and Cash Equivalents, Trade and Other Receivables and Payables

The carrying amounts approximate fair values due to the relatively short term maturities of these financial assets and liabilities.

ii) Borrowings

The carrying amounts of floating interest term loans approximate their fair values.

The fair values of fixed interest rate term loans and lease are estimated using discounted cash flow analysis, based on current lending rates for similar types of borrowing arrangements.

iii) Other Investment

The golf club memberships are estimated based on the current market price of the memberships determined on an individual basis.

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENS
 CHARTERED ACCOUNTANTS
 (FIRM NO: AF.0282)

iv) **Forward Foreign Exchange Contracts**

The fair values of forward foreign exchange contracts are the amounts that would be payable or receivable on termination of the outstanding position arising and is determined by reference to the difference between the contracted rate and forward exchange rate as at the balance sheet date applied to a contract of similar quantum and maturity profile.

The carrying amounts of financial assets and liabilities recognised in the financial statements of the Group approximate to their fair values except for the followings:-

	Audited Group/Proforma Group	
	Carrying Amount RM'000	Fair Value RM'000
Financial Asset		
Transferable club memberships	175	180
Financial Liabilities		
Finance lease payables	6	-
Term loans	33,773	33,772
	33,773	33,772

The nominal amount and fair value of forward foreign exchange contracts not recognised in the balance sheets are as follows:-

	Audited Group/Proforma Group	
	Nominal Amount RM'000	Fair Value RM'000
Forward foreign exchange contracts	-	(3)
	-	(3)

19. SIGNIFICANT EVENTS

Significant events during the 6-months period ended 30 September 2007 were as follows:

- (a) Pursuant to the Share Split referred to in paragraph B, the Company subdivided all its existing two (2) ordinary shares of RM1.00 each into four (4) ordinary shares of RM0.50 on 3 May 2007.
- (b) In order to facilitate the flotation scheme referred to in paragraph B, the Company increased its authorised share capital from RM100,000 to RM250,000,000 by a creation of 499,800,000 ordinary shares of RM0.50 each on 4 May 2007.
- (c) Pursuant to the Acquisition referred to in paragraph B, the Company has, on 7 May 2007, acquired the entire issued and paid-up share capital of HSB comprising 15,681,997 ordinary shares of RM1.00 each for a total purchase consideration of RM123,700,000 satisfied by issuance of 242,311,996 new ordinary shares of RM0.50 each in HHB at an issue price of approximately RM0.51 per new ordinary share.

20. SUBSEQUENT EVENTS

There are no material events subsequent to 30 September 2007 save for the a tax exempt dividend of 5% amounting to RM12,115,600 which was declared by HHB on 9 January 2008 and paid on 30 January 2008.

14. ACCOUNTANTS' REPORT (Cont'd)

MOORE STEPHENSCHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)**L. PROFORMA CONSOLIDATED CASH FLOW STATEMENT**

The following is the proforma consolidated cash flow statement of the HHB Group for the 6-months period ended 30 September 2007, prepared for illustrative purposes only, on the assumption that the current structure of the HHB Group existed throughout the period under review and the Offer for Sale and EES referred to in paragraph B have been effected during the said period.

	Proforma Group RM'000
CASH FLOW FROM OPERATING ACTIVITIES	
Profit Before Taxation	24,223
Adjustments for: -	
Allowance for doubtful debts	8
Amortisation of prepaid land lease payments	1
Bad debts written off	16
Depreciation of property, plant and equipment	5,037
Gain on disposal of property, plant and equipment	(17)
Interest expenses	388
Interest revenue	(252)
Unrealised gain on foreign exchange	(484)
Operating Profit Before Working Capital Changes	28,920
Decrease in inventories	2,767
Increase in trade and other receivables	(3,171)
Increase in trade and other payables	2,625
Cash Generated From Operations	31,141
Interest paid	(388)
Interest received	252
Tax paid	(1,221)
Net Cash Generated From Operating Activities	29,784
CASH FLOW FROM INVESTING ACTIVITIES	
Capital work-in-progress incurred	(17,006)
Proceeds from disposal of property, plant and equipment	245
Purchase of property, plant and equipment	(4,823)
Net Cash Used In Investing Activities	(21,584)
CASH FLOW FROM FINANCING ACTIVITIES	
Dividend paid ⁽ⁱ⁾	(12,116)
Payment of estimated expenses relating to the flotation exercise	(798)
Drawdown of term loan	22,424
Payment of finance lease payables	(4)
Repayments of term loans	(1,916)
Net Cash Generated From Financing Activities	7,590
Translation differences	42
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,832
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	5,782
Effects of exchange rate changes on cash and cash equivalents	(5)
	5,777
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	21,609

⁽ⁱ⁾ Net dividend of RM12,115,600 which was declared by HHB on 9 January 2008 and paid to the shareholders of HHB on 30 January 2008.

14. ACCOUNTANTS' REPORT (Cont'd)**MOORE STEPHENS**CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)*Notes:*

- (a) *The proforma consolidated cash flow statement has been prepared based on accounting policies consistent with those previously adopted in the preparation of the audited consolidated cash flow statement of the Group.*
- (b) *The proforma consolidated cash flow statement has been prepared based on the audited cash flow statements of HHB and its subsidiary companies for the 6-months period ended 30 September 2007.*
- (c) *All inter-company cash flows have been eliminated from the proforma consolidated cash flow statement.*

M. PROFORMA GROUP NET TANGIBLE ASSETS COVER

Based on the proforma consolidated balance sheet as at 30 September 2007, the net tangible assets per ordinary share are as follows: -

	Proforma Group
Net tangible assets attributable to shareholders of the Company based on proforma consolidated balance sheet as at 30 September 2007 (RM'000)	159,742
Enlarged number of ordinary shares of RM0.50 each in issue ('000)	242,312
Net tangible assets per ordinary share (RM)	<u>0.66</u>

N. DENOMINATION

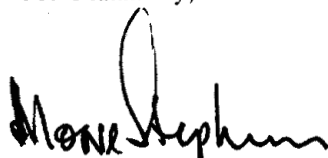
The currencies quoted in this report and the symbols used to denote them are: -

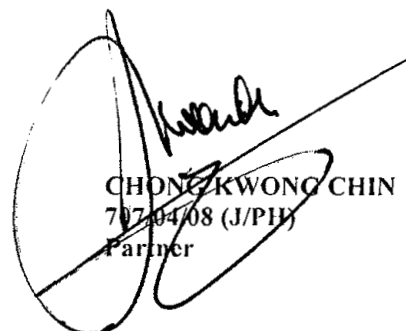
RM	-	Ringgit Malaysia
USD	-	United States Dollar
AUD	-	Australian Dollar

O. AUDITED FINANCIAL STATEMENTS

No audited financial statements of the Company and its subsidiary companies have been made up in respect of the period subsequent to 30 September 2007.

Yours faithfully,


MOORE STEPHENS
 Chartered Accountants
 (AF. 0282)


CHONG KWONG CHIN
 707/04/08 (J/PH)
 Partner

14. ACCOUNTANTS' REPORT (Cont'd)

Appendix I

Company No.: 741883-X

MOORE STEPHENS

CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

8A Jalan Sri Semantan Satu
Damansara Heights
50490 Kuala Lumpur
Malaysia

Tel: 603 2094 1888
Fax: 603 2094 7673

The Board of Directors
HARTALEGA HOLDINGS BERHAD
C-G-9, Jalan Dataran SD1,
Dataran SD PJU9,
Bandar Sri Damansara,
52200 Kuala Lumpur.

**REPORT ON AUDITED FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 APRIL 2007 TO 30 SEPTEMBER 2007**

(Incorporated in Malaysia)

We have audited the financial statements set out on pages 4 to 38.

The preparation of the financial statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on those 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 towards any other person for the content of this report.

We conducted our audit in accordance with the approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations, which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatement. Our audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. Our audit includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:-

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards for Entities Other Than Private Entities in Malaysia so as to give a true and fair view of:-
 - (i) 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
 - (ii) the state of affairs of the Group and of the Company for the period from 1 April 2007 to 30 September 2007 and of the results of the operations, changes in equity and cash flows of the Group and of the Company for the financial period ended on that date;

and

- (b) the accounting and other records and the registers required by the Companies Act, 1965, to be kept by the Company and its subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

*A member firm of
Moore Stephens
International Limited
- members in principal
cities throughout
the world*

14. ACCOUNTANTS' REPORT (Cont'd)

Appendix I

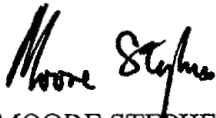
Company No.: 741883-X

MOORE STEPHENS
CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

We have considered the financial statements and the auditors' reports of the subsidiary companies of which we have not acted as auditors, as indicated in note 7 to the financial statements, being financial statements that are included in consolidated financial statements.

We are satisfied that the financial statements of the subsidiary companies 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 these purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and in respect of subsidiary companies incorporated in Malaysia, did not include any comment made under Section 174(3) of the Companies Act, 1965.



MOORE STEPHENS
Chartered Accountants
(AF.0282)



AU TAI WEE
1551/01/09 (J)
Partner

Kuala Lumpur

28 DEC 2007

14. ACCOUNTANTS' REPORT (*Cont'd*)

Appendix II

Company No.: 75398-K

MOORE STEPHENS
CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

8A Jalan Sri Semantan Satu
Damansara Heights
50490 Kuala Lumpur
Malaysia

Tel: 603 2094 1888
Fax: 603 2094 7673

**REPORT OF THE AUDITORS TO THE MEMBERS OF
HARTALEGA SDN. BHD.**
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 8 to 49.

The preparation of the financial statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on these 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 towards any other person for the content of this report.

We conducted our audit in accordance with the approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations, which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatement. Our audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. Our audit includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:-

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards for Entities Other Than Private Entities in Malaysia so as to give a true and fair view of:-
- (i) 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
 - (ii) the state of affairs of the Group and of the Company as at 31 March 2007 and of the results of the operations, changes in equity and cash flows of the Group and of the Company for the year ended on that date;

and

- (b) the accounting and other records and the registers required by the Companies Act, 1965, to be kept by the Company and its subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

14. ACCOUNTANTS' REPORT (*Cont'd*)

Appendix II

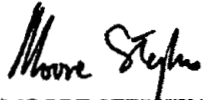
Company No.: 75398-K

MOORE STEPHENS
CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

We have considered the financial statements and the auditors' reports of the subsidiary companies of which we have not acted as auditors, as indicated in note 7 to the financial statements, being financial statements that are included in consolidated financial statements.

We are satisfied that the financial statements of the subsidiary companies 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 these purposes.

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification and in respect of subsidiary companies incorporated in Malaysia, did not include any comment made under Section 174(3) of the Companies Act, 1965.



MOORE STEPHENS
Chartered Accountants
(AF.0282)

KUALA LUMPUR
08 JUN 2007



AU TAI WEE
1551/01/09 (J)
Partner

14. ACCOUNTANTS' REPORT (Cont'd)

Appendix III

Company No.: 75398-K

MOORE STEPHENS
CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

8A Jalan Sri Semantan Satu
Damansara Heights
50490 Kuala Lumpur
Malaysia

Tel: 603 2094 1888
Fax: 603 2094 7673

**REPORT OF THE AUDITORS TO THE MEMBERS OF
HARTALEGA SDN. BHD.**
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 9 to 41.

The preparation of the financial statements are the responsibility of the Company's directors.

It is our responsibility to form an independent opinion, based on our audit, on these 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 towards any other person for the content of this report.

We conducted our audit in accordance with the approved standards on auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations, which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatement. Our audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. Our audit includes an assessment of the accounting principles used and significant estimates made by the Directors as well as evaluating the overall adequacy of the presentation of information in the financial statements. We believe our audit provides a reasonable basis for our opinion.

In our opinion:-

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:-
 - (i) 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
 - (ii) the state of affairs of the Group and of the Company as at 31st March, 2006 and of the results of the operations, changes in equity and cash flows of the Group and of the Company for the year ended on that date;

and

- (b) the accounting and other records and the registers required by the Companies Act, 1965, to be kept by the Company and its subsidiary companies of which we have acted as auditors have been properly kept in accordance with the provisions of the said Act.

14. ACCOUNTANTS' REPORT (Cont'd)

Appendix III

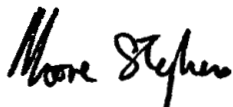
Company No.: 75398-K

MOORE STEPHENS
CHARTERED ACCOUNTANTS
(FIRM NO: AF.0282)

We have considered the financial statements and the auditors' reports of the subsidiary companies of which we have not acted as auditors, as indicated in note 4 to the financial statements, being financial statements that are included in consolidated financial statements.

We are satisfied that the financial statements of the subsidiary companies 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 these purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under Section 174(3) of the Companies Act, 1965.



MOORE STEPHENS
CHARTERED ACCOUNTANTS
(AF.0282)

KUALA LUMPUR

19 JUL 2006



AU TAI WEE
1551/01/07 (J)
PARTNER

14. ACCOUNTANTS' REPORT (*Cont'd*)

Appendix IV

RAJA SALLEH, LIM & CO.

(Audit Firm No. 0071)

Chartered Accountants

29A, Jalan SS 22/19, Damansara Jaya,
47400 Petaling Jaya, Selangor Darul EhsanA Member Firm of the
Malaysian Institute of Accountants

75398-K

**AUDITORS' REPORT TO THE MEMBERS OF
HARTALEGA SDN. BHD.**
(Incorporated in Malaysia)

We have audited the financial statements of the Group and of the Company as set out on pages 10 to 35 of **HARTALEGA SDN. BHD.**

The financial statements are 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 towards any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. These standards require that we plan and perform the audit to obtain all the information and explanations, which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by the directors as well as evaluating the overall financial statements presentation.

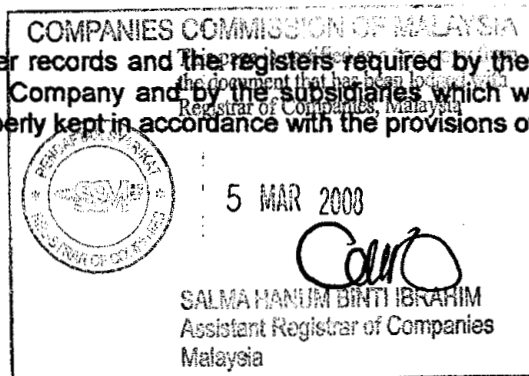
We believe our audit provides a reasonable basis for our opinion.

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 in Malaysia so as to give a true and fair view of :
- (i) 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
 - (ii) the state of affairs of the Group and of the Company as at 31 March 2005 and of the results of the operations and of the cash flows of the Group and of the Company for the year ended on that date;

and

- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Company and by the subsidiaries which we have acted as auditors have been properly kept in accordance with the provisions of the Act.



14. ACCOUNTANTS' REPORT (Cont'd)

Appendix IV

RAJA SALLEH, LIM & CO.

(Audit Firm No. 0071)
Chartered Accountants

29A, Jalan SS 22/19, Damansara Jaya,
47400 Petaling Jaya, Selangor Darul Ehsan



A Member Firm of the
Malaysian Institute of Accountants

75398-K

We have considered the financial statements and the auditors' reports of the subsidiaries of which we have not acted as auditors, as indicated in Note 7 to the financial statements, being financial statements that are included in the consolidated financial statements.

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

The auditors' reports on the financial statements of the subsidiary companies were not subject to any qualification or any adverse comment made under subsection (3) of Section 174 of the Act.

RAJA SALLEH, LIM & CO.,
AF-0071
Chartered Accountants

LIM LIP CHIN
1931/02/07 (J/PH)
Partner

Petaling Jaya - 9 September 2005



15. INDEPENDENT MARKET RESEARCH REPORT



VITAL FACTOR CONSULTING
Creating Winning Business Solutions

29 February 2008

The Board of Directors
Hartalega Holdings Berhad
Mezzanine Floor
No. 8A, Jalan Sri Semantan Satu
Damansara Heights
50490 Kuala Lumpur

Dear Sirs/Madam

Vital Factor Consulting Sdn. Bhd.
(Company No: 266797-T)

75C & 77C Jalan SS22/19
Damansara Jaya
47400 Petaling Jaya
Selangor Darul Ehsan, Malaysia

Tel (603) 7728 0248
Fax (603) 7728 7248
www.vitalfactor.com

Independent Assessment of the Latex Glove Industry in Malaysia

The following is a summary of the Independent Assessment of the Latex Glove Industry in Malaysia prepared by Vital Factor Consulting Sdn Bhd for inclusion in the Prospectus of **Hartalega Holdings Berhad** (herein together with all its subsidiaries will be referred to as Hartalega Group or the Group) in relation to its proposed listing on the Main Board of Bursa Malaysia Securities Berhad.

1. BACKGROUND OF HARTALEGA GROUP

- Hartalega Group is principally involved in the manufacturing of Latex Gloves comprising Natural Rubber and Nitrile Gloves.
- As the manufacture of Latex Examination Gloves accounted for 98.3% of the total Group revenue for the financial year ended 31 March 2007, the focus of this report will be on Latex Examination Gloves under the total umbrella of the Latex Glove Industry.
- For the financial year ended 31 March 2007, Hartalega Group's revenue amounted to RM240.9 million.

2. INDUSTRY OVERVIEW

- The Latex Glove Industry plays an important role in the Malaysian economy. This is substantiated as follows:
 - Malaysia is currently the world leader in the production of rubber gloves;
 - In 2006, Malaysia maintained its position as the largest supplier of Latex Gloves to the United States, accounting for approximately RM2.1 billion of total exports of Latex Gloves;
 - Export earnings from Latex Gloves registered an average annual growth rate of 14.4% between 2002 and 2006 reaching RM5.4 billion in 2006;
 - According to MIDA, in 2006, there were 500 companies involved in the rubber products industry in Malaysia, of which approximately 21% (105 companies) were registered as manufacturers of Latex Gloves;

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

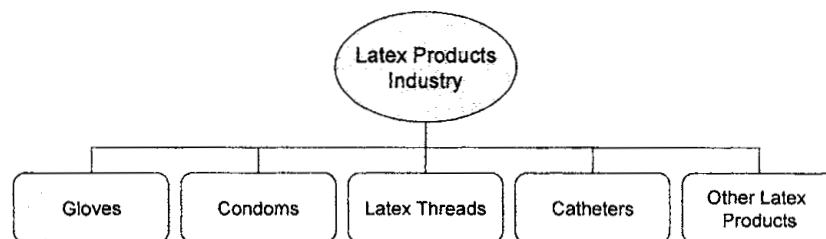
**VITAL FACTOR CONSULTING**

Creating Winning Business Solutions

- Between January and September 2007, the export earnings from Latex Gloves increased by 11.1% to reach RM4.9 billion compared to the same period in the previous year;
- In 2006, sales value of the manufacture of Rubber Gloves registered a growth of 28.5% to reach RM5.6 billion (based on 65 establishments);
- Between January and September 2007, sales value of the manufacture of Rubber Gloves registered a growth of 3.9% to reach RM4.2 billion compared to the same period in the previous year;
- Export earnings of Latex Gloves accounted for approximately 64.3% of the total export earnings generated from the Rubber Products Industry in 2006;
- According to MIDA, in 2006, capital investments within the Rubber Products Industry reached RM714.6 million of which approximately 48.7% of the total capital investment was approved for the production of industrial gloves, household gloves and examination gloves.

(Source: Malaysian Industrial Development Authority, Department of Statistics Malaysia, Ministry of International Trade and Industry Malaysia and Ninth Malaysia Plan 2006 - 2010, Economic Planning Unit, Prime Minister's Department)

- Latex Gloves is part of the Latex Products Industry as illustrated in the figure below:



Source: Malaysian Industrial Development Authority

Figure 1 Structure of the Latex Products Industry

- The Latex Glove Segment itself is further segmented as depicted in the figure below:

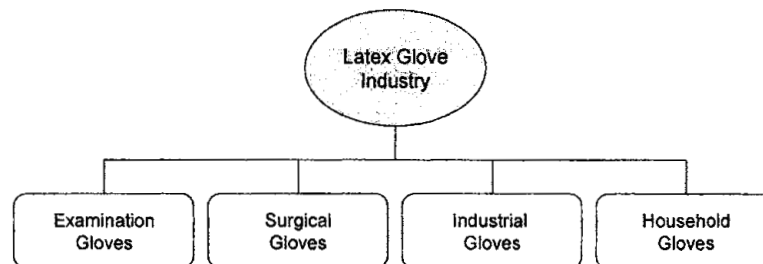


Figure 2 Structure of the Latex Glove Industry

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

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- Latex Gloves are made by dipping moulds in the shape of human hands into liquid latex and chemicals. Once hardened, the finished products are stripped off the mould and then packaged and sterilised.
- The definitions of the various types of Latex Gloves are as follows:

Examination Gloves: Examination Gloves are divided medical grade and non-medical grade.

Medical grade Examination Gloves are extensively tested to meet stringent international standards, which are in accordance to the various regulations in different countries. Medical grade Examination Gloves are also known as Patient Examination Gloves. It is made of natural rubber, nitrile, vinyl or some other materials. The glove is a disposable item intended for single usage and is used in health care to prevent contamination between patients and medical examiners, nurses and other health care personnel.

Surgical Gloves: Surgical Gloves are made from natural or synthetic rubber, which are mainly used by operating room personnel to prevent contamination between patients and medical and other health care personnel.

Industrial Gloves: Industrial Gloves are heavy-duty gloves designed specifically for industrial usage. It is mainly used for protection against hazardous substances or chemicals, and protection against abrasion.

Household Gloves: Household Gloves do not have to meet stringent requirements and are more for general household chores such as gardening, cooking, dish washing and cleaning.

3. VERTICAL STRUCTURE OF THE LATEX GLOVE INDUSTRY

- The manufacturing of Latex Glove Industry can also be vertically extended to include upstream, midstream and downstream activities as follows:

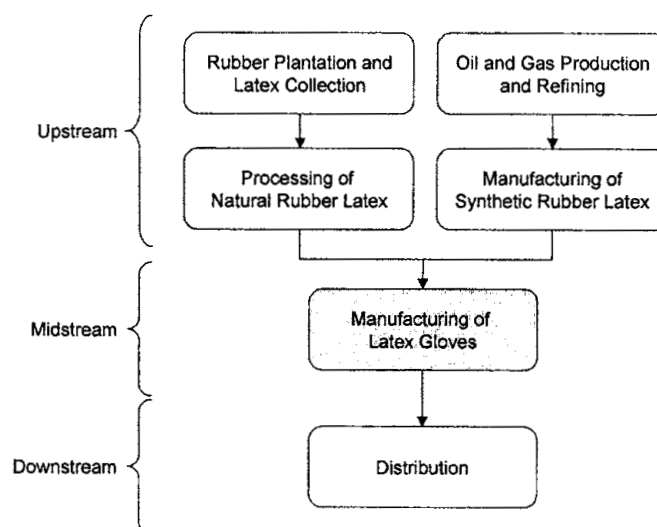


Figure 3 Vertical Structure of Latex Glove Industry

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

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Upstream

- Upstream activities primarily involve the production and processing of the raw materials, including natural and synthetic rubber.
- In 2006, Malaysia produced 1.3 million tonnes of natural rubber. Between January and June in 2007, local production of natural rubber reached 590,100 tonnes. (Source: *Malaysian Industrial Development Authority and Malaysian Rubber Board*)
- Malaysia has a Synthetic Latex plant that started operations in Kluang, Johor in 2003.

Midstream

- Midstream activities cover the manufacture of Latex Gloves.
- Hartalega Group is primarily involved in the manufacturing of Latex Gloves, which falls under the mid-stream activities of the vertical structure.

Downstream

- Downstream activities include the distribution of Latex Gloves to end-users such as healthcare institutions, dental clinics and industrial users.

4. GOVERNMENT LEGISLATIONS, POLICIES AND INCENTIVES**4.1 Manufacturing Licence**

- Apart from the normal manufacturing licence and other industry-based permits, licences, standards and regulations, there are no material government laws, regulations and policies that may impede on Latex Glove manufacturers' performance and growth within a free enterprise environment.
- Application of a manufacturing licence under the Industrial Coordination Act, 1975 is mandatory for companies with shareholders' funds of RM2.5 million or above, or engaging 75 or more full-time employees (Source: *Malaysian Industrial Development Authority*).
- On 22 September 2006, Hartalega Sdn Bhd, a wholly owned subsidiary of Hartalega Group was issued a manufacturing licence from the Ministry of International Trade and Industry Malaysia to manufacture Latex Gloves.

4.2 Licence from the Malaysian Rubber Board**Purchase Licence for Rubber**

- According to the Malaysian Rubber Board, any person involved in the buying or selling of rubber, or buying rubber for the manufacture of rubber products, is subjected to the Malaysian Rubber Board (Licensing) Regulations 1997.

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

**VITAL FACTOR CONSULTING**

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- Hartalega Sdn Bhd has obtained a licence from the Malaysian Rubber Board to buy rubber for the manufacture of rubber products. The licence is valid between 1 July 2007 and 30 June 2008, which is renewable on a yearly basis. The Group has submitted an application to the Malaysian Rubber Board for the renewal of this licence.

Export Licence for Rubber Gloves

- According to the Malaysian Rubber Board, any person involved in shipping rubber or exporting rubber gloves, is subject to the Malaysian Rubber Board (Licensing) Regulations 1997.
- Hartalega Sdn Bhd has obtained an export licence from the Malaysian Rubber Board that permits the company to export rubber gloves. The licence is valid between 1 February 2008 and 31 January 2009, which is renewable on a yearly basis.

4.3 Other Regulations

- In 2006, the Malaysian Rubber Board introduced a new ruling, whereby Malaysian made Natural Rubber Latex Gloves with a protein content of more than 400 microgram per gram ($\mu\text{g/g}$) will be barred from export. This new ruling is not applicable for industrial and household gloves. (Source: *Malaysian Rubber Board*)
- The Malaysian Rubber Board has the authority to conduct surveillance visits and collect samples from manufacturers and traders of Latex Glove for testing using ASTM D5712:99 test method. This practice is to monitor and restrict the export of Latex Gloves with protein content exceeding 400 $\mu\text{g/g}$ in Malaysia.
- According to the Malaysian Rubber Board (Licensing) Regulations 1997 and Malaysian Rubber Board (Licensing Amendment) Regulations 2002, the Malaysian Rubber Board may take punitive measures such as compound, charge in court, revocation and suspension of certificate if any of the manufacturers or traders of Latex Glove are found to be non-compliant.
- According to management, Hartalega Group complies with the requirements of protein content of the Malaysian Rubber Board.

4.4 Overseas Government Regulations

- One of the areas of overseas Government regulations that are relevant to Latex Glove Manufacturers is the US Food and Drug Administration (FDA) to ensure that Quality Compliance is in accordance to the new FDA standard.
- Similarly, all Latex Gloves that are exported into the European Union must also comply with the Medical Devices Directive (EC Directive 93/42/EEC). This directive regulates the import of medical gloves into the European Union.
- Malaysian Latex Glove exporters must also have the appropriate quality management system certifications.

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)


VITAL FACTOR CONSULTING

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- Each of these countries have their own standards whereby exporters of Latex Gloves need to conform to, for example medical gloves are covered under European standards EN455, EN556-1 and EN1041 which are equivalent to the ASTM (American Society for Testing and Materials) standard used in the United States.
- Manufacturers of Latex Gloves who are exporting to these countries must continue to demonstrate that their gloves comply with the relevant standards by performing quality control checks.
- Non-compliance to these relevant standards will result in the detainment of entry of products into the country. In the United States, the FDA place exporters on Import Alert if they are found to be non-compliant. Exporters who have been placed on Import Alert by the FDA will have their shipments detained and their gloves will only be admitted to the US subject to presentation of evidence of compliance. Requirements for evidence of compliance will depend on the Detention Level prescribed by the FDA. Once exporters are removed from the FDA Import Alert list, they will revert to normal practice of random checking without detention.

4.5 Government Incentives

- As part of the Malaysian Government's intention to nurture the growth and development of the manufacturing industry, the Government provides the following incentives for eligible companies:
 - Pioneer Status;
 - Investment Tax Allowance;
 - Reinvestment Allowance.
- The production of Latex products including Surgical Gloves and Safety/Special Function Gloves are listed as a promoted activity/product eligible for consideration either for Pioneer Status or Investment Tax Allowance under the Promotion of Investment Act 1986.
- Some of the benefits of the respective incentives include:

Pioneer Status

- An eligible company for Pioneer Status will enjoys a 5-year partial exemption from the payment of income tax;

Investment Tax Allowance

- An eligible company for Investment Tax Allowance gets an allowance of 60% on its qualifying capital expenditure (such as factory, plant, machinery or other equipment used for approved project), which are incurred within five years from the date of the first qualifying capital expenditure.

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

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Reinvestment Allowance

- All manufacturing companies that have been in operation for at least 12 months which have incurred qualifying capital expenditure to expand production capacity, modernise and upgrade production facilities, diversify into related products, and automate its production facilities, can obtain a Reinvestment Allowance.

(Source: Malaysian Industrial Development Authority)

- Hartalega Sdn Bhd, a wholly owned subsidiary within the Hartalega Group, is currently enjoying the Reinvestment Allowance incentive.

4.6 Trademarks

- Under the Trade Marks Act 1976 and Trade Marks Regulations 1997, all trademarks have to be registered before a trademark can be adopted in relation to any goods or services. (Source: Trade Marks Act 1976 and Regulations, and Patents Act 1983 and Regulations)
- The registration of trademarks is valid for a period of ten years and may be renewed thereafter.
- Hartalega Group has taken steps to protect the trademark of its brands in Malaysia and overseas. The Group has registered its trademark for the following brand names as stated below:

Trademark	Countries	Trade mark No.	Next Renewal Date	Class	Description of Goods under Trademark
BIO-FLEX	Mexico	196358	15 April 2014	10	Latex examination and surgical gloves
LOWPRO	Japan	4009382	6 June 2017	10	Gloves for medical purposes
PHARMATEX	Germany	2053432	31 October 2012	10	Surgical gloves and latex examination gloves
	Italy	F192C/8	3 November 2012	10	Gloves for medical and surgical use
	Japan	4002777	23 May 2017	10	Gloves for medical purposes
	Switzerland	401.364	29 October 2012	10	Gloves for surgical and medical purposes including latex examination gloves
	Australia	969344	9 September 2013	10	Medical Examination Gloves
	New Zealand	701187	9 September 2013	10	Medical Examination Gloves
ELASTIK	European Community	5203823	30 June 2016	10	Dental apparatus; gloves for massage; gloves for medical purposes; surgical apparatus and instruments

Figure 4 Hartalega Group's Registered Trademarks in Malaysia and Overseas

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

**VITAL FACTOR CONSULTING**

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- In addition, the Group has submitted applications for the following trademarks, which are still pending approval:

Trademark	Countries	Class	Description of Goods under Trademark
INNOVA	Malaysia	10	Disposable examination gloves; disposable protective gloves for medical purposes; gloves for massage; gloves for dental use; gloves for medical use; etc
PHARMATEX	Malaysia	10	Disposable examination gloves; disposable protective gloves for medical purposes; gloves for massage; gloves for dental use; gloves for medical use; etc
A device shaped like a Globe (Hartalega's logo)	Malaysia	10	Disposable examination gloves; disposable protective gloves for medical purposes; gloves for massage; gloves for dental use; gloves for medical use; etc

Figure 5 Hartalega Group's Trademarks in Malaysia and Overseas Pending Approval

4.7 Patents and Patent Licence Agreement

4.7.1 Patents

- Hartalega Group has filed patents with the authorities for the following machinery and systems, and processes:

Country	Application No.	Filing Date	Invention	Status
Malaysia	PI 2004 2773*	12 July 2004	The Arrangement and Method of Assembling Former Holders [^]	Pending Approval
PCT**	PCT/SG2005/000227*	11 July 2005		
China	2005 80030535.2	12 March 2007		
India	1084/DelNP/2007	8 February 2007		
Indonesia	WOO 2007 00424	8 February 2007		
Vietnam	1-2007-00307	12 February 2007		
Malaysia	PI 2005 4989*	25 October 2005	Glove Remover#	
Malaysia	PI 20064405^^	31 October 2006	Gloves Singulator	
Thailand	0701004109^^	17 August 2007		

* Patents were previously filed under AHE Automation Sdn Bhd, the Group's machine fabricator. AHE Automation Sdn Bhd subsequently assigned the patent to Sentinel Engineering Sdn Bhd, a wholly owned subsidiary of Hartalega Group.

** Patent Cooperation Treaty (PCT) allows filing of "international" patent application to protect an invention simultaneously in several countries. As at 1 October 2006, there were 133 countries that adhered to the PCT.

[^] Also known as Double Former Dipping Line; # Also known as Robotic Glove Stripping System

^{^^} Patents were filed under Sentinel Engineering (M) Sdn Bhd, a wholly owned subsidiary of Hartalega Group.

Figure 6 Hartalega Group's Filed Patents in Malaysia and Overseas

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

**VITAL FACTOR CONSULTING**

Creating Winning Business Solutions

4.7.2 Patent Licence Agreement

- The Group, through its subsidiary, Hartalega Sdn Bhd has entered into a patent licence agreement with Microflex Corporation on 20 June 2007 whereby Hartalega Sdn Bhd has the rights to make, use, distribute, sell and offer to sell Elastic High Stress Retention Nitrile Examination Gloves to customers that have obtained the expressed written consent of Microflex Corporation. As part of the agreement, Hartalega Sdn Bhd is required to pay royalties at the rate of USD0.60 per 1,000 gloves sold.
- It is also stated in the patent licence agreement that Microflex Corporation shall not license third parties the rights to make and sell the Elastic High Stress Retention Nitrile Examination Gloves without prior agreement from Hartalega Sdn Bhd.

4.8 ENVIRONMENTAL REGULATIONS**Disposal of Scheduled Wastes**

- The Government regulations for the disposal of scheduled waste and sludge resulting from manufacturing processes falls under the Environmental Quality (Scheduled Wastes) Regulations 1989 (*Source: Environmental Quality Act and Regulations*).
- Wastes from Latex Glove manufacturing, like all manufacturing wastes, if not treated and disposed properly would pollute the environment, especially the waterways in the case of Latex Glove manufacturing.
- Scheduled waste created during the production of Latex Gloves is categorised under Scheduled Waste from Specific Sources in the Environmental Quality Regulation 1989. This includes latex effluent, rubber or latex sludge containing organic solvents or heavy metals from the following sources:
 - Rubber or latex sludge containing heavy metals from the wastewater treatment system of rubber products manufacturing plant;
 - Rubber or latex sludge containing organic solvents from rubber products manufacturing plant;
 - Latex effluent from rubber products manufacturing plants.
- The management has appointed Kualiti Alam Sdn Bhd to dispose the scheduled waste produced during the manufacturing process.

Clean Air

- Any installation of equipment, plant or facility for the purpose of heating or generating power that is rated to consume pulverised fuel or any solid fuel at 30 kilogram or more per hour, or any liquid or gaseous at 15 kilogram or more per hour, have to obtain approval from the Department of Environment.

15. INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*



VITAL FACTOR CONSULTING

Creating Winning Business Solutions

- Hartalega Sdn Bhd, a wholly owned subsidiary within the Group, has obtained approval from the Department of Environment for the installation of the following equipment:
 - 7 units of thermal oil heaters;
 - 3 units of Biomass heaters (Biomass Heaters);
 - 2 units of scrubbers.
- According to management, Hartalega Group complies with the requirements of the Department of Environment for the emission of ashes from its Biomass heaters.
- In addition, Hartalega Sdn Bhd has also obtained approval from the Department of Environment for the installation of the following equipment at the Group's 4th manufacturing plant:
 - 4 units of chimneys;
 - 4 units of scrubbers.

Discharge of Effluent

- According to the Department of Environment, any discharge of effluent has to comply with the parameters required under the Regulation of Environmental Quality (Sewage and Industrial Effluents) Regulations 1979.
- Hartalega Group has installed three in-house wastewater treatment systems to ensure that the discharged water is adequately treated.
- According to management, the treated water is also sent to an independent third party for testing on a regular basis, to ensure that the discharged water is adequately treated based on the Department of Environment's requirements and standards.

5. SUPPLY

Local Production

- Between 2002 and 2006, sales value of the manufacture of Rubber Gloves increased at an average annual rate of 17.1%. In 2006, sales value of the manufacture of Rubber Gloves registered a growth of 28.5% to reach RM5.6 billion (based on 65 establishments). Between January and September 2007, sales value of the manufacture of Rubber Gloves increased by 3.9% to reach RM4.2 billion compared to the same period in the previous year.
- Between 2002 and 2006, production quantity of Rubber Gloves registered an average annual growth rate of 13.9%. In 2006, the production quantity of Rubber Gloves increased by 7.0% to reach 20.5 billion pairs (based on 65 establishments). Between January and September 2007, production quantity of Rubber Gloves increased by 2.8% to reach 15.5 billion pairs compared to the same period in the previous year.

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

**VITAL FACTOR CONSULTING**

Creating Winning Business Solutions

- Between 2002 and 2006, sales value of the manufacture of Examination Gloves, a sub-sector of Rubber Gloves, grew at an average annual rate of 18.1%. In 2006, sales value of the manufacture of Examination Gloves increased by 21.6% to reach RM3.6 billion (based on 45 establishments). Between January and September 2007, sales value of the manufacture of Examination Gloves increased by 14.0% to reach RM3.0 billion compared to the same period in the previous year.
- Between 2002 and 2006, production quantity of Examination Gloves grew at an average annual rate of 15.8%. In 2006, production quantity of Examination Gloves increased by 12.2% to reach 18.9 billion pairs (based on 45 establishments). Between January and September 2007, production quantity of Examination Gloves increased by 6.5% to reach 14.7 billion pairs compared to the same period in the previous year.
- Between 2002 and 2006, sales value of the manufacture of Surgical Gloves, a sub-sector of Rubber Gloves, grew at an average annual rate of 6.6%. In 2006, sales value of the manufacture of Surgical Gloves increased by 5.4% to reach RM687.3 million (based on 11 establishments). Between January and September in 2007, sales value of the manufacture of Surgical Gloves declined by 2.9% to reach RM492.8 million compared to the same period in the previous year.
- Between 2002 and 2006, the production quantity of Surgical Gloves increased at an average annual rate of 2.9%. In 2006, the production quantity of Surgical Gloves declined by 3.5% to reach 764 million pairs (based on 11 establishments). Between January and September 2007, production quantity of Surgical Gloves increased by 12.9% to reach 641 billion pairs compared to the same period in the previous year.
- Between 2002 and 2006, sales value of the manufacture of Other Gloves (including Household and Industrial gloves), a sub-sector of Rubber Gloves, grew at an average annual rate of 18.8%. In 2006, sales value of the manufacture of Other Gloves increased by 54.8% to reach RM1.1 billion (based on 25 establishments). Between January and September 2007, sales value of the manufacture of Other Gloves decreased by 3.4% to reach RM774.7 million compared to the same period in the previous year.
- Between 2002 and 2006, production quantity of Other Gloves (including Household and Industrial Gloves) declined at an average annual rate of 3.0%. In 2006, production quantity of Other Gloves declined by 42.1% which amounted to 891 million pairs (based on 25 establishments). Between January and September 2007, production quantity of Other Gloves increased by 4.6% to reach 687 billion pairs compared to the same period in the previous year.

Import

- Between 2002 and 2006, total import value of Rubber Gloves increased at an average annual rate of 38.6%. In 2006, the total import value of Rubber Gloves increased by 428.4% to reach approximately RM112.6 million. Between January and September 2007, total import value of Rubber Gloves decreased by 9.2% to reach RM70.6 million compared to the same period in the previous year.

15. INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)***VITAL FACTOR CONSULTING**

Creating Winning Business Solutions

- Between 2002 and 2006, the total import quantity of Rubber Gloves increased at an average annual rate of 49.6%. In 2006, import quantity of Rubber Gloves increased by 712.3% to reach 544.5 million pairs. Between January and September 2007, import quantity of Rubber Gloves decreased by 23.4% to reach 310.4 million pairs compared to the same period in the previous year.
- Between 2002 and 2006, import value of Surgical Gloves, a sub-sector of Rubber Gloves increased at an average annual rate of 160.7%. In 2006, the import value of Surgical Gloves, a sub-sector of Rubber Gloves increased by 538.7% to reach RM62.7 million. Between January and September 2007, total import value of Surgical Gloves, a sub-sector of Rubber Gloves, decreased by 27.0% to reach approximately RM31.8 million compared to the same period in the previous year.
- Between 2002 and 2006, import value of Other Gloves increased at an average annual rate of 14.4%. In 2006, the import value of Other Gloves, a sub-sector of Rubber Gloves, increased by 334.2% to reach RM49.9 million. Between January and September 2007, total import value of Other Gloves, a sub-sector of Rubber Gloves, increased by 13.5% to reach RM38.9 million compared to the same period in the previous year.
- Between 2002 and 2006, import quantity of Other Gloves increased at an average annual rate of 29.5%. In 2006, the import quantity of Other Gloves, a sub-sector of Rubber Gloves, increased by 375.2% to approximately 256.6 million pairs. Between January and September 2007, the import quantity of Other Gloves, a sub-sector of Rubber Gloves, decreased by 3.6% to reach approximately 189.0 million pairs compared to the same period in the previous year.

(Source: Department of Statistics)

6. SUPPLY DEPENDENCIES

- The main supply dependencies for the manufacturing of Latex Gloves Industry are:
 - Natural rubber latex;
 - Synthetic latex.
- The bulk of the natural rubber latex is available from local supply. In 2006, local production of natural rubber reached 1.3 million tonnes. Between January and June 2007, local production of natural rubber reached 590,100 tonnes.
- Malaysia also imports natural rubber from overseas. In 2006, Malaysia imported 521,669 tonnes of natural rubber mainly from ASEAN countries.
- As for synthetic latex, Malaysia has one synthetic latex plant that started operations in 2003. Most of the synthetic latex used is imported from a number of overseas countries.
- In Malaysia, natural rubber accounted for 80% of total Latex Gloves, whilst synthetic rubber accounted for the remainder 20%.

(Source: Department of Statistics, Malaysian Industrial Development Authority and Malaysian Rubber Board)

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

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- In addition, the manufacturing of Latex Gloves also uses chemicals and fuel materials.
- Following is an analysis of the local production and import of Natural Rubber and Synthetic Latex.

Local Production of Natural Rubber

- Between 2002 and 2006, production of Natural Rubber registered an average annual growth rate of 9.6%. In 2006, production of Natural Rubber increased by 14.0%, to 1.3 million tonnes. Between January and June 2007, production of Natural Rubber amounted to 590,100 tonnes.
- Between 2002 and 2006, the sales value of Rubber Remilling and Rubber Latex Processing increased at an average annual rate of 31.5%. In 2006, sales value of Rubber Remilling and Rubber Latex Processing increased by 59.2% to reach approximately RM8.6 billion. Between January and September in 2007, sales value of Rubber Remilling and Rubber Latex Processing increased by 3.1% to reach approximately RM6.7 billion compared to the same period in the previous year.
- Between 2002 and 2006, production quantity of Processed Latex decreased at an average annual rate of 1.4%. In 2006, the production quantity of Processed Latex increased by 17.3% to reach 183,400 tonnes. Between January and September in 2007, the production quantity of Processed Latex declined by 2.6% to reach 135,865 tonnes compared to the same period in the previous year.

Imports of Natural Rubber

- Between 2002 and 2006, import quantity of Natural Rubber increased at an average annual rate of 3.4%. In 2006, import quantity of Natural Rubber increased by 13.0% to reach 521,669 tonnes. Between January and June in 2007, import quantity of Natural Rubber amounted to 257,959 tonnes.
- Between January and June in 2007, Thailand remained the largest source of import of Natural Rubber, which accounted for 76.8% of Malaysia's total imports of Natural Rubber in terms of quantity. This was followed by Vietnam, Philippines, Myanmar, Indonesia, Cambodia, India and other countries.
- Between 2002 and 2006, the import value of Natural Rubber Latex increased at an average annual rate of 16.6%. In 2006, import value of Natural Rubber Latex increased by 17.4%, to reach RM1.3 billion. Between January and September 2007, import value of Natural Rubber Latex decreased by 0.3% to reach RM982.5 million.

Imports of Synthetic Latex

- Between 2002 and 2006, the import value of Synthetic Rubber increased at an average annual rate of 23.3%. In 2006, the import value of Synthetic Rubber increased by 33.0%, to reach approximately RM1.1 billion. Between January and September 2007, the import value of Synthetic Rubber increased by 9.7% to reach RM888.0 million compared to the same period in the previous year.

15. INDEPENDENT MARKET RESEARCH REPORT (*Cont'd*)**VITAL FACTOR CONSULTING**

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- Between 2002 and 2006, the import value of Other Synthetic Latex decreased at an average annual rate of 1.2%. In 2006, import value of Other Synthetic Latex used for the manufacturing of Nitrile Gloves increased by 43.8% to reach RM107.4 million. Between January and September 2007, the import value of Other Synthetic Latex used for the manufacturing of Nitrile Gloves increased by 40.0% to reach approximately RM111.0 million compared to the same period in previous year.
- In 2006, Japan, Taiwan and the United States were the major sources of imports for Other Synthetic Latex of the type used for the manufacturing of Nitrile Gloves. Japan, Taiwan and the United States accounted for 50.7%, 16.9% and 16.2% of total imports under this category. Other import countries include United Kingdom, Germany, Belgium, Singapore, Hong Kong and others. Between January and September 2007, Japan, Taiwan and the United States accounted for 45.0%, 16.9% and 15.9% of total imports under this category. Other import countries include United Kingdom, Germany, Italy and others.

(Source: Department of Statistics and Malaysian Rubber Board)

7. DEMAND - EXPORTS

- The demand for Malaysia's Latex Gloves comes predominantly from the export markets.
- Between 2002 and 2006, the total export value of Rubber Gloves increased at an average annual rate of 14.4%. In 2006, the total export value of Rubber Gloves increased by 19.5% to reach approximately RM5.4 billion. Between January and September 2007, the total export value of Rubber Gloves increased by 11.1% to reach approximately RM4.9 billion compared to the same period in the previous year.
- Between 2002 and 2006, the total export quantity of Rubber Gloves grew at an average annual rate of 16.1%. In 2006, export quantity of Rubber Gloves increased by 0.5% to reach 36.8 billion pairs. Between January and September 2007, export quantity of Rubber Gloves increased by 15.3% to reach 34.4 billion pairs compared to the same period in the previous year.
- Between 2002 and 2006, export value of Surgical Gloves, a sub-sector of Rubber Gloves, increased at an average annual rate of 3.2%. In 2006, export value of Surgical Gloves increased by 7.3% to reach RM758.4 million. Between January and September 2007, export value of Surgical Gloves increased by 1.2% to reach RM583.5 million compared to the same period in the previous year.
- Between 2002 and 2006, the export quantity of Surgical Gloves declined at an average annual rate of 7.7%. In 2006, export quantity of Surgical Gloves increased by 9.5% to 1.4 billion pairs. Between January and September 2007, export quantity of Surgical Gloves increased by 11.6% to reach approximately 1.2 billion pairs compared to the same period in the previous year.

15. INDEPENDENT MARKET RESEARCH REPORT (*Cont'd*)**VITAL FACTOR CONSULTING**

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- Between 2002 and 2006, the export value of Other Gloves, a sub-sector of Rubber Gloves, increased at an average annual rate of 16.9%. In 2006, export value of Other Gloves increased by 21.8% to reach RM4.6 billion. Between January and September 2007, export value of Other Gloves increased by 13.2% to reach RM3.8 billion compared to the same period in the previous year.
- Between 2002 and 2006, export quantity of Other Gloves grew at an average annual rate of 18.1%. In 2006, export quantity of Other Gloves increased by 0.4% to reach 35.3 billion pairs. Between January and September 2007, export quantity of Other Gloves increased by 15.0% to reach 29.8 billion pairs compared to the same period in the previous year.

(Source: Department of Statistics)

8. DEMAND DEPENDENCIES

- In 2006, the total export value of Latex Gloves amounted to RM5.4 billion. Between January and September 2007, the total export value of Latex Gloves amounted to RM4.9 billion.
- In 2006, the total export value of Latex Gloves amounted to RM5.4 billion. Malaysia's largest export market is the United States, which represented 38.8% of total exports in rubber gloves in 2006. This is followed by Germany, United Kingdom and Japan, which accounted for 6.3%, 6.2% and 5.1% of total exports by value respectively.
- Between January and September 2007, the United States are the largest export market representing 35.9% of Malaysia's total exports in Rubber Gloves. This is followed by Germany, United Kingdom and Japan which accounted for 8.1%, 6.2% and 5.0% respectively.

(Source: Department of Statistics)

9. COMPETITIVE NATURE AND INTENSITY

- The Latex Glove Industry operates under **normal competitive** conditions. Competition among Latex Glove manufacturers is global in nature as virtually all of them service the export markets exclusively.
- As with most free enterprise environments, competition is based on a number of factors, including:
 - Quality of products and services
 - Cost competitiveness
 - Prompt delivery schedules
 - Manufacturing capabilities and capacities
- Competition in the Latex Glove Industry comes from two perspectives:
 - Competition among Malaysian manufacturers as Malaysia has developed a reputation as a major producer of Latex Gloves that can meet international standards;

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

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- Competition among other countries, especially Thailand, China and Indonesia.
- Competition among Latex Glove manufacturers is predicated by the following factors:
 - In 2006, there were 105 manufacturers of gloves registered with the Malaysian Industrial Development Authority. These operators range from large multinationals and local operators to medium and smaller sized local manufacturers. (Source: *Malaysian Industrial Development Authority*)
 - Competition from Thailand and Indonesia whereby these two countries are the top two largest producers of Natural Latex. The abundance of raw materials and lower labour costs provide manufacturers in Thailand and Indonesia with some cost advantage.
- However, competition within the Latex Glove Industry can be **moderated** by the following factors:
 - Manufacturers with a high degree of integration and value-adding in terms of compounding, research and development (R&D) on product improvements and enhancement, and process improvement are likely to enjoy competitive advantages such as lower cost of production, better end-to-end quality control, and faster turnaround time.
 - Manufacturers with in-house R&D capabilities are likely to face moderate competition. Part of R&D is also in the in-house compounding of the Latex formulation whereby different additives such as stabilisers, dispersants, and other specialised additives would provide additional characteristics and properties to the Latex Glove. As an example, specialised additives such as lanolin can be used as an emollient and conditioning agent for smoothing and hydrating dry irritated hands, and act as a barrier protection. In addition, the ability to meet other desired properties such as tensile strength, tear and puncture resistance, elongation, tactility, softness, donning properties and good intermittent resistance to chemicals are also the result of in-house compounding and formulation.
 - R&D is also critical in facilitating the development of new or improved range of Latex Gloves to address growth opportunities. Manufacturers with the in-house R&D capabilities are able to produce a different range of Latex Gloves using different types of synthetic materials including acrylonitrile-butadiene copolymer, plasticised polyvinyl chloride, neoprene, and polyisoprene. As an example, using polyisoprene in compound formulation would result in a Synthetic Glove that is able to emulate the desired characteristics of Natural Rubber, including strength and barrier, elasticity, softness and provide additional comfort to the user.
 - Manufacturers that are able to produce a range of Natural Rubber and Synthetic Latex Gloves would be in a better position to meet a wider range of customers' needs. Competitive pressure for such manufacturers are somewhat moderated.

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)



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- Manufacturers with their own in-house brands are also able to differentiate themselves from other competitors and provide a competitive edge to compete effectively in this industry.

10. PLAYERS IN THE INDUSTRY

- Some of the manufacturers include (listed in alphabetical order):
 - Adventa Berhad
 - Alliance Rubber Products Sdn Bhd
 - Ansell Group
 - APL Industries Berhad*
 - Brightway Holdings Sdn Bhd
 - Comfort Rubber Gloves Industries Sdn Bhd
 - Dragon Star Sdn Bhd
 - GMP Medicare Sdn Bhd
 - Green Prospect Sdn Bhd
 - Hartalega Sdn Bhd (a wholly owned subsidiary within the Hartalega Group)
 - Koon Seng Sdn Bhd
 - Kossan Rubber Industries Berhad
 - Latexx Partners Bhd
 - Marigold Industrial (M) Sdn Bhd
 - MRG Industries Sdn Bhd
 - Regent Hospital Products Sdn Bhd
 - Seal Polymer Industries Berhad*
 - Smart Glove Corporation Sdn Bhd
 - Supermax Corporation Bhd
 - Top Glove Corporation Bhd
 - WRP Asia Pacific Sdn Bhd
 - YTY Industries Sdn Bhd

*Note: The above list of players is not exhaustive and only represents some of the manufacturers of Latex Gloves in Malaysia. *Seal Polymer Industries Berhad is a subsidiary while APL Industries Berhad is an associate company of Supermax Corporation Berhad. (Source: Secondary and Primary Market Research undertaken by Vital Factor Consulting Sdn Bhd)*

11. BARRIERS TO ENTRY

11.1 Government Regulations

- There are no onerous licences, permits or regulations that form a major barrier to entry to the Latex Glove Industry.
- Nevertheless, operators within the Latex Glove Industry must comply with various standards, specifications and certifications of Malaysia and various overseas countries before their products are allowed to be exported from Malaysia or imported into overseas countries

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

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11.2 Capital and Set-up Costs

- The barriers to entry into the manufacture of Latex Gloves based on capital requirements are **high**.
- The capital cost of starting-up a small sized manufacturing plant for Latex Gloves would be approximately RM18 million (excluding land and building). This would incorporate a 5-line machinery capable of producing approximately 600 million pieces of gloves per year. With this capital set-up cost, the operation will be highly manual with limited automation.
- As Latex Gloves are low priced disposable items, having a consistently high volume of orders is important for operators to achieve economies of scale and maintain profitability in this industry. Capital costs would start to escalate for larger operations to enable greater economies of scale.
- As such, smaller manufacturers would also find it difficult to compete with larger manufacturers that have the benefits of economies of scale.

11.3 Technical Skills and Knowledge

- There is a certain level of technical expertise and experience required in the manufacture of Latex Gloves particularly in obtaining the required product properties. This is to meet the customer's requirements and specifications.
- These requirements would form some barriers to entry for new entrants into the industry. Some of the areas where technical skills and experience are required include:
 - The formulation of the different types of Latex compounds from the raw materials to achieve the different specifications and properties of Latex Glove for example, thickness, strength, viral penetration, resistance to chemical and solvents, elasticity, and resistance to tearing and abrasion.
 - Increasing the efficiency and productivity while maintaining high standards of quality by continually improving on the manufacturing processes.
- As such, the technical skills required during the production process would pose some barriers to entry for new entrants into the Latex Glove Industry.

11.4 Track Record

- Track record also forms one of the barriers to entry for new entrants. It is unlikely that a new entrant without any track record will be able to compete effectively in the global market for Latex Gloves.
- It will take some time for a new entrant to be established in the market before principals or customers are willing to take them on as a supplier.
- As such, track record would pose a barrier to entry for new entrants, which would find it difficult to gain immediate access into various markets.

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

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11.5 Product Quality

- As Latex Gloves including Examination Gloves and Surgical Gloves are widely used by medical examiners and operating room personnel to prevent contamination between patients and the health care personnel, the quality of Latex Gloves is critical to the end-user industry sectors.
- As such, manufacturers that have stringent quality assurance programmes in place including ISO accreditation and compliance to various country specific and international standards are important factors in securing sales orders.
- New entrants into the industry would take time to develop the quality required to meet the various standards and accreditations.

12. INDUSTRY OUTLOOK

- The outlook of the Latex Glove Industry in Malaysia is **favourable**. The following factors and observations support a favourable prognosis of the industry:

Local Production

- Between 2002 and 2006, sales value of the manufacture of Rubber Gloves increased at an average annual rate of 17.1%. In 2006, sales value of the manufacture of Rubber Gloves registered a growth of 28.5% to reach RM5.6 billion (based on 65 establishments).
- Between January and September 2007, sales value of the manufacture of Rubber Gloves increased by 3.9% to reach RM4.2 billion compared to the same period in the pervious year.
- Between 2002 and 2006, the production quantity of Rubber Gloves registered an average annual growth rate of 13.9%. In 2006, the production quantity of Rubber Gloves increased by 7.0% to reach 20.5 billion pairs (based on 65 establishments).
- Between January and September 2007, the production quantity of Rubber Gloves increased by 2.8% to reach approximately 15.5 billion pairs compared to the same period in the pervious year.

Exports

- Between 2002 and 2006, the total export value of Rubber Gloves increased at an average annual rate of 14.4%. In 2006, the total export value of Rubber Gloves increased by 19.5% to reach RM5.4 billion.
- Between January and September 2007, the total export value of Rubber Gloves increased by 11.1% to reach RM4.9 billion compared to the same period in the pervious year.

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

**VITAL FACTOR CONSULTING**

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- Between 2002 and 2006, the total export quantity of Rubber Gloves grew at an average annual rate of 16.1%. In 2006, export quantity of Rubber Gloves increased by 0.5% to reach 36.8 billion pairs.
- Between January and September 2007, the export quantity of Rubber Gloves increased by 15.3% to reach 34.4 billion pairs compared to the same period in the pervious year.

(Source: Department of Statistics)

13. DRIVERS OF GROWTH

- Some of the drivers of growth for the Latex Glove Industry are:
 - **Growth in the consumption of Latex Gloves by end-user industries** such as hospitals, healthcare, food processing and high technology sectors including electronic and bio-technology industries. As the use of Latex Gloves is prevalent in the healthcare sectors, any outbreak of diseases will also inadvertently drive the demand for Latex Gloves.
 - **Increase in the demand for Latex Gloves will come from export markets**, as the industry is primarily export-oriented. Growth in demand will come from major export markets including the United States, United Kingdom, Japan, Germany, Brazil, Italy, France and other countries.
 - **Innovations and developments in Latex Gloves for new applications** would create new demand from existing or new end-user industries.
 - **Growth in the healthcare industry** sectors including, among others, planning and development of new hospitals and other medical institutions, will also generate demand for Latex Gloves.
 - **Socio-economic growth** such as Gross Domestic Product growth and population growth will also place increasing demand for Healthcare services. This will in turn stimulate the demand for Latex Gloves as one of the critical disposable items used in the healthcare sector.

14. THREATS AND RISK ANALYSIS**14.1 Increase in Raw Material and Oil Prices**

- As Natural Rubber and Synthetic Latex are commodities, the cost of sourcing these commodities as raw materials for the production of Latex Gloves are subjected to fluctuations in world prices. Malaysia may be a producer of Natural Rubber, however it is still subjected to world prices as a commodity.

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

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- Between December 2002 and December 2007, the average monthly price of Natural Rubber latex concentrate registered an average annual growth rate of 19.6%. The average monthly price of natural rubber latex concentrate recorded a growth of 34.5%, from 395 sen per kilogram in December 2006 to approximately 532 sen per kilogram in December 2007.
- Similarly, the price of synthetic rubber, which is mostly sourced from the United States and Japan, had also registered a growth of 6.4% from USD1,607 per tonne in 2005 to USD1,710 per tonne in 2006 and a growth of 12.6% from Japanese Yen 182,000 per tonne in 2005 to Japanese Yen 205,000 per tonne in 2006. As at third quarter of 2007, Synthetic Rubber Prices reached Yen 228,000 per tonne and USD2,256 per tonne.
- In addition, the price of synthetic rubber is also dependent on the price of petroleum. This is because petroleum products are used as the major feedstock to produce petrochemical based products including synthetic rubber, namely acrylonitrile-butadiene, polyvinyl chloride, polychloroprene and polyurethane. These types of synthetic rubber are the raw materials used in manufacturing Synthetic Rubber Gloves.
- Rubber constitutes approximately 55% of the cost of manufacturing. In some situations, increases in the prices of raw materials are not easily passed onto the customers. This could impact on the margin or alternatively, if the increase in cost is passed onto the customers, the manufacturers may not be price competitive.

(Source: Department of Statistics, Malaysian Rubber Board, Malaysian Rubber Glove Manufacturers' Association and International Rubber Study Group)

Mitigating Factors

- Manufacturers with strong financial positions may be able to purchase and maintain stocks of key raw materials to create a cushion against price fluctuations.
- As this raw material is a commodity and therefore subjected to world prices, all manufacturers that use this material are equally affected.

14.2 Dependency on Imports of Synthetic Latex

- With Synthetic Latex Gloves, there is a dependency on imports of certain types of Synthetic Latex including acrylonitrile-butadiene rubber (NBR). There is only one producer of Synthetic Latex in Malaysia and as such, the bulk of the domestic consumption of Synthetic Latex is mainly sourced from overseas.
- NBR is a type of Synthetic Latex used for the manufacturing of Synthetic Latex Gloves.

Mitigating Factors

- There are various sources of imports of Synthetic Latex. In 2006, some of Malaysia's import sources of Other Synthetic Latex of the type used for the manufacturing of Nitrile Gloves include among others, Japan, United States, Germany, Taiwan, and United Kingdom. In 2006, the world production of Synthetic Latex increased by 3.6% to reach 12.5 million tonnes.

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

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- In the second quarter of 2007, the world production of Synthetic Latex increased by 4.6% to reach approximately 3.3 million tonnes compared to the same quarter in 2006.
- In 2006, Malaysia's consumption of Synthetic Latex was estimated to grow by approximately 16.6% to reach 112,385 tonnes. As such, there is ample supply of Synthetic Latex in the world market.
- Between January and June in 2007, Malaysia's consumption of Synthetic Latex was estimated to reach 60,413 tonnes.
- In addition, there are no import duties and tariff imposed on the import of acrylonitrile-butadiene rubber (NBR) Latex as one of the types of raw materials used for the manufacturing of Synthetic Gloves.

(Source: Department of Statistics, Royal Customs and Excise Department Malaysia and International Rubber Study Group and Malaysian Rubber Board)

14.3 Natural Rubber Protein Allergy

- The Natural Rubber Protein Latex Allergy problem will continue to be a major issue in the usage of Latex Gloves and this could pose as a threat to Malaysian Latex Glove Manufacturers.

Mitigating Factors

- To overcome this problem, local manufacturers, together with the relevant authorities have put in place various strategies, including the following:
 - Introduction of the **Standard Malaysian Glove (SMG)** certification would provide users with some comfort level that approved manufacturers would produce Latex Gloves below 200 microgram of extractable protein per gram of Latex and residual powder content of powdered glove with 150 microgram per glove. The SMG program was launched in 1998 and revised in 1999.

This certification programme will, over time, reduce the maximum allowable extractable protein for compliance.

 - **Alternative materials**, for example Nitrile Gloves, made from Synthetic Latex, effectively removes the problem of Latex Allergy. In addition, the development of Nitrile Gloves with greater retention properties compared to normal Nitrile Gloves, provides increased flexibility to the end-user.
 - Processing methods including **chlorination** that produces powder-free Latex Gloves that has low extractable natural rubber protein.
 - On-line **polymer coating** in the Latex Glove manufacturing process helps to further reduce the amount of extractable rubber protein. The polymer coating helps to create a barrier to ensure that the skin does not come in contact with the Latex.
 - **Reduction of cornstarch powder** in Latex Glove through various processes.

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)


VITAL FACTOR CONSULTING

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- To counter the nitrosamine issue, which is caused by using accelerators and other chemicals in the manufacturing process, formulations have been developed to produce **low nitrosamine or nitrosamine-free** Latex products.
- Marketing and promotional campaigns undertaken by, among others, the Malaysian Rubber Export Promotion Council to allay some of the fears of Natural Rubber protein allergy.
- In 2006, Malaysian Rubber Board introduced a new ruling, whereby Malaysian made Natural Rubber Latex Gloves with a protein content of more than 400 microgram per gram will be barred from exports. This new ruling is not applicable for industrial and household gloves. *(Source: Malaysian Rubber Board)*

14.4 Competition from Low-Cost Producing Countries

- The main threat will come from Thailand and Indonesia. These two countries have the following advantages that may enable them to produce Latex Gloves at a lower cost:
 - abundance of low-cost labour;
 - abundance of Natural Rubber.

Mitigating Factors

- Malaysia continues to command a reputation for high quality Latex Gloves. With Latex Gloves playing a key role as a barrier to prevent and protect against contamination, quality of the Latex Gloves is therefore paramount.
- As such, Malaysia will need to constantly attain and maintain a high level of quality, high user awareness of its quality, as well as continually striving for cost-effectiveness to overcome threats from countries with some low cost advantages.

14.5 Labour Intensity

- Two issues are pertinent:
 - Any shortage of labour would compromise Malaysia's ability to meet shipment schedules. This would open up opportunities for competitors to gain Malaysia's market share.
 - Labour cost in Malaysia is not as competitive to other lower-cost countries like Thailand, Indonesia and China. These countries will pose a threat if labour becomes a significant component of the total manufacturing cost.

Mitigating Factors

- Automation is increasing in Malaysia, particularly the use of automation to strip the Gloves from the mould, and in packing.
- Manufacturers with larger scale and automation operations are able to enjoy the benefits of economies of scale and moderate the labour intensity issue.

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

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14.6 Foreign Exchange Fluctuations

- Fluctuations in foreign exchange rates will have an impact on the prices of imported raw materials as well as export earnings.
- This may have an impact on the profitability of operators within the Latex Glove Industry. An unfavourable foreign exchange movement against Ringgit would either reduce demand as the prices would need to be increased or manufacturer's profitability would suffer if they decide to absorb the price increases.

Mitigating Factor

- Since 21 July 2005, the Ringgit was allowed to operate on a managed float basis, with its value determined by economic fundamentals. Bank Negara Malaysia will monitor the exchange rate against trade-weighted index of Malaysia's major trading partners. Promoting stability of the exchange rate continues to be a primary objective of Malaysia's foreign exchange policy (*Source: Bank Negara Malaysia*).

14.7 Shortage of Natural Rubber

- Manufacturers of Natural Rubber Latex Gloves are dependent on the availability of raw materials, primarily Natural Rubber Latex. Thus, any shortage in the supply of Natural Rubber will have an impact on manufacturers of Natural Rubber Gloves.
- The potential supply of Natural Rubber in Malaysia is dependent on the total area under rubber cultivation, and on the replanting rate of rubber trees.
- Between 2002 and 2006, total acreage of Rubber plantation decreased at an average annual rate of 2.4% to reach a total acreage of 1.23 million hectares.
- Rubber cultivation in Malaysia is dominated by smallholders, who operate 95% of the total area under rubber cultivation in 2006. If Latex prices were low, smallholders may reduce their investments in rubber forest plantation.
- In 2006, areas that were replanted with Natural Rubber declined by 1.8% to reach 20,212 hectares. However between 2002 and 2006, areas replanted with Natural Rubber increased at an average annual rate of 1.5%.
- In addition, the conversion of Rubber plantations to Oil Palm plantations, housing, and other commercial uses, plus the low level of returns from rubber plantations by smallholders will have an impact on the future availability of Natural Rubber Latex.

(Source: Department of Statistics and Ministry of Primary Industries and Malaysian Rubber Board)

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

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Mitigating Factors

- As part of the Ninth Malaysia Plan, the Malaysian Government will continue to promote Agriculture sectors including the Rubber Sector. Part of the Plan includes development of the Rubber Sector to focus on accelerating efforts to consolidate and rehabilitate smallholding rubber plantations to increase productivity. An optimum area of 800,000 hectares will be maintained as rubber zone by 2020 to meet the requirements of local rubber processing industries.
- Between 2002 and 2006, production of Natural Rubber registered an average annual growth rate of 9.6%. In 2006 production of Natural Rubber increased by 14.0% to reach approximately 1.3 million tonnes. Between January and June in 2007, the production of Natural Rubber amounted to 590,100 tonnes.
- Between 2005 and 2010, production of Natural Rubber is expected to grow by an average annual rate of 2.8% to reach approximately 1.3 million tonnes in 2010.
- The Government's support and measures for the Rubber Sector will at least provide some form of assurance on the availability of Natural Rubber to cater to the growing Natural Rubber Latex Gloves in the medium-term.
- In addition, manufacturers that are producing both Natural Rubber and Synthetic Latex Gloves are better positioned to insulate themselves against any shortage in supply of Natural Rubber.
- Malaysia also imports Natural Rubber to supplement its own production. In 2006, Malaysia imported 521,669 tonnes of Natural Rubber mainly from ASEAN countries.

(Source: Department of Statistics and Ninth Malaysia Plan 2006-2010, Prime Minister's Department)

15. THREAT OF SUBSTITUTES

- There is no threat of substitute products. At this point in time, there are no substitutes for Gloves with the exception of not wearing any Gloves.
- Unfortunately not wearing gloves is not a viable alternative. In addition, professions in some industries are required to wear gloves such as in healthcare institutions, dental clinics, research and scientific laboratories, food and beverage manufacturing, and high technology manufacturing.
- The only other manner whereby some may consider as substitute products is the use of different raw materials, such as synthetic latex as opposed to Natural Rubber. Some of the synthetic materials include polyvinyl chloride, neoprene/polychloroprene, polyisoprene, and polyurethane materials depending on the application.
- Nevertheless, these are still Latex Gloves, albeit made from a variety of different raw materials.

15. INDEPENDENT MARKET RESEARCH REPORT (Cont'd)

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16. AREAS OF GROWTH AND OPPORTUNITIES**16.1 Increasing Global Demand**

- The key areas of growth will come from increasing demand from consumer countries particularly the United States. In 2006, United States represented 38.8% of the total exports of Latex Gloves from Malaysia.
- Between January and September 2007, the United States remain the largest export market representing 35.9% of Malaysia's total exports in Rubber Gloves. This is followed by Germany, United Kingdom and Japan which accounted for 8.1%, 6.2% and 5.0% respectively.
- As Latex Gloves have many applications, demand will come from many sectors of the industries, although the main user-industry will continue to be the Healthcare Industry. Some of the other areas of demand could come from clean room gloves and food contact gloves.

16.2 Increasing Sales outside the United States

- To date, Malaysian manufacturers have focused significantly on the United States market.
- Other major consuming markets, especially Europe and Japan are not well represented by Malaysian manufactured Latex Gloves. As such, these markets would offer growth opportunities for manufacturers.

16.3 Focusing on New Areas of Business

- Traditionally, the focus of the usage of Latex Gloves has been predominantly within the Healthcare Industry lead by Latex Examination Gloves.
- Other applications of Latex Examination Gloves, especially within the Food and Beverage manufacturing, Laboratory Testing field, High Technology manufacturing, Hospitality and even the Household markets are underdeveloped. As such, they offer incremental growth opportunities for manufacturers.

16.4 New Materials

- In light of the Natural Rubber Allergy issue, there has been a shift from Natural Rubber Latex Gloves to lower protein powder-free and Synthetic Gloves.
- Although new materials are substitute products for Natural Rubber Gloves, growth in this area is critical from the following perspectives:
 - Ability to meet users' needs and specifications, especially in the light of the Latex Allergy issue;
 - Prevent existing customers from replacing Malaysian Latex Gloves with new material gloves from other countries;
 - Serves new areas of applications as electric protective gloves, and specialised gloves for use when administering chemotherapy.

15. INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*



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- Synthetic Gloves such as Nitrile, Polyvinyl Chloride and Polychloroprene/Neoprene Gloves may be the next closest substitute to Natural Rubber Latex Gloves.

17. CRITICAL SUCCESS FACTORS

- The critical success factors for manufacturers within the Latex Glove Industry are:
 - **Quality** is critical in this industry whereby the finished product, Latex Glove is often used as a protective barrier against life threatening situations such as blood contamination from AIDS/HIV, Hepatitis, Bird Flu and other viruses. This situation applies to most Examination and Surgical Latex Gloves. Successful manufacturers are those that are able to manufacture quality products consistently.
 - **Certification to International Standards** such as ISO quality standards, AFNOR, EN and FDA standards are highly important in this industry as this provides customers with the assurance and confidence in the quality of the finished products. Failure to obtain these certifications will virtually exclude manufacturers from selling into these countries.
 - **Distribution Network** is highly important in reaching the customers. In this case, market coverage for the Latex Glove Industry must be global. This is because the Latex Glove Industry works on large volumes and low prices. Production volumes are in the hundreds of millions or in some cases billions of pieces per year. Therefore to survive and to be successful, a manufacturer must have an extensive distribution network to provide consistent volume of work for production efficiency and financial viability.
 - **Cost Competitiveness** is also a critical success factor. This is mainly predicated by the following factors:
 - this is a high volume business;
 - competition is increasing especially from low-cost producing countries like Thailand and Indonesia.
- Therefore larger scale manufacturers with automated manufacturing operations are in a stronger position to reduce operating cost and benefit from economies of scale.

18. MARKET SIZE

18.1 Market Size of Total Latex Gloves

- In 2007, the market size of Total Latex Gloves in Malaysia based on an annualised **output** was estimated at **41.3 billion pairs**.
- In 2007, the market size of Total Latex Gloves in Malaysia based on an annualised **output value** was estimated at **RM5.8 billion**.

(Source: Department of Statistics and computed by Vital Factor Consulting Sdn Bhd)

15. INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*



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18.2 Market Size of Natural Rubber Latex Gloves

- In 2007, the market size of Natural Rubber Latex Gloves (a sub-sector of Total Latex Gloves) in Malaysia based on an annualised **output** was estimated at **33.1 billion pairs**.

(Source: Department of Statistics, Malaysian Industrial Development Authority and computed by Vital Factor Consulting Sdn Bhd)

18.3 Market Size of Synthetic Latex Gloves

- In 2007, the market size of Synthetic Latex Gloves (a sub-sector of Total Latex Gloves) in Malaysia based on an annualised **output** was estimated at **8.3 billion pairs**.

(Source: Department of Statistics, Malaysian Industrial Development Authority and computed by Vital Factor Consulting Sdn Bhd)

19. MARKET SHARE

19.1 Market Share of Total Latex Gloves

- In 2007, the market share of Hartalega Group for Total Latex Gloves was estimated at **3%** based on its total **output** of Latex Gloves.
- In 2007, the market share of Hartalega Group for Total Latex Gloves was estimated at **4%** based on its total **revenue** from the manufacture of Latex Gloves for the financial year ended 31 March 2007 (taken as proxy for calendar year 2007).

(Source: Department of Statistics and computed by Vital Factor Consulting Sdn Bhd)

19.2 Market Share of Natural Rubber Gloves

- In 2007, the market share of Hartalega Group for Natural Rubber Latex Gloves (a sub-sector of Total Latex Gloves) was estimated at **2%** based on its **output** of Natural Rubber Latex Gloves for the financial year ended 31 March 2007 (taken as proxy for calendar year 2007).

(Source: Department of Statistics, Malaysian Industrial Development Authority and computed by Vital Factor Consulting Sdn Bhd)

19.3 Market Share of Synthetic Latex Gloves

- In 2007, the market share of Hartalega Group for Synthetic Latex Gloves (a sub-sector of Total Latex Gloves) was estimated at **6%** based on its **output** of Synthetic Latex Gloves for the financial year ended 31 March 2007 (taken as proxy for calendar year 2007).

(Source: Department of Statistics, Malaysian Industrial Development Authority and computed by Vital Factor Consulting Sdn Bhd)

15. INDEPENDENT MARKET RESEARCH REPORT *(Cont'd)*



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20. MARKET RANKING

- Hartalega Group with a total turnover of RM240.9 million for the financial year ended 31 March 2007 (taken as a proxy for calendar year 2006) ranked **seventh** among manufacturers within the Latex Glove Industry in Malaysia in 2006 based on turnover.

(Source: Secondary and Primary Market Research undertaken by Vital Factor Consulting Sdn Bhd).

Vital Factor Consulting Sdn Bhd has prepared this report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, secondary statistics and information, and primary market research. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibilities for the decisions or actions of readers of this document. This report should not be taken as a recommendation to buy or not to buy the shares of any company.

Yours sincerely

Wong Wai Ling
Director
Vital Factor Consulting Sdn Bhd

16. DIRECTORS' REPORT



Registered Office:

Mezzanine Floor,
No. 8A, Jalan Sri Semantan Satu
Damansara Heights
50490 Kuala Lumpur

29 February 2008

To : The Shareholders of Hartalega Holdings Berhad

Dear Sir/Madam,

On behalf of the Board of Directors of Hartalega Holdings Berhad ("the Company") ("Directors"), we report after due enquiry, that during the period from 30 September 2007 (being the date to which the last audited financial statements of the Company and its subsidiaries have been made up) to 17 March 2008 (being the date not earlier than fourteen (14) days before the issue of this Prospectus) that:

- (i) the business of the Company and its subsidiaries have, in the opinion of the Directors, been satisfactorily maintained;
- (ii) in the opinion of the Directors, no circumstances have arisen since the last audited financial statements of the Company and its subsidiaries which have adversely affected the trading or the value of the assets of the Company or its subsidiaries;
- (iii) the current assets of the Company and its subsidiaries appear in the books at values, which are believed to be realisable in the ordinary course of business;
- (iv) (a) there are no contingent liabilities that have arisen by reason of any guarantees or indemnities given by the Company or its subsidiaries; and
(b) save as disclosed in Section 11.9 of the Prospectus, there are no other contingent liabilities which may become enforceable;
- (v) since the last audited financial statements of the Company and its subsidiaries, there have not been any default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings in which the Directors are aware of; and
- (vi) save as disclosed in the Proforma Consolidated Financial Statements and the Accountants' Report as set out in Sections 13 and 14 respectively of this Prospectus, there have been no material changes in the published reserves or any unusual factors affecting the profits of the Company and its subsidiaries since the last audited financial statements of the Company and its subsidiaries.

Yours faithfully
For and on behalf of the Board of Directors
HARTALEGA HOLDINGS BERHAD

Kuan Kam Hon @ Kwan Kam Onn
Managing Director

