

4. INDUSTRY OVERVIEW

4.1 Overview of the global economy

The world economy is expected to continue expanding for the fifth consecutive year in 2007, albeit at a more moderate pace, amidst high crude oil prices and uncertainties in the economy of the USA. Global inflation remains at manageable levels although it has edged upwards due to high crude oil prices.

For the advanced countries, growth is more balanced across regions with the steady recovery in Europe and Japan partially offsetting the moderation in the USA. Developing countries, primarily driven by investment and robust trade, are expected to outperform advanced countries and increasingly contribute to global growth. In this context, China, India and Russia are anticipated to account for more than half of this year's growth. Rapid growth has also led several large developing countries to significantly contribute outward foreign direct investment ("FDI"), an area where traditionally, developed countries were the main sources.

The global economy is expected to expand at 5.2% in 2007, mainly driven by robust growth in China, India as well as Russia, which is envisaged to offset the impact of moderation in the USA economy arising from the housing market slump and dampened consumer spending. Although global growth remains strong, inflation is still at a manageable level.

The USA economy grew at 4.0% during the second quarter of 2007 (January - March 2007: 0.6%) as economic activity rebounded, largely due to consumer spending, non-residential fixed investment and exports. Since the beginning of the year, however, persistent weaknesses in the housing sector, exacerbated by delinquencies in subprime mortgages, precipitated a credit crisis over the July - August period and caused greater volatility in the world financial markets. Consequently, the USA economy is expected to moderate in the second half, resulting in lower real gross domestic product ("GDP") growth of 2.0% in 2007 (2006: 3.3%).

Growth in emerging East Asia is expected to moderate slightly to 8.1% in 2007 (2006: 8.4%). Exports remain the main driver of regional growth, while domestic demand continues to improve in most economies. Apart from the strong global demand for the region's exports, the buoyant Chinese economy also continues to gain importance as an export destination for other economies in the region, including members of ASEAN.

In the ASEAN region, GDP growth for the year is expected to range from 4.5% in Thailand to 7.0% in Singapore, mainly driven by exports and domestic investment. Among the emerging markets in ASEAN, Vietnam notched 7.9% in the first half of 2007, primarily due to surging investments and robust non-oil exports.

Inflation has been generally well contained despite strong global growth, although some emerging market and developing countries face inflationary pressures, especially from rising energy and food prices. Crude oil prices remain high due to production capacity constraints and rising demand, whilst food prices have edged up following weather-related supply shortfalls and increasing use of biofuels. Inflation for the year is projected to be 2.0% for the advanced countries and 5.7% for emerging market and developing countries.

Global growth in 2008, expected to be generally more broad-based both across regions and within countries, will continue to spur world trade and investment flows. Growth in world trade volume is projected at 7.4% in 2008 (2007: 7.1%), supported by steady demand-driven expansion in global high-technology industries, commodities and services.

The positive outlook, however, could be affected by a fallout of the USA subprime mortgage crisis, impacting on the real economy in the USA and the global economy. The ensuing credit crunch prompted central bank intervention in early August to ease pressures on the global financial system, but the effectiveness of the measures has yet to be determined.

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Notwithstanding these risks, the global economy is anticipated to continue expanding at 5.2% in 2008 (2007: 5.2%) with Japan, Europe and emerging Asia, in particular, China and India, counterbalancing a possible moderation of the USA economy.

(Source: Economic Report 2007/2008)

4.2 Overview of the Malaysian economy

Growth prospects for the Malaysian economy remain favourable in 2007, despite uncertainty in the global economic environment. Strong domestic economic fundamentals will enable the economy to grow at 6.0% in 2007 (2006: 5.9%). On the supply side, output growth is supported by expansion in all sectors of the economy. The services sector is envisaged to contribute significantly to real GDP growth, led by robust household spending and buoyant business activity. The manufacturing sector is expected to pick up in the second half of the year on the back of an anticipated recovery in global electronics demand. The agriculture sector will continue to expand, supported by higher output of food commodities. The scheduled implementation of Ninth Malaysia Plan ("9MP") projects and improvement in the property market will further boost the construction sector. Output growth of the mining sector is envisaged to turn positive, with increased crude oil production in the second half of the year. On the demand side, growth will be driven by resilient domestic demand of both private and public sectors, largely due to stronger consumer sentiment and business confidence as well as higher Government spending.

The manufacturing sector is expected to grow 3.1% in 2007 (2006: 7.1%) supported by domestic-oriented industries, particularly chemicals and chemical products, food and construction-related industries. Output of the construction-related industry, continued to expand significantly by 30.8% (January-June 2006: 4.3%) due to strong growth in basic iron and steel structural metal products. Production of both products surged by 29.5% and 62.1%, respectively, led by an upturn in construction activity following the implementation of projects under the 9MP.

The Malaysian economy is anticipated to strengthen further to 6.0%-6.5% in 2008 (2007: 6.0%) with positive contribution from all sectors of the economy. Domestic demand will be the main driver of the economy, while external demand is expected to pick up in tandem with improved prospects in world trade. Private investment and consumption spending are expected to remain robust, while public expenditure continues to expand. Inflation is anticipated to remain low despite strong expansion in the economy as output growth is still below potential level. Coupled with increased productivity, the economy would be able to absorb higher demand expenditure.

(Source: Economic Report 2007/2008)

4.3 Overview of the manufacturing sector in Malaysia

The manufacturing sector is expected to grow 3.1% in 2007 (2006: 7.1%) supported by domestic-oriented industries, particularly chemicals and chemical products, food and construction related industries.

The rubber-based industry continued to register growth of 8.0% (January – June 2006: 0.4%), contributing 3.9% share to total manufacturing output. In line with higher domestic and external demand, sales of rubber products also increased 7.4% (January – June 2006: 34.6%) during the same period. Rubber Gloves, the largest component of the rubber-based industry, recorded a turnaround of 3.6% (January - June 2006: -1.8%), arising from higher usage in health services. Likewise, sales of latex-based catheters also registered double-digit growth of 66.5% (January - June 2006: -21.9%). Malaysian Rubber Gloves and catheters made from natural rubber latex are highly demanded for their unique mix of high elasticity and tensile strength of properties as well as excellent film-forming characteristics.

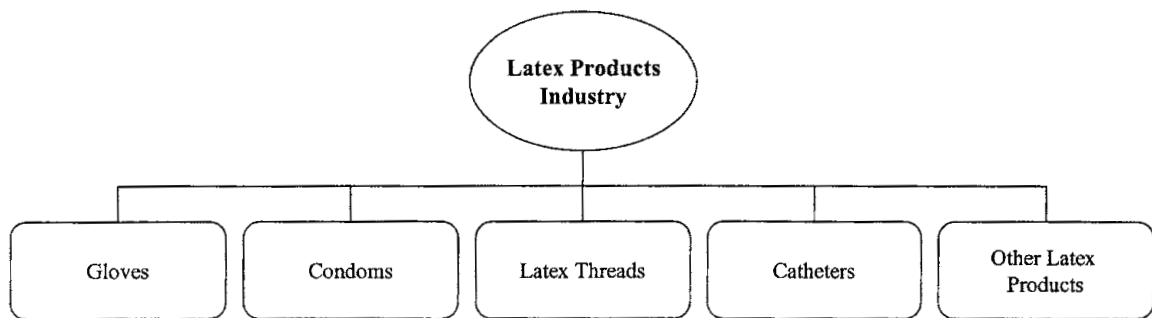
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Value added in the manufacturing sector is projected to grow by 3.8% (2006: 3.1%) in line with expansion in global trade. Global demands for manufactured products, particularly electrical and electronics products, is expected to rise sharply, underpinned by sustained world growth and strengthening USA economy. This will benefit Malaysia export-oriented industries. Output of resource-based products is expected to expand due to strong demand for refined petroleum products, plastic and chemicals including biofuels, Rubber Gloves as well as wooden furniture and fixtures.

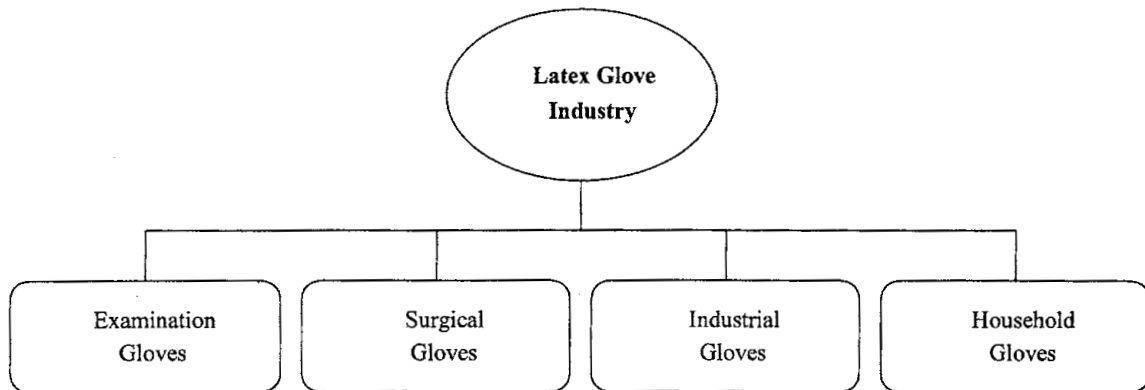
(Source: Economic Report 2007/2008)

4.4 Overview of the Latex Gloves industry in Malaysia

Latex Gloves are part of the Latex Products Industry, which comprises five sectors. This is illustrated in the diagram below:



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



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, packaged and sterilised.

Examination Gloves

Examination Gloves are divided into two categories:

- medical grade; and
- non-medical grade.

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Medical grade Examination Gloves are extensively tested to meet stringent international standards, which are in accordance to 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 a single usage and is used in health care to prevent contamination between patients and the medical examiners, nurses and other health care personnel.

Surgical Gloves

Surgical Gloves are gloves 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. They are 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 uses such as in gardening, cooking, dish washing and cleaning.

The Latex Gloves industry plays an important role in the Malaysian economy. This can be substantiated as follows:

- (i) Malaysia is currently the world leader in the production of Rubber Gloves;
- (ii) In 2006, Malaysia maintained its position as the largest supplier of Latex Gloves to the USA, accounting for approximately RM2.1 billion of total exports of Latex Gloves;
- (iii) Export earnings from Latex Gloves registered an average annual growth rate of 14.4% between 2002 and 2006 reaching RM5.4 billion in 2006. 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;
- (iv) 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;
- (v) 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;
- (vi) Export earnings of Latex Gloves accounted for approximately 64.3% of the total export earnings generated from the rubber products industry in 2006;
- (vii) 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: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

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4.5 Outlook of the Latex Gloves industry

The outlook of the Latex Gloves industry in Malaysia is **favourable**. The following factors and observations provide an indication of some of the factors that impact on the outlook of the Latex Gloves industry in Malaysia.

(i) Local Production

- (a) 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.
- (b) 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 15.5 billion pairs compared to the same period in the previous year.

(ii) Exports

- (a) 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 previous year.
- (b) 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.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

4.6 Industry players and competition

Some of the major manufacturers (listed in alphabetical order) include:

- (i) Adventa Berhad;
- (ii) Alliance Rubber Products Sdn Bhd;
- (iii) Ansell Group;
- (iv) APL Industries Berhad*;
- (v) Brightway Holdings Sdn Bhd;
- (vi) Comfort Rubber Gloves Industries Sdn Bhd;
- (vii) Dragon Star Sdn Bhd;
- (viii) GMP Medicare Sdn Bhd;
- (ix) Green Prospect Sdn Bhd;
- (x) HSB (a subsidiary of our Group);
- (xi) Koon Seng Sdn Bhd;
- (xii) Kossan Rubber Industries Berhad;

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- (xiii) Latexx Partners Bhd;
- (xiv) Marigold Industrial (M) Sdn Bhd;
- (xv) MRG Industries Sdn Bhd;
- (xvi) Regent Hospital Products Sdn Bhd;
- (xvii) Seal Polymer Industries Berhad*;
- (xviii) Smart Glove Corporation Sdn Bhd;
- (xix) Supermax Corporation Bhd;
- (xx) Top Glove Corporation Bhd;
- (xxi) WRP Asia Pacific Sdn Bhd; and
- (xxii) YTY Industries Sdn Bhd.

The above list of players is not exhaustive and only represents some of the manufacturers of Latex Gloves in Malaysia.

Note:

- * *Seal Polymer Industries Berhad is a subsidiary while APL Industries Berhad is an associate company of Supermax Corporation Berhad.*

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

The Latex Gloves industry operates under normal competitive conditions. Competition among Latex Gloves manufacturers is global in nature as virtually all of them service the export market exclusively.

As with most free enterprise environments, competition is based on a number of factors, including:

- (i) Quality of products and services;
- (ii) Cost competitiveness;
- (iii) Prompt delivery schedules; and
- (iv) Manufacturing capabilities and capacities.

Competition in the Latex Gloves industry comes from two perspectives:

- (i) Competition among Malaysian manufacturers as Malaysia has developed a reputation as a major producer of Latex Gloves that can meet international standards; and
- (ii) Competition among other countries, especially Thailand, China and Indonesia.

The competition among the Latex Gloves manufacturers is predicated by the following factors:

- (i) In 2006, there were 105 manufacturers of gloves registered with the MIDA. These operators range from large multinationals and local operators to medium and smaller sized local manufacturers; and
- (ii) 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 provides manufacturers in Thailand and Indonesia with some cost advantage.

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However, competition within the Latex Gloves industry can be moderated by the following factors:

- (i) Manufacturers with a high degree of integration and value-adding in terms of compounding, 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;
- (ii) 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 Gloves.

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;

- (iii) 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 users;
- (iv) 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; and
- (v) 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.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

We believe that we are well positioned in the market as:

- (i) Our Group has the in-house capabilities to undertake various processes including compounding, Chlorination, polymer coating or powdering, to produce a different range of natural rubber and nitrile rubber gloves to meet customers' requirements;
- (ii) Our Group has in-house capabilities and expertise to manufacture both natural rubber and synthetic Latex Gloves to meet the diverse needs and specifications of customers; and
- (iii) Our Group has in-house R&D capabilities and facilities which play a key role for our Group, particularly in creating and sustaining competitive advantages through the following:
 - (a) continuous improvements on existing products to ensure customer satisfaction;
 - (a) developing new products to address new areas of growth and opportunities; and
 - (c) continuous improvements in manufacturing processes to increase production output and efficiency.

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We have in-house capabilities to develop new products that provide us with a platform for us to address new market segments and business opportunities.

4.7 Demand/ supply conditions

As the Latex Gloves manufacturing industry in Malaysia is predominantly export-oriented, demand dependencies for this industry will be focused on its principal export markets.

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. Malaysia's largest export market is the USA, which represented 38.8% of total exports in Rubber Gloves in 2006. This is followed by Germany, UK and Japan which accounted for 6.3%, 6.2% and 5.1% of total exports by value respectively.

Between January and September 2007, USA is the largest export market representing 35.9% of Malaysia's total exports in Rubber Gloves. This is followed by Germany, UK and Japan which accounted for 8.1%, 6.2% and 5.0% respectively.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

The main supply dependencies for the manufacturing of Latex Gloves industry are:

- Natural rubber latex; and
- 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, the production of natural rubber amounted to 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 remaining 20%.

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:

(a) 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, the 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 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.

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- 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 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.

(b) 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 2007, import quantity of natural rubber amounted to 257,959 tonnes.
- Between January and June 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.

(c) Imports of Synthetic Rubber

- 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.
- 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 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 USA were the major sources of imports for other synthetic latex of the type used for the manufacturing of Nitrile Gloves. Japan, Taiwan and the USA accounted for 50.7%, 16.9% and 16.2% of total imports under this category. Other import countries include UK, Germany, Belgium, Singapore, Hong Kong and others.
- Between January and September 2007, Japan, Taiwan and the USA accounted for 45.0%, 16.9% and 15.9% of total imports under this category. Other import countries include UK, Germany, Italy and others.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

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4.8 Substitute products

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.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

Different types of synthetic materials exhibit different properties including tensile strength, level of resistance to chemicals and solvents, elasticity, elongation and other properties.

Our Group manufactures a range of natural rubber and synthetic Latex Gloves such as Nitrile Gloves to meet customers' requirements.

4.9 Industry's reliance on and vulnerability to imports

The Latex Gloves Industry in Malaysia is dependent on imports of the following raw materials for the production of natural rubber and synthetic gloves. The main supply dependencies for the manufacturing of Latex Gloves industry are:

- (i) Natural rubber latex; and
- (ii) Synthetic latex.

Although the bulk of the natural rubber latex is available from local supply, Malaysia is still reliant on imports of natural rubber. In 2006, the production of natural rubber in Malaysia reached 1.3 million tonnes. Between January and June 2007, the local production of natural rubber amounted to 590,100 tonnes. However, in 2006, Malaysia also imported approximately 521,669 tonnes of natural rubber from ASEAN countries.

As for synthetic latex, Malaysia has one synthetic latex plant that started operations in 2003. Therefore most of the synthetic latex used is primarily imported from a number of source countries overseas. In 2006, the import value of synthetic rubber increased by 33.0% to reach approximately RM1.1 billion. The import value of other synthetic latex (sub-sector of synthetic rubber) used for the manufacturing of Nitrile Gloves increased by 43.8% to reach RM107.4 million and were mostly imported from Japan, Taiwan and the USA, which accounted for 50.7%, 16.9% and 16.2% of the total imports respectively.

In Malaysia, consumption of natural rubber for the manufacturing Latex Gloves accounted for 80% of total consumption, whilst consumption of synthetic rubber accounted for the remaining 20% in 2007.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

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4.10 Our market coverage, position and share

In the 6 months FPE 30 September 2007, approximately 98.6% of our revenue was contributed from sales to overseas market. We exported to 17 countries including the USA, Japan, Germany, Australia, UK, France, Switzerland, Brazil, Greece, Netherlands, Ukraine, Vietnam, Hong Kong, Canada, Pakistan, Korea and Libya. Our products are also sold in Malaysia.

In 2007, the market size for Latex Gloves in Malaysia based on an annualised output and output value were estimated at 41.3 billion pairs and RM5.8 billion in value. Our Group's market share and our market share based on production by types of rubber in Malaysia are as follows:

	Market size in 2007		Our Group's production in FYE 2007		Our Group's market share	
	Output in Billion Pairs*	Output Value in RM'-billion *	Million pairs	RM'million	Output %	Output value %
Total	41.3#	5.8	1,157	240.9	3	4
<i>Natural rubber Latex Gloves</i>	33.1	-	654	-	2	-
<i>Synthetic Latex Gloves</i>	8.3	-	503	-	6	-

Notes:

* Annualised figures

Does not add up due to rounding

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

Based on our Group's turnover of RM240.9 million for the FYE 2007 (taken as a proxy for calendar year 2006), our Group is ranked seventh among manufacturers within the Latex Gloves industry in Malaysia in 2006 based on turnover.

4.11 Government laws and regulations

(i) Malaysian laws and regulations

(a) Manufacturing licence

Apart from the normal manufacturing licences and other industry-based permits, licences, standards and regulations, there are no material government laws, regulations and policies that may impede on our Group's performance and growth within a free trade enterprise environment.

Application of a manufacturing licence under the Industrial Coordination Act, 1975 is mandatory for companies with the shareholders' funds of RM2.5 million or above, or engaging 75 or more full-time employees.

On 22 September 2006, the manufacturing licence from MITI to manufacture Latex Gloves was issued to HSB. This licence is effective from 8 September 1992.

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(b) Purchase licence for rubber

According to the MRB, 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.

HSB has obtained a licence from the MRB to buy rubber for the manufacture of rubber products. The licence is valid between 1 July 2007 and 30 June 2008 and this is renewable on a yearly basis.

(c) Export licence for Rubber Gloves

According to the MRB, any person involved in shipping rubber or exporting of Rubber Gloves, is subjected to the Malaysian Rubber Board (Licensing) Regulations 1997.

HSB has obtained an export licence from the MRB that permits it to export Rubber Gloves. The licence is valid between 1 February 2008 and 31 January 2009 and this is renewable on a yearly basis.

(d) Environment regulations

- (i) The government regulations for the disposal of scheduled waste and sludge resulting from manufacturing processes falls under the Environmental Quality (Scheduled Wastes) Regulations 1989. Wastes from Latex Gloves manufacturing, like all manufacturing wastes, if not treated and disposed properly would pollute the environment, especially the waterways in the case of Latex Gloves 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:

- (a) Rubber or latex sludge containing heavy metals from the wastewater treatment system of rubber products manufacturing plant;
- (b) Rubber or latex sludge containing organic solvents from rubber products manufacturing plant; and
- (c) 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.

- (ii) 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 ("DOE").

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Our subsidiary, HSB has obtained approval from the DOE on the installation of the following equipment:

- 7 units of thermal oil heaters;
- 3 units of biomass heaters; and
- 2 units of scrubbers.

Our Group has a total of 3 biomass heaters in our manufacturing operations, all of which have been approved by the DOE.

Our Group complies with the requirements of the DOE for the emission of ashes from our biomass heaters.

Further, our subsidiary, HSB, has also obtained approval from the DOE for the installation of the following equipment at our proposed 4th Plant:

- 4 units of chimneys; and
- 4 units of scrubbers.

- (iii) Any discharge of effluent has to comply with the parameters required under the Regulation of Environmental Quality (Sewage and Industrial Effluents) Regulations 1979.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

Our Group has installed 3 in-house wastewater treatment systems to ensure that the discharged water is adequately treated. 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 DOE's requirements and standards.

(e) Other Regulations

- (i) In 2006, MRB 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.

The MRB has the authority to conduct surveillance visits and collect samples from manufacturers and traders of Latex Gloves for testing using ASTM D5712:99 test method. This practice is to monitor and restrict the export of gloves with protein content exceeding 400 microgram per gram in Malaysia.

According to the Malaysia Rubber Board (Licensing) Regulations 1997 and Malaysia Rubber Board (Licensing Amendment) Regulations 2002, the MRB 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.

Our Group complies with the requirements of protein content as required by the MRB and has never been found to be in non-compliant.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

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- (ii) Under the Factories and Machineries Act, 1967, various regulations are established for registering equipment with the Department of Safety and Health (“DSH”).

Our Group had registered all the machineries with the DSH and had complied with all the relevant regulations under the Factories and Machineries Act, 1967.

- (iii) Under the Occupational Safety and Health Act, 1994, the employer has a duty to protect the safety, health and welfare of all his employees and requires the employer to adhere to various guidelines to comply with this duty.

We have complied with all the relevant guidelines.

(ii) Overseas Government Regulations

One of the areas of overseas government regulations that is relevant to Latex Gloves manufacturers is the FDA to ensure that the quality compliance is in accordance with the FDA standards.

Similarly, all Latex Gloves that are exported to the European Union must also comply with the Medical Devices Directive (EC Directive 93/42/EEC). This directive regulates the export of medical gloves into the European Union.

Malaysian Latex Gloves exporters must have appropriate quality management system certifications.

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 EN 455, EN 556-1 and EN 1041 which are equivalent to the ASTM standard used in the USA.

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 USA, the FDA places 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 USA 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.

(iii) 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:

- (a) Pioneer Status;
- (b) Investment Tax Allowance; and
- (c) 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.

4. INDUSTRY OVERVIEW (Cont'd)

Some of the benefits of the respective incentives include:

(a) **Pioneer Status**

A company eligible for Pioneer Status will enjoy a 5-year partial exemption from the payment of income tax.

(b) **Investment Tax Allowance**

A company eligible 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 5 years from the date of the first qualifying capital expenditure.

(c) **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.

Presently, HSB is enjoying the Reinvestment Allowance incentive.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

4.12 Prospects and future growth

(i) **Drivers of growth**

The drivers of growth in the Latex Gloves industry are as follows:

- (a) Growth in the consumption of Latex Gloves by end-user industries such as hospitals, healthcare, food processing, high technology sectors including electronic and biotechnology industries. As the use of Latex Gloves are prevalent in the healthcare sectors, any outbreak of diseases will also inadvertently drive demand for Latex Gloves;
- (b) 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 USA, UK, Japan, Germany, Brazil, Italy, France and other countries;
- (c) Innovations and developments in Latex Gloves for new applications would create new demand from existing or new end-user industries;
- (d) Growth in the healthcare industry sectors including, among others, planning and development of new hospitals and other institutions, will also generate demand for Latex Gloves; and
- (e) Socio-economic growth such as GDP 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.

4. INDUSTRY OVERVIEW (Cont'd)

(ii) Areas of future growth

The areas of future growth in the Latex Gloves industry are as follows:

(a) Increasing global demand

The key areas of growth will come from increasing demand from consumer countries particularly, the USA. In 2006, the USA represented 38.8% of the total exports of Latex Gloves from Malaysia.

Between January and September 2007, the USA remain the largest export market representing 35.9% of Malaysia's total exports in Rubber Gloves. This is followed by Germany, UK 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.

(b) Increasing sales outside the USA

To date, Malaysian manufacturers have focused significantly on the USA 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.

(c) Focusing on new area of business

Traditionally, the focus of the usage of Latex Gloves has been predominantly within the healthcare industry led 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.

(d) 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:

- i. Ability to meet users' needs and specifications, especially in the light of the natural rubber allergy issue;
- ii. Prevents existing customers from replacing Malaysian natural rubber Latex Gloves with new material gloves from other countries; and
- iii. Serves new areas of applications such as electric protective gloves, and specialised gloves for use when administering chemotherapy.

Synthetic gloves such as nitrile, polyvinyl chloride and polychloroprene/ neoprene gloves may be the next closest substitute to natural rubber Latex Gloves.

5. INFORMATION ON OUR GROUP

5.1 History and business overview

Our Company was incorporated as a public company in Malaysia under the name of Hartalega Holdings Berhad on 24 July 2006 under the Act as an investment holding company to facilitate our Listing. We commenced operations on 27 September 2006.

The history of our Group can be traced back to 1981 when HSB was established by Mr Kuan Kam Hon @ Kwan Kam Onn, our Managing Director and his brother Mr Kuan Kam Peng. Since the commencement of HSB's operations in the FYE 1989, Mr Kuan Kam Hon @ Kwan Kam Onn has been instrumental in the success, growth and development of our Group. With approximately 19 years of experience in the Latex Gloves industry, Mr Kuan Kam Hon @ Kwan Kam Onn has successfully led our Group to become an established player in the industry and an exporter of Latex Gloves to 17 countries for the 6 months FPE 30 September 2007 (FYE 2007: 23).

In 1988, our Group began our manufacturing operations with a single production line, which has now expanded to 23 production lines. Our Group currently has 3 manufacturing plants. Further, we are in the midst of setting up the 4th Plant and envisage to commence the construction of the 5th Plant in the FYE 2009. These new manufacturing plants are being set up to cater for our future business expansion which is expected to be fully operational by the FYE 2009 and FYE 2010 respectively.

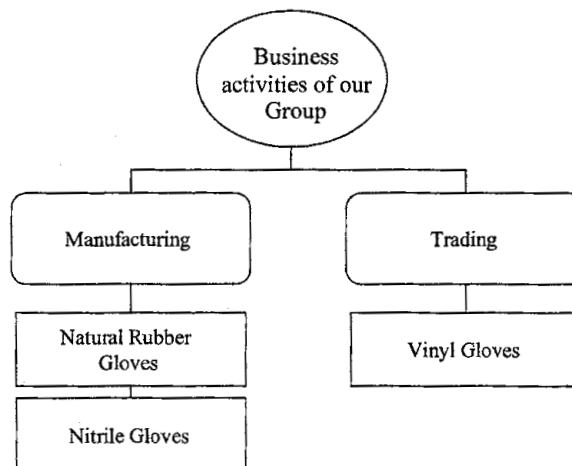
In the same year, our Group made our first foray into the overseas market by exporting to the USA. Since then, our Group has expanded our markets by exporting to 17 countries for the 6 months FPE 30 September 2007 (FYE 2007: 23) including the USA, Japan, Germany, Brazil, Canada, Australia, UK, Ukraine, Netherlands, Switzerland and others.

Our Group also incorporated SEMSB in 1987 which commenced operations in 2000 to focus on R&D on automation systems to continually improve on the production efficiency and effectiveness of our Group's Latex Gloves manufacturing operations. SEMSB will also become the future patent holder of our Group's proprietary designed and developed machinery and systems including the double former dipping lines, robotic glove stripping system and the glove puller and stacker system.

Further, as part of our Group's expansion plans, PAPL was incorporated in 1996 and commenced operations in 2001 to focus on the marketing of Latex Gloves in Australia. In 2003, PUI was incorporated as the marketing arm based in California and had commenced operations in the same year to focus on marketing of Latex Gloves in the USA.

The principal business of our Group is in the manufacture of Latex Gloves including natural rubber gloves and Nitrile Gloves. Our Group is also involved in secondary activity namely the trading of Vinyl Gloves, which represents a small proportion of our Group's business.

The business activities of our Group can be depicted as follows:



3. RISK FACTORS (Cont'd)

Our Group also manufactures synthetic Latex Gloves, which avoid the natural rubber protein allergy risks. For the 6 months FPE 30 September 2007, our Group's revenue from the sale of synthetic Latex Gloves represented 65.9% of our total revenue (FYE 2007: 48.1%).

Further, our Group continuously conducts R&D to develop a range of new products that meet the demand arising from users who wish to avoid the natural rubber protein allergy risks.

(iv) Competition

Our Group faces competitions from various competitors including local and foreign companies involved in the manufacture of Latex Gloves. The main industry players in the global market include Ansell group of companies while the main industry players in the local scene include listed companies such as Top Glove Corporation Berhad, Kossan Rubber Industries Berhad and Supermax Corporation Bhd.

Competition in the manufacture of Latex Gloves also comes from other countries, mainly Thailand and Indonesia. These two countries have abundance of natural rubber and lower labour costs that may enable them to produce Latex Gloves at a lower cost.

However, 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, the quality of Latex Gloves is therefore paramount.

Our Group's established track record and reputation as a manufacturer and exporter of Latex Gloves will enable us to continue to meet the demands and requirements of our customers. Our reputation for quality among our customers will also ensure that we continue to compete effectively in the global market.

Further, our Group emphasises on quality control and R&D which focuses on the following:

- (a) continuous development of existing products to ensure customers' satisfaction;
- (b) the development of new products to address new areas of growth and opportunities; and
- (c) continuous improvements in manufacturing processes to increase production output and efficiency;

all of which should allow us to compete competitively with other players in the industry.

Notwithstanding the above, there can be no assurance that our Group will be able to maintain or increase our competitiveness in the future.

(v) Foreign exchange exposure and translation losses

In the 6 months FPE 30 September 2007, approximately 98.6% of our Group's revenue (FYE 2007: 98.2%) and approximately 74.0% of our purchases (FYE 2007: 72.0%) are exposed to foreign exchange. 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 Gloves industry.

Premised on the above and based on our present exposure to foreign currencies, in particular the USD, our profit margin is expected to improve if the USD strengthens against RM which will increase our profitability. However, depending on the extent of the pass through costs, the weakening of USD against RM will reduce our profitability due to the lower profit margin.

3. RISK FACTORS (Cont'd)

Our Group maintains foreign currency bank accounts and has USD denominated loans to handle foreign currency transactions. Some of our foreign currency receipts and loans are used to make payments in the respective foreign currencies. The foreign receipts, USD denominated loans and foreign expenses, to some extent serve as a natural hedge and reduce our cost of carrying currency conversion.

Further, we have also entered into forward exchange contracts to hedge our foreign currency denominated revenue and expenses. As at 30 September 2007, we have entered into forward exchange contracts amounting to approximately USD9.0 million, which represents our Group's 3 months forward contracts of approximately 60% to 70% of transactions at a time for foreign exchange hedging.

Notwithstanding the above, there is no assurance that fluctuations in foreign exchange rates will not adversely affect the profitability of our Group.

(vi) Compliance with international standards and/or requirements

In the 6 months FPE 30 September 2007, approximately 98.6% of our Group's revenue was derived from Latex Gloves that are exported to various countries (FYE 2007: 98.2%). As such, our Group is required to comply with the international quality standards before the Latex Gloves are allowed to enter into the various countries of export. As at 30 September 2007, our Latex Gloves were exported to 17 countries (FYE 2007: 23 countries), which, inter-alia, includes the USA, Japan, Germany, Australia, Canada and UK and our products are required to comply with the international standards, such as the following:

Countries	Standards/regulations
USA	- Acceptable Quality Level Standards under the FDA - ASTM
Japan	- JIS
European	- EN 455; - EN 556-1; and - EN 1041, which is equivalent to ASTM
Canada	- CGSB - Canadian General Standards Board Certification Listing Programme
Australia	- TGA
UK	- BSI

In the 6 months FPE 30 September 2007, approximately 69.7% of our Group's revenue was contributed from export to the USA (FYE 2007: 69.4%). As such, it is imperative and critical that our Group is able to meet the standards/regulations set by the FDA. According to the FDA, all domestic and foreign medical glove manufacturers, or contract manufacturers of finished gloves are required to register their establishments with the FDA. As HSB exports to the USA, it is registered with the FDA. Since the commencement of our Group's operations in the FYE 1989, our Group's exports of Latex Gloves did not comply with FDA standards only on two occasions, once in 6 May 1993 and 5 May 1998, both of which were subsequently resolved. Apart from these two incidences, our Group has been complying with the standards and requirements of the FDA.

3. RISK FACTORS (Cont'd)

In the event these standards or regulations by the importing countries are not met, our Group's revenue and business operations may be adversely impacted. In order to mitigate this risk, our Group ensures that our quality assurance system is in place. Since 2000, we have conformed to all the standards above. This demonstrates our Group's ability to continually manufacture Latex Gloves that can meet international standards and requirements.

Our Group will constantly strive to comply with the international standards and/or requirements of the countries of export of our products. However, there can be no assurance that our Group will be able to comply with the international standards and/or requirements in the future.

(vii) General Exclusion Order and Claims for Damages

Tillotson Corporation ("Tillotson") is currently seeking a General Exclusion Order to block the importation of Nitrile Gloves that infringe on its patent into the USA. Tillotson alleged that 31 manufacturers and re-sellers of Nitrile Gloves that were imported into the USA, including HHB, HSB and PUI, infringed Tillotson's U.S. Patent No. RE 35,616. Tillotson has also filed a claim of unspecified damages for infringement on its patent on Nitrile Gloves.

Currently HHB, HSB and PUI are included in the General Exclusion Order and also in the claim for unspecified damages for infringement of Tillotson's patent on Nitrile Gloves. There is a risk that our Group may not be able to export the Tillotson's patent infringing Nitrile Gloves to the USA if the International Trade Commission of the USA ("ITC") grants the General Exclusion Order. There is also a risk that our Group may be required to pay damages if Tillotson wins its case in claiming damages against our Group.

For the 6 months FPE 30 September 2007, approximately 82.0% of HSB's Nitrile Gloves exported to the USA are manufactured based on an exclusive patent licence agreement with Microflex Corporation in relation to the high stress retention Nitrile Gloves (FYE 2007: 70.0%). In this respect, HSB has filed a motion to the ITC for summary determination that the patented high stress retention Nitrile Gloves do not infringe on Tillotson's patent. Our solicitors are of the opinion that HSB's motion is meritorious and, if the motion is successful, the General Exclusion Order will not affect HSB's high stress retention Nitrile Gloves.

Currently, Tillotson has not served HHB, HSB and PUI with a specific claim for damages. If the specific claim is served, HHB, HSB and PUI will contest the claim. In the event that Tillotson wins its case, damages will then be determined by the court. If however the matter is settled out of court, our Directors estimate the compensation to be approximately USD582,000 (or equivalent to RM1.85 million based on an exchange rate of USD1.00: RM3.18). This amount is calculated based on past settlements made by other parties involved in the same case.

(viii) Absence of long-term contracts

We have not entered into any formal long-term contracts with our customers. Notwithstanding this, we wish to highlight that it is a common practice in the industry to work from confirmed purchase orders that may be based on order book of approximately 45 days to 60 days.

Our Group also works from an annual production forecast provided from one of our major customers, Microflex Corporation. We have not encountered any major problems in our dealings with Microflex Corporation for the past 19 years.

3. RISK FACTORS (Cont'd)

Although there are no long-term contracts, our Group has developed a long-term business relationship with our customers. This is substantiated by the fact that for the 6 months FPE 30 September 2007, 9 of our top 20 customers have been dealing with our Group for 5 years or more (FYE 2007: 10 of the top 20 customers) and 6 of the top 20 customers have been dealing with our Group for 8 or more years (FYE 2007: 6 of the top 20 customers). Our long-standing customer relationships will ensure business continuity and growth.

Our Group's business is also relatively dependent on our suppliers. Thus far, our Group has enjoyed good business relationships with our major suppliers since the commencement of dealing with these suppliers. Further, we do not expect the absence of long-term suppliers' contracts to have any significant impact on our operations. We also believe that we have the experiences and capabilities to source from alternative suppliers should the need arise.

(ix) Dependency on major customers

For the 6 months FPE 30 September 2007, Microflex Corporation and Medline Industries, Inc from the USA contributed approximately 28.4% and 20.8%, respectively of our Group's total revenue (FYE 2007: 41.8% and 17.3%).

The following factors help to mitigate our Group's dependency on the major customers:

Microflex Corporation

- (a) Microflex Corporation has been our customer for 19 years, indicating a long-term and stable business relationship which provides the basis for continuing business and growth;
- (b) Microflex Corporation is one of the established companies in the marketing and distribution of Latex Gloves in the USA. Its distribution network covers both the USA and overseas. Microflex Corporation's international division has approximately 105 distributors spread across 40 countries. The extensive distribution network of Microflex Corporation would enable our Group to access a wider customer base without the need to invest and establish a distribution network, warehousing and logistics;
- (c) Between FYE 2005 and 2007, we have been reducing our dependency on Microflex Corporation as a customer from 62.2% to 41.8% in terms of revenue contribution while our Group's revenue has continued to grow from RM109.6 million to RM240.9 million. In the 6 months FPE 30 September 2007, our dependency on Microflex Corporation as a customer further reduced from 41.8% for the FYE 2007 to 28.4%;
- (d) Despite the growth in revenue from Microflex Corporation as a customer, the revenue contribution from Microflex Corporation in proportion to our Group's revenue has been reducing over the last 3 financial years and the 6 months FPE 30 September 2007, as follows:

	FYE 2005	FYE 2006	FYE 2007	6 months FPE 30 September 2007
Revenue (RM'000)	109,579	160,275	240,915	137,563
% of total sales to Microflex Corporation	62.2	53.6	41.8	28.4

3. RISK FACTORS (Cont'd)

This is an indication of our Group's ability to increase our revenue from other customers but at the same time reduce our dependency on Microflex Corporation;

- (e) According to our Management, our Group supplies approximately 40% of the total requirements of Microflex Corporation. The ability of our Group to meet a substantial amount of Microflex Corporation's total requirements also creates a dependency by Microflex Corporation on our Group. As such, this business relationship creates a certain level of dependency on our Group;
- (f) Nevertheless, throughout the years of business relationship, our Group has formed a close and stable relationship with Microflex Corporation including joint R&D on new products as demonstrated in the elastic high stress retention Nitrile Examination Gloves; and
- (g) The joint development in elastic high stress retention Nitrile Examination Gloves has resulted in the filing of a patent under Microflex Corporation, whereby Microflex Corporation has been awarded and received the US Patent 7,176,260. Our Group, as the exclusive licenced manufacturer of the product, had on 20 June 2007 entered into an exclusive patent licence agreement with Microflex Corporation for the rights to manufacture this type of Nitrile Gloves for the duration of the patent, and the exclusive licence to sell this type of Nitrile Gloves to distributors, whose business is primarily in the acute healthcare market.

Medline Industries, Inc

- (a) Medline Industries, Inc has been our customer for 2 years. Further, as set out in the table below, the revenue contribution from Medline Industries, Inc has continued to grow from 5.5% in the FYE 2006 to 20.8% in the 6 months FPE 30 September 2007. This is an indication of a continuing business relationship between our Group and Medline Industries, Inc:

	FYE 2005	FYE 2006	FYE 2007	6 months FPE 30 September 2007
Revenue (RM'000)	109,579	160,275	240,915	137,563
% of total sales to Medline Industries, Inc	-	5.5	17.3	20.8

; and

- (b) Medline Industries, Inc manufactures and distributes more than 100,000 medical products with 7 manufacturing facilities in North America and more than 25 joint venture manufacturing plants worldwide. The company has 29 distribution centers to service their health care customers such as hospitals, extended care facilities, surgery centers, commercial laundries, physician offices and other alternate care sites. This extensive distribution network of Medline Industries, Inc would enable our Group to access a wider customer base without the need to invest and establish a distribution network, warehousing and logistics.

3. RISK FACTORS (Cont'd)

Further, the following factors also help our Group in mitigating our dependency on our major customers:

- (a) Part of our Group's philosophy has always been focusing on nurturing and building strong long-term business relationships with our customers. In the 6 months FPE 30 September 2007, 9 of our top 20 customers have been dealing with our Group for more than 5 years or more (FYE 2007: 10 of our top 20 customers) and 6 of our top 20 customers have been dealing with our Group for 8 or more years (FYE 2007: 6 of our top 20 customers); and
- (b) For the 6 months FPE 30 September 2007, our Group has developed a base of 885 customers (FYE 2007: 981) spread across 18 countries, including Malaysia (FYE 2007: 24 countries). Of these, 53 are brand owners and intermediaries (FYE 2007: 56), 818 are end-user customers (FYE 2007: 911) namely, dental clinics and physicians' offices, and 14 are distributors for products under our own brand names (FYE 2007: 14). The diversity and established number of customers would provide our Group with the platform for future business growth.

Nevertheless there can be no assurance that the dependency on our major customers will not have any adverse impact on our business.

(x) Dependency on major markets

For the 6 months FPE 30 September 2007, USA represented the largest export market for our Group having contributed 69.7% of our Group's total revenue (FYE 2007: 69.4%). Therefore any decline in the demand of Latex Gloves from the USA will have an impact on our Group's revenue.

USA is also Malaysia's largest export market for Latex Gloves whereby USA accounted for 38.8% of Malaysia's total exports of Rubber Gloves in 2006. Between January and September 2007, USA remains the largest export market representing 35.9% of Malaysia's total exports in Rubber Gloves. This indicates that USA is a major consumer of Latex Gloves, thus any decline in demand from this country will equally affect all manufacturers of Latex Gloves in Malaysia. *(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)*

As our Group also exports to 17 other countries worldwide (6 months FPE 30 September 2007), this will, to a certain extent help to diversify our risks and provide our Group with the basis to expand to other markets. Nevertheless there can be no assurance that the dependency on the USA will not have any adverse impact on our business.

(xi) Dependency on major suppliers

For the 6 months FPE 30 September 2007, our Group is dependent on its top 3 suppliers, namely Zeon Asia Pte Ltd from Singapore, Nantex Industry Co Ltd from Taiwan, and a local company, Revertex (M) Sdn Bhd, which represented 23.5%, 19.5% and 13.7% of our Group's total purchases for the 6 months FPE 30 September 2007 respectively.

For the FYE 2007, our Group is dependent on its top 3 suppliers, namely ED & F MAN Malaysia Sdn Bhd *(formerly known as Safic-Alcan (Malaysia) Sdn Bhd)*, Nantex Industry Co. Ltd. from Taiwan and Zeon Asia Pte Ltd from Singapore, which represented 21.4%, 14.8% and 12.8% of our Group's total purchases for the FYE 2007 respectively.

3. RISK FACTORS (Cont'd)

The following factors help to mitigate our Group's dependency on the major suppliers:

Top suppliers of natural rubber latex

- (a) Our Group has been dealing with ED & F MAN Malaysia Sdn Bhd (*formerly known as Safic-Alcan (Malaysia) Sdn Bhd*), and Revertex (M) Sdn Bhd for the last 13 years and 19 years respectively. This continuing business relationship will provide some form of basis for the supply of natural rubber latex;
- (b) As natural rubber latex is a commodity item, these materials can be sourced from other suppliers, locally and overseas. Furthermore, buying a significant proportion from the same supplier can enable our Group to obtain benefits of volume discount;
- (c) In addition, our Group also deals with 3 other natural rubber latex suppliers within the top 20 suppliers for the 6 months FPE 30 September 2007 (FYE 2007: 3), indicating that there are alternative suppliers that are currently able to meet our Group's requirements; and
- (d) As for the availability of natural rubber latex, there is ample source of supply from local production and imports.

Top suppliers of nitrile latex

- (a) The top suppliers of nitrile latex, Zeon Asia Pte Ltd from Singapore and Nantex Industry Co. Ltd. from Taiwan, have been dealing with our Group for the last 10 years and 4 years respectively. This reinforces the suppliers' continuing business relationships with our Group;
- (b) For the 6 months FPE 30 September 2007, our Group has 2 other nitrile latex suppliers within the top 20 suppliers (FYE 2007: 2), indicating that there are alternative suppliers that are currently able to meet our Group's requirements; and
- (c) As for availability in supply of nitrile latex, there are ample sources overseas. In Malaysia, there is one synthetic latex plant that started operations in 2003. However, most of the synthetic latex used is primarily imported from a number of overseas suppliers.

(xii) Shortage of natural rubber supply

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.

Furthermore, 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, the areas replanted with natural rubber increased at an average annual rate of 1.5%.

3. RISK FACTORS *(Cont'd)*

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.

As part of the Ninth Malaysia Plan, the Malaysian Government will continue to promote agriculture sectors including the rubber sector. Part of the Ninth Malaysia 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 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 the Association of Southeast Asian Nations ("ASEAN") countries.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

Notwithstanding the above, there can be no assurance that any change of the abovementioned factors will not have any material adverse impact on our Group's operations and financial performance.

(xiii) Recoverability of debts

Our Group is principally involved in the manufacturing of Latex Gloves. Our Group grants credit period ranging from 30 to 60 days to some of our customers, which our Directors opined is within the industry norm. Our Group also extends open credit to some of our major customers, which have long-term and stable business relationships with our Group and have been good paymasters. Further, our Group has also secured stand-by letter of credit from some of our customers to mitigate the risk of non-collectibility.

Our Group has not in the past few years written off any significant sum for bad debts and our trade debts are usually collectible. In addition, our Directors and our Management realise the importance of credit control and are continuously monitoring the outstanding trade debts of our Group and will undertake relevant measures to ensure that the trade debts are maintained at a manageable level at all times.

Notwithstanding the above, the non-collectibility of trade debts still forms part of the business risks of our Group. Accordingly, should the trade debts turn bad, the financial position of our Group may deteriorate and we may be adversely affected.

3. RISK FACTORS (Cont'd)

(xiv) Cost of energy

Energy is one of the major components in the production of Latex Gloves. Hence, the local Latex Gloves industry can remain competitive if the cost of heating fuels is competitive both with the local competitors as well as those in the region.

Our Group uses biomass wastes and natural gas to replace our dependency on diesel and MFO for the heating system. Biomass wastes used include oil palm empty fruit bunches and palm kernel shells. To ensure continuous supply of materials for our biomass heaters, we have entered into 2 biomass supply agreements for the procurement of oil palm waste for our biomass heaters for a period of 36 months each commencing from 1 July 2006 and 1 July 2007 respectively at a certain agreed price. This enables our Group to contain our costs should the price of the oil palm waste increase.

(xv) Continuing and new demand for our products

Our Group's future results will depend on our ability to generate continuing demand from our existing customers as well as demand by new customers for our products.

The demand from our existing and new customers will depend on, inter-alia, our ability to price our products competitively against the other players in the market and our ability to satisfy our customers.

Notwithstanding that we are able to retain our existing customers, there is no certainty that the actual demand for our products in the future would meet the expectations of a projected increase in demand for our products by new customers due to the competitive environments in the Latex Gloves industry.

However, we believe that we are able to retain and attract new customers as our products are competitively priced and are of good quality. Our Group is an established and competent glove manufacturer, known for our consistent quality and reliability.

(xvi) Labour intensity

The glove industry relies on labour, in areas such as stripping of gloves, quality control and packing. As such, glove manufacturing companies including our Group, are subject to risk of labour shortages and increase in labour costs. Shortage of labour would compromise our Group's ability to meet production schedules. Further, labour cost in Malaysia is not as competitive as other lower-cost countries like Thailand, Indonesia and China. Competition from these countries will pose as a threat to us if labour costs of our Group becomes a significant component of our total manufacturing cost.

In this respect, we are constantly reviewing our processes to reduce our dependency on manual labour. Through our R&D, we have successfully implemented various process improvements, which are then integrated into our production lines. Some of the improvements in our processes include robotic glove stripping that minimises the need for product handling and defects from manual stripping, and auto stacking system to arrange and transport finished products to minimise human handling. These steps are taken by our Group to reduce dependency on labour and to avoid an increase in labour cost which would increase our total manufacturing cost.

3. RISK FACTORS (Cont'd)

(xvii) Reliance on key management and key technical personnel

We believe that the continued growth and success of our Group will depend, to a large extent, on the continued services of our Executive Directors, management team (including key technical personnel), as well as our ability to identify, recruit, train and retain qualified employees. Our management team, led by our Managing Director, Kuan Kam Hon @ Kwan Kam Onn, has been instrumental to the development of our Group. Hence, the loss of our existing key management (including technical personnel), either due to resignation, health or other reasons, to the extent where we are unable to find suitable replacements, or our inability to attract and retain qualified personnel, may have adverse effect on our Group's business, operating results, financial conditions and further development.

However, every effort is made to groom younger members of the management team to take over from the senior management to ensure a smooth transition. As part of our management succession plan, we have implemented the following steps to retain our key management and key technical personnel:

- Allocation of the EES Shares to Selected Senior Management who have contributed significantly to the success of our Group;
- Offering competitive remuneration packages; and
- Providing training and career development opportunities.

(xviii) Ownership and control

Following the Offer for Sale and EES, our Company will be controlled by our Promoters and BTSB, who will collectively control approximately 62.4% of our Shares. Further, following the Proposed Share Transfer, our Promoters and BTSB will transfer an aggregate of 122,234,000 HHB Shares held by them to HISB, an investment holding company, which would result in HISB holding approximately 50.4% of our Shares. In this respect, they will be able to exercise their voting rights attached to their HHB Shares in respect of the matters requiring shareholders' approval including the election of Directors.

Depending on how they choose to vote and due to the size of their shareholdings, these substantial shareholders will have a significant influence over matters that require the passing of ordinary resolutions by our shareholders, unless they are required to abstain from voting by law or by the relevant authorities.

(xix) Disruption to the manufacturing operations

Our Group may face major disruption to our manufacturing operations due to uncontrollable external factors such as fire, explosion, energy crisis, flooding, sabotage, civil commotion, war, computer viruses, hacking, acts of God and other calamity. In the event our Group is affected by such uncontrollable external factors, the financial performance and operations of our Group may be adversely affected.

During the current FYE 2008, there was a fire breakout at one of our manufacturing plants, of which several production lines were temporarily affected. A loss adjustor has been appointed by the insurance company to estimate the value of the loss arising from the fire breakout. Our Directors opine that this event will not have a significant effect on our Group's business operations and the existing insurance coverage shall be sufficient to cover the damages arising from the fire breakout.

3. RISK FACTORS (Cont'd)

In ensuring the risks of disruption to our manufacturing operations are maintained at the minimum, our Group has ensured that we are adequately covered by insurance. This is done via our Group's insurance brokers who will advise and manage our insurance coverage on our Group's assets on a yearly basis.

(xx) Insurance coverage

Our Group's operations are very much dependent on our assets, including our production factories, plant and equipment and large sums of investment have been put into these assets.

Our Group is aware that the adverse consequences arising from inadequate insurance coverage that could affect our business operations. In ensuring such risks are maintained at the minimum, our Group has ensured that we are adequately covered by insurance. This is done via our Group's insurance brokers who will advise and manage our insurance coverage on our Group's assets on a yearly basis.

Our Group has insurance coverage for consequential loss of profit, fire, burglary, general risks, goods in transit, public liability, product liability and our manufacturing plants.

(xxi) Sensitivity to economic downturn

Any downturn in the local and global economies will normally impact overall consumptions in the market. Our Group may also be impacted by the economic downturn as we manufacture gloves that cater for the medical industry, electronic industry and food and beverage industries, which may be invariably impacted by the economic downturn.

Our Directors are of the view that any downturn would not materially affect our business as the main end-users of our Group's products are mainly used in the medical industry that is relatively more resilient to such downturns. Further, despite the economic slowdown during the period 2001-2002, our Group was able to weather such slowdown and had continued to be profitable during that period.

However, there is no assurance that any adverse change in the local and global economic conditions will not affect our business materially.

(xxii) Political, economic and regulatory factors

Any adverse changes in the political, economic and regulatory environment and uncertainties could have an unfavourable effect on our financial and business prospects. These changes may include, but are not limited to the risk of war, terrorist attacks, riots, changes in political leadership, global economic downturn and unfavourable changes in the governmental policies such as changes in the employment of foreign workers, taxation, interest rates, licensing or introduction of new regulations.

Much of the above factors are beyond our control. Whilst we would continue to take effective measures such as prudent financial management and efficient operating procedures, there is no assurance that any changes to these factors will not materially and adversely affect our financial position or business in the future.

3. RISK FACTORS *(Cont'd)*

3.2 Other risks

(i) Potential delay or failure of our Listing

Our Listing may be potentially delayed or aborted in the event the Underwriters, exercising their rights under the underwriting agreement, discharge themselves from their stated obligations.

(ii) No prior market for our Shares

Prior to the Offer for Sale, there is no public market for our Shares. There can be no assurance that an active market for our Shares will develop upon listing on the Main Board of Bursa Securities, or if developed, whether such market will be sustained.

The offer price of RM1.80 per Offer Share has been determined after taking into consideration several factors including, but not limited to, our Group's operating history and financial performance, the prospects and outlook of the industry which our Group operates in and the future plans of our Group. There can be no assurance that the offer price will correspond to the price at which our Shares will trade on the Main Board of the Bursa Securities upon or subsequent to our Listing.

(iii) Compliance with the public shareholding spread

As set out in Section 2.3.1 of this Prospectus, the Offerors will transfer the unsubscribed Offer Shares under Section 2.3.1(iii) of this Prospectus into an escrow account. Arising therefrom, our Company may not be able to meet the public shareholding spread requirement at the point of our Listing. In this respect, Bursa Securities had, vide its letter dated 19 March 2008, granted our Company an extension of time of six (6) months from the date of our Company's listing on the Main Board of Bursa Securities for us to comply with the public shareholding spread requirement under paragraph 3.05(1) of the Listing Requirements where at least 25% of the total number of Shares for which listing is sought must be in the hands of a minimum number of 1,000 public shareholders holding not less than 100 Shares each.

Pursuant to paragraph 8.15 of the Listing Requirements, in the event a listed issuer does not comply with the public shareholding spread requirement, the listed issuer may request for an extension of time to rectify the situation. Bursa Securities may also accept a percentage lower than 25% of the total number of listed shares for public shareholding spread. However, Bursa Securities may suspend trading in the securities of the listed issuer and/or de-list the listed issuer if the public shareholding spread is not met.

We and the joint placement agents will use our best endeavours to place out the unsubscribed Offer Shares (as deposited into the escrow account) to public shareholders within six (6) months from the date of our Listing. Further, depending on the subsequent trading of our Shares, we may seek the approval of Bursa Securities to accept for a percentage lower than 25% of the number of Shares for public shareholding spread if Bursa Securities is satisfied that such lower percentage is sufficient for a liquid market in our Shares.

(iv) Volatility in our Share price and trading volume

The market price of our Shares may fluctuate as a result of variations in the liquidity of the market for our Shares, difference between our actual financial operating results and those expected by investors and analysts, changes in analysts' recommendations or projections, changes in general market conditions, and broad market fluctuations. The market price of our Shares is also susceptible to certain new developments or technology advancements within the Latex Gloves industry, acquisition or strategic alliance by our competitors or gain or loss of our major customers.

3. RISK FACTORS (Cont'd)

On the other hand, the performance of Bursa Securities, which affects the volatility of our Share price, is very much dependent on external factors such as the performance of the regional and world bourses and the inflow or outflow of foreign funds. Sentiments are also largely driven by internal factors such as the economic and political conditions of the country as well as the growth potential of the various economic sectors. These factors invariably contribute to the volatility of trading volumes witnessed on Bursa Securities, thus adding risk to the market price of our listed Shares, which could result in substantial losses for investors in acquiring our Shares.

(v) Ability to pay dividends

We are principally an investment holding company and the core operations of our Group are carried out through our subsidiary, HSB. Accordingly, our major sources of revenues are dividends and other distributions received from HSB. However, our ability to declare dividends or make other distributions in the future is subject to us having profit and excess funds which are not required to be retained to fund our Group's operations, other obligations or business plans and may in the future be subject to restrictions contained in future loan agreements which limit the payment of dividends without the prior written consents of lenders.

(vi) Disclosure regarding forward-looking statements

Certain statements in this Prospectus are based on historical data, which may not be reflective of the future results. Other statements, which are forward-looking in nature, are subject to uncertainties and contingencies. Although our Directors believe that the expectations reflected in such forward-looking statements are reasonable at this time, there can be no assurance that such expectations will subsequently materialise. Their inclusion in this Prospectus should not be regarded as a representation or warranty by us, RHB Investment Bank or any other advisers that the plans and objectives of our Group will be achieved. Any difference in the expectations of our Group and our actual performance may result in our Group's financial and business performances and plans being materially different from those anticipated.

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4. INDUSTRY OVERVIEW

4.1 Overview of the global economy

The world economy is expected to continue expanding for the fifth consecutive year in 2007, albeit at a more moderate pace, amidst high crude oil prices and uncertainties in the economy of the USA. Global inflation remains at manageable levels although it has edged upwards due to high crude oil prices.

For the advanced countries, growth is more balanced across regions with the steady recovery in Europe and Japan partially offsetting the moderation in the USA. Developing countries, primarily driven by investment and robust trade, are expected to outperform advanced countries and increasingly contribute to global growth. In this context, China, India and Russia are anticipated to account for more than half of this year's growth. Rapid growth has also led several large developing countries to significantly contribute outward foreign direct investment ("FDI"), an area where traditionally, developed countries were the main sources.

The global economy is expected to expand at 5.2% in 2007, mainly driven by robust growth in China, India as well as Russia, which is envisaged to offset the impact of moderation in the USA economy arising from the housing market slump and dampened consumer spending. Although global growth remains strong, inflation is still at a manageable level.

The USA economy grew at 4.0% during the second quarter of 2007 (January - March 2007: 0.6%) as economic activity rebounded, largely due to consumer spending, non-residential fixed investment and exports. Since the beginning of the year, however, persistent weaknesses in the housing sector, exacerbated by delinquencies in subprime mortgages, precipitated a credit crisis over the July - August period and caused greater volatility in the world financial markets. Consequently, the USA economy is expected to moderate in the second half, resulting in lower real gross domestic product ("GDP") growth of 2.0% in 2007 (2006: 3.3%).

Growth in emerging East Asia is expected to moderate slightly to 8.1% in 2007 (2006: 8.4%). Exports remain the main driver of regional growth, while domestic demand continues to improve in most economies. Apart from the strong global demand for the region's exports, the buoyant Chinese economy also continues to gain importance as an export destination for other economies in the region, including members of ASEAN.

In the ASEAN region, GDP growth for the year is expected to range from 4.5% in Thailand to 7.0% in Singapore, mainly driven by exports and domestic investment. Among the emerging markets in ASEAN, Vietnam notched 7.9% in the first half of 2007, primarily due to surging investments and robust non-oil exports.

Inflation has been generally well contained despite strong global growth, although some emerging market and developing countries face inflationary pressures, especially from rising energy and food prices. Crude oil prices remain high due to production capacity constraints and rising demand, whilst food prices have edged up following weather-related supply shortfalls and increasing use of biofuels. Inflation for the year is projected to be 2.0% for the advanced countries and 5.7% for emerging market and developing countries.

Global growth in 2008, expected to be generally more broad-based both across regions and within countries, will continue to spur world trade and investment flows. Growth in world trade volume is projected at 7.4% in 2008 (2007: 7.1%), supported by steady demand-driven expansion in global high-technology industries, commodities and services.

The positive outlook, however, could be affected by a fallout of the USA subprime mortgage crisis, impacting on the real economy in the USA and the global economy. The ensuing credit crunch prompted central bank intervention in early August to ease pressures on the global financial system, but the effectiveness of the measures has yet to be determined.

4. INDUSTRY OVERVIEW *(Cont'd)*

Notwithstanding these risks, the global economy is anticipated to continue expanding at 5.2% in 2008 (2007: 5.2%) with Japan, Europe and emerging Asia, in particular, China and India, counterbalancing a possible moderation of the USA economy.

(Source: Economic Report 2007/2008)

4.2 Overview of the Malaysian economy

Growth prospects for the Malaysian economy remain favourable in 2007, despite uncertainty in the global economic environment. Strong domestic economic fundamentals will enable the economy to grow at 6.0% in 2007 (2006: 5.9%). On the supply side, output growth is supported by expansion in all sectors of the economy. The services sector is envisaged to contribute significantly to real GDP growth, led by robust household spending and buoyant business activity. The manufacturing sector is expected to pick up in the second half of the year on the back of an anticipated recovery in global electronics demand. The agriculture sector will continue to expand, supported by higher output of food commodities. The scheduled implementation of Ninth Malaysia Plan ("9MP") projects and improvement in the property market will further boost the construction sector. Output growth of the mining sector is envisaged to turn positive, with increased crude oil production in the second half of the year. On the demand side, growth will be driven by resilient domestic demand of both private and public sectors, largely due to stronger consumer sentiment and business confidence as well as higher Government spending.

The manufacturing sector is expected to grow 3.1% in 2007 (2006: 7.1%) supported by domestic-oriented industries, particularly chemicals and chemical products, food and construction-related industries. Output of the construction-related industry, continued to expand significantly by 30.8% (January-June 2006: 4.3%) due to strong growth in basic iron and steel structural metal products. Production of both products surged by 29.5% and 62.1%, respectively, led by an upturn in construction activity following the implementation of projects under the 9MP.

The Malaysian economy is anticipated to strengthen further to 6.0%-6.5% in 2008 (2007: 6.0%) with positive contribution from all sectors of the economy. Domestic demand will be the main driver of the economy, while external demand is expected to pick up in tandem with improved prospects in world trade. Private investment and consumption spending are expected to remain robust, while public expenditure continues to expand. Inflation is anticipated to remain low despite strong expansion in the economy as output growth is still below potential level. Coupled with increased productivity, the economy would be able to absorb higher demand expenditure.

(Source: Economic Report 2007/2008)

4.3 Overview of the manufacturing sector in Malaysia

The manufacturing sector is expected to grow 3.1% in 2007 (2006: 7.1%) supported by domestic-oriented industries, particularly chemicals and chemical products, food and construction related industries.

The rubber-based industry continued to register growth of 8.0% (January – June 2006: 0.4%), contributing 3.9% share to total manufacturing output. In line with higher domestic and external demand, sales of rubber products also increased 7.4% (January – June 2006: 34.6%) during the same period. Rubber Gloves, the largest component of the rubber-based industry, recorded a turnaround of 3.6% (January - June 2006: -1.8%), arising from higher usage in health services. Likewise, sales of latex-based catheters also registered double-digit growth of 66.5% (January - June 2006: -21.9%). Malaysian Rubber Gloves and catheters made from natural rubber latex are highly demanded for their unique mix of high elasticity and tensile strength of properties as well as excellent film-forming characteristics.

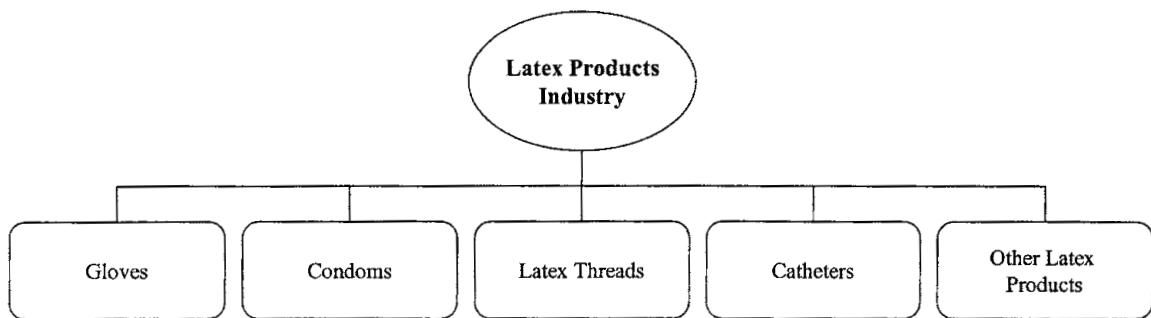
4. INDUSTRY OVERVIEW (Cont'd)

Value added in the manufacturing sector is projected to grow by 3.8% (2006: 3.1%) in line with expansion in global trade. Global demands for manufactured products, particularly electrical and electronics products, is expected to rise sharply, underpinned by sustained world growth and strengthening USA economy. This will benefit Malaysia export-oriented industries. Output of resource-based products is expected to expand due to strong demand for refined petroleum products, plastic and chemicals including biofuels, Rubber Gloves as well as wooden furniture and fixtures.

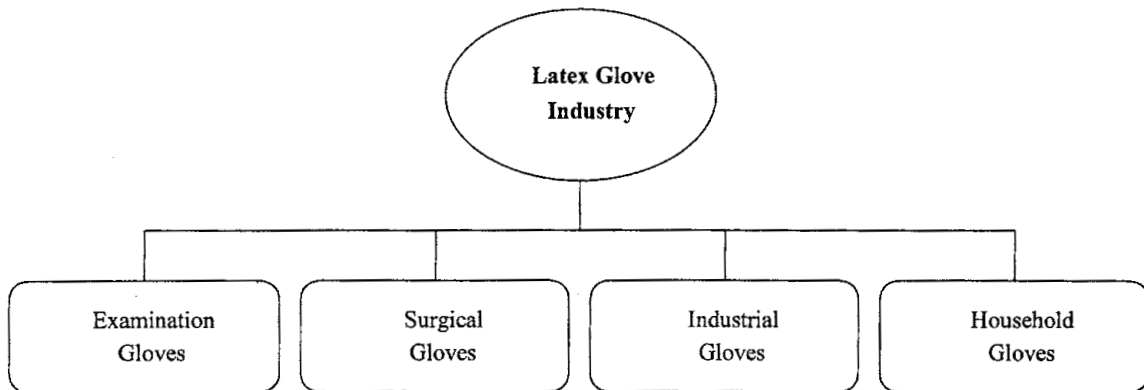
(Source: Economic Report 2007/2008)

4.4 Overview of the Latex Gloves industry in Malaysia

Latex Gloves are part of the Latex Products Industry, which comprises five sectors. This is illustrated in the diagram below:



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



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, packaged and sterilised.

Examination Gloves

Examination Gloves are divided into two categories:

- medical grade; and
- non-medical grade.

4. INDUSTRY OVERVIEW (Cont'd)

Medical grade Examination Gloves are extensively tested to meet stringent international standards, which are in accordance to 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 a single usage and is used in health care to prevent contamination between patients and the medical examiners, nurses and other health care personnel.

Surgical Gloves

Surgical Gloves are gloves 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. They are 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 uses such as in gardening, cooking, dish washing and cleaning.

The Latex Gloves industry plays an important role in the Malaysian economy. This can be substantiated as follows:

- (i) Malaysia is currently the world leader in the production of Rubber Gloves;
- (ii) In 2006, Malaysia maintained its position as the largest supplier of Latex Gloves to the USA, accounting for approximately RM2.1 billion of total exports of Latex Gloves;
- (iii) Export earnings from Latex Gloves registered an average annual growth rate of 14.4% between 2002 and 2006 reaching RM5.4 billion in 2006. 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;
- (iv) 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;
- (v) 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;
- (vi) Export earnings of Latex Gloves accounted for approximately 64.3% of the total export earnings generated from the rubber products industry in 2006;
- (vii) 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: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

4. INDUSTRY OVERVIEW *(Cont'd)*

4.5 Outlook of the Latex Gloves industry

The outlook of the Latex Gloves industry in Malaysia is **favourable**. The following factors and observations provide an indication of some of the factors that impact on the outlook of the Latex Gloves industry in Malaysia.

(i) Local Production

- (a) 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.
- (b) 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 15.5 billion pairs compared to the same period in the previous year.

(ii) Exports

- (a) 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 previous year.
- (b) 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.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

4.6 Industry players and competition

Some of the major manufacturers (listed in alphabetical order) include:

- (i) Adventa Berhad;
- (ii) Alliance Rubber Products Sdn Bhd;
- (iii) Ansell Group;
- (iv) APL Industries Berhad*;
- (v) Brightway Holdings Sdn Bhd;
- (vi) Comfort Rubber Gloves Industries Sdn Bhd;
- (vii) Dragon Star Sdn Bhd;
- (viii) GMP Medicare Sdn Bhd;
- (ix) Green Prospect Sdn Bhd;
- (x) HSB (a subsidiary of our Group);
- (xi) Koon Seng Sdn Bhd;
- (xii) Kossan Rubber Industries Berhad;

4. INDUSTRY OVERVIEW (Cont'd)

- (xiii) Latexx Partners Bhd;
- (xiv) Marigold Industrial (M) Sdn Bhd;
- (xv) MRG Industries Sdn Bhd;
- (xvi) Regent Hospital Products Sdn Bhd;
- (xvii) Seal Polymer Industries Berhad*;
- (xviii) Smart Glove Corporation Sdn Bhd;
- (xix) Supermax Corporation Bhd;
- (xx) Top Glove Corporation Bhd;
- (xxi) WRP Asia Pacific Sdn Bhd; and
- (xxii) YTY Industries Sdn Bhd.

The above list of players is not exhaustive and only represents some of the manufacturers of Latex Gloves in Malaysia.

Note:

- * *Seal Polymer Industries Berhad is a subsidiary while APL Industries Berhad is an associate company of Supermax Corporation Berhad.*

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

The Latex Gloves industry operates under normal competitive conditions. Competition among Latex Gloves manufacturers is global in nature as virtually all of them service the export market exclusively.

As with most free enterprise environments, competition is based on a number of factors, including:

- (i) Quality of products and services;
- (ii) Cost competitiveness;
- (iii) Prompt delivery schedules; and
- (iv) Manufacturing capabilities and capacities.

Competition in the Latex Gloves industry comes from two perspectives:

- (i) Competition among Malaysian manufacturers as Malaysia has developed a reputation as a major producer of Latex Gloves that can meet international standards; and
- (ii) Competition among other countries, especially Thailand, China and Indonesia.

The competition among the Latex Gloves manufacturers is predicated by the following factors:

- (i) In 2006, there were 105 manufacturers of gloves registered with the MIDA. These operators range from large multinationals and local operators to medium and smaller sized local manufacturers; and
- (ii) 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 provides manufacturers in Thailand and Indonesia with some cost advantage.

4. INDUSTRY OVERVIEW *(Cont'd)*

However, competition within the Latex Gloves industry can be moderated by the following factors:

- (i) Manufacturers with a high degree of integration and value-adding in terms of compounding, 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;
- (ii) 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 Gloves.

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;

- (iii) 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 users;
- (iv) 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; and
- (v) 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.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

We believe that we are well positioned in the market as:

- (i) Our Group has the in-house capabilities to undertake various processes including compounding, Chlorination, polymer coating or powdering, to produce a different range of natural rubber and nitrile rubber gloves to meet customers' requirements;
- (ii) Our Group has in-house capabilities and expertise to manufacture both natural rubber and synthetic Latex Gloves to meet the diverse needs and specifications of customers; and
- (iii) Our Group has in-house R&D capabilities and facilities which play a key role for our Group, particularly in creating and sustaining competitive advantages through the following:
 - (a) continuous improvements on existing products to ensure customer satisfaction;
 - (a) developing new products to address new areas of growth and opportunities; and
 - (c) continuous improvements in manufacturing processes to increase production output and efficiency.

4. INDUSTRY OVERVIEW *(Cont'd)*

We have in-house capabilities to develop new products that provide us with a platform for us to address new market segments and business opportunities.

4.7 Demand/ supply conditions

As the Latex Gloves manufacturing industry in Malaysia is predominantly export-oriented, demand dependencies for this industry will be focused on its principal export markets.

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. Malaysia's largest export market is the USA, which represented 38.8% of total exports in Rubber Gloves in 2006. This is followed by Germany, UK and Japan which accounted for 6.3%, 6.2% and 5.1% of total exports by value respectively.

Between January and September 2007, USA is the largest export market representing 35.9% of Malaysia's total exports in Rubber Gloves. This is followed by Germany, UK and Japan which accounted for 8.1%, 6.2% and 5.0% respectively.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

The main supply dependencies for the manufacturing of Latex Gloves industry are:

- Natural rubber latex; and
- 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, the production of natural rubber amounted to 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 remaining 20%.

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:

(a) 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, the 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 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.

4. INDUSTRY OVERVIEW (Cont'd)

- 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 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.

(b) 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 2007, import quantity of natural rubber amounted to 257,959 tonnes.
- Between January and June 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.

(c) Imports of Synthetic Rubber

- 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.
- 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 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 USA were the major sources of imports for other synthetic latex of the type used for the manufacturing of Nitrile Gloves. Japan, Taiwan and the USA accounted for 50.7%, 16.9% and 16.2% of total imports under this category. Other import countries include UK, Germany, Belgium, Singapore, Hong Kong and others.
- Between January and September 2007, Japan, Taiwan and the USA accounted for 45.0%, 16.9% and 15.9% of total imports under this category. Other import countries include UK, Germany, Italy and others.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

4. INDUSTRY OVERVIEW *(Cont'd)*

4.8 Substitute products

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.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

Different types of synthetic materials exhibit different properties including tensile strength, level of resistance to chemicals and solvents, elasticity, elongation and other properties.

Our Group manufactures a range of natural rubber and synthetic Latex Gloves such as Nitrile Gloves to meet customers' requirements.

4.9 Industry's reliance on and vulnerability to imports

The Latex Gloves Industry in Malaysia is dependent on imports of the following raw materials for the production of natural rubber and synthetic gloves. The main supply dependencies for the manufacturing of Latex Gloves industry are:

- (i) Natural rubber latex; and
- (ii) Synthetic latex.

Although the bulk of the natural rubber latex is available from local supply, Malaysia is still reliant on imports of natural rubber. In 2006, the production of natural rubber in Malaysia reached 1.3 million tonnes. Between January and June 2007, the local production of natural rubber amounted to 590,100 tonnes. However, in 2006, Malaysia also imported approximately 521,669 tonnes of natural rubber from ASEAN countries.

As for synthetic latex, Malaysia has one synthetic latex plant that started operations in 2003. Therefore most of the synthetic latex used is primarily imported from a number of source countries overseas. In 2006, the import value of synthetic rubber increased by 33.0% to reach approximately RM1.1 billion. The import value of other synthetic latex (sub-sector of synthetic rubber) used for the manufacturing of Nitrile Gloves increased by 43.8% to reach RM107.4 million and were mostly imported from Japan, Taiwan and the USA, which accounted for 50.7%, 16.9% and 16.2% of the total imports respectively.

In Malaysia, consumption of natural rubber for the manufacturing Latex Gloves accounted for 80% of total consumption, whilst consumption of synthetic rubber accounted for the remaining 20% in 2007.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

4. INDUSTRY OVERVIEW (Cont'd)

4.10 Our market coverage, position and share

In the 6 months FPE 30 September 2007, approximately 98.6% of our revenue was contributed from sales to overseas market. We exported to 17 countries including the USA, Japan, Germany, Australia, UK, France, Switzerland, Brazil, Greece, Netherlands, Ukraine, Vietnam, Hong Kong, Canada, Pakistan, Korea and Libya. Our products are also sold in Malaysia.

In 2007, the market size for Latex Gloves in Malaysia based on an annualised output and output value were estimated at 41.3 billion pairs and RM5.8 billion in value. Our Group's market share and our market share based on production by types of rubber in Malaysia are as follows:

	Market size in 2007		Our Group's production in FYE 2007		Our Group's market share	
	Output in Billion Pairs*	Output Value in RM'-billion *	Million pairs	RM'million	Output %	Output value %
Total	41.3#	5.8	1,157	240.9	3	4
<i>Natural rubber Latex Gloves</i>	33.1	-	654	-	2	-
<i>Synthetic Latex Gloves</i>	8.3	-	503	-	6	-

Notes:

* Annualised figures

Does not add up due to rounding

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

Based on our Group's turnover of RM240.9 million for the FYE 2007 (taken as a proxy for calendar year 2006), our Group is ranked seventh among manufacturers within the Latex Gloves industry in Malaysia in 2006 based on turnover.

4.11 Government laws and regulations

(i) Malaysian laws and regulations

(a) Manufacturing licence

Apart from the normal manufacturing licences and other industry-based permits, licences, standards and regulations, there are no material government laws, regulations and policies that may impede on our Group's performance and growth within a free trade enterprise environment.

Application of a manufacturing licence under the Industrial Coordination Act, 1975 is mandatory for companies with the shareholders' funds of RM2.5 million or above, or engaging 75 or more full-time employees.

On 22 September 2006, the manufacturing licence from MITI to manufacture Latex Gloves was issued to HSB. This licence is effective from 8 September 1992.

4. INDUSTRY OVERVIEW (Cont'd)

(b) Purchase licence for rubber

According to the MRB, 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.

HSB has obtained a licence from the MRB to buy rubber for the manufacture of rubber products. The licence is valid between 1 July 2007 and 30 June 2008 and this is renewable on a yearly basis.

(c) Export licence for Rubber Gloves

According to the MRB, any person involved in shipping rubber or exporting of Rubber Gloves, is subjected to the Malaysian Rubber Board (Licensing) Regulations 1997.

HSB has obtained an export licence from the MRB that permits it to export Rubber Gloves. The licence is valid between 1 February 2008 and 31 January 2009 and this is renewable on a yearly basis.

(d) Environment regulations

- (i) The government regulations for the disposal of scheduled waste and sludge resulting from manufacturing processes falls under the Environmental Quality (Scheduled Wastes) Regulations 1989. Wastes from Latex Gloves manufacturing, like all manufacturing wastes, if not treated and disposed properly would pollute the environment, especially the waterways in the case of Latex Gloves 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:

- (a) Rubber or latex sludge containing heavy metals from the wastewater treatment system of rubber products manufacturing plant;
- (b) Rubber or latex sludge containing organic solvents from rubber products manufacturing plant; and
- (c) 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.

- (ii) 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 ("DOE").

4. INDUSTRY OVERVIEW (Cont'd)

Our subsidiary, HSB has obtained approval from the DOE on the installation of the following equipment:

- 7 units of thermal oil heaters;
- 3 units of biomass heaters; and
- 2 units of scrubbers.

Our Group has a total of 3 biomass heaters in our manufacturing operations, all of which have been approved by the DOE.

Our Group complies with the requirements of the DOE for the emission of ashes from our biomass heaters.

Further, our subsidiary, HSB, has also obtained approval from the DOE for the installation of the following equipment at our proposed 4th Plant:

- 4 units of chimneys; and
- 4 units of scrubbers.

- (iii) Any discharge of effluent has to comply with the parameters required under the Regulation of Environmental Quality (Sewage and Industrial Effluents) Regulations 1979.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

Our Group has installed 3 in-house wastewater treatment systems to ensure that the discharged water is adequately treated. 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 DOE's requirements and standards.

(e) Other Regulations

- (i) In 2006, MRB 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.

The MRB has the authority to conduct surveillance visits and collect samples from manufacturers and traders of Latex Gloves for testing using ASTM D5712:99 test method. This practice is to monitor and restrict the export of gloves with protein content exceeding 400 microgram per gram in Malaysia.

According to the Malaysia Rubber Board (Licensing) Regulations 1997 and Malaysia Rubber Board (Licensing Amendment) Regulations 2002, the MRB 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.

Our Group complies with the requirements of protein content as required by the MRB and has never been found to be in non-compliant.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

4. INDUSTRY OVERVIEW (Cont'd)

- (ii) Under the Factories and Machineries Act, 1967, various regulations are established for registering equipment with the Department of Safety and Health (“DSH”).

Our Group had registered all the machineries with the DSH and had complied with all the relevant regulations under the Factories and Machineries Act, 1967.

- (iii) Under the Occupational Safety and Health Act, 1994, the employer has a duty to protect the safety, health and welfare of all his employees and requires the employer to adhere to various guidelines to comply with this duty.

We have complied with all the relevant guidelines.

(ii) Overseas Government Regulations

One of the areas of overseas government regulations that is relevant to Latex Gloves manufacturers is the FDA to ensure that the quality compliance is in accordance with the FDA standards.

Similarly, all Latex Gloves that are exported to the European Union must also comply with the Medical Devices Directive (EC Directive 93/42/EEC). This directive regulates the export of medical gloves into the European Union.

Malaysian Latex Gloves exporters must have appropriate quality management system certifications.

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 EN 455, EN 556-1 and EN 1041 which are equivalent to the ASTM standard used in the USA.

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 USA, the FDA places 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 USA 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.

(iii) 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:

- (a) Pioneer Status;
- (b) Investment Tax Allowance; and
- (c) 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.

4. INDUSTRY OVERVIEW (Cont'd)

Some of the benefits of the respective incentives include:

(a) **Pioneer Status**

A company eligible for Pioneer Status will enjoy a 5-year partial exemption from the payment of income tax.

(b) **Investment Tax Allowance**

A company eligible 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 5 years from the date of the first qualifying capital expenditure.

(c) **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.

Presently, HSB is enjoying the Reinvestment Allowance incentive.

(Source: Independent Market Research Report prepared by Vital Factor Consulting Sdn Bhd)

4.12 Prospects and future growth

(i) **Drivers of growth**

The drivers of growth in the Latex Gloves industry are as follows:

- (a) Growth in the consumption of Latex Gloves by end-user industries such as hospitals, healthcare, food processing, high technology sectors including electronic and biotechnology industries. As the use of Latex Gloves are prevalent in the healthcare sectors, any outbreak of diseases will also inadvertently drive demand for Latex Gloves;
- (b) 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 USA, UK, Japan, Germany, Brazil, Italy, France and other countries;
- (c) Innovations and developments in Latex Gloves for new applications would create new demand from existing or new end-user industries;
- (d) Growth in the healthcare industry sectors including, among others, planning and development of new hospitals and other institutions, will also generate demand for Latex Gloves; and
- (e) Socio-economic growth such as GDP 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.

4. INDUSTRY OVERVIEW (Cont'd)

(ii) Areas of future growth

The areas of future growth in the Latex Gloves industry are as follows:

(a) Increasing global demand

The key areas of growth will come from increasing demand from consumer countries particularly, the USA. In 2006, the USA represented 38.8% of the total exports of Latex Gloves from Malaysia.

Between January and September 2007, the USA remain the largest export market representing 35.9% of Malaysia's total exports in Rubber Gloves. This is followed by Germany, UK 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.

(b) Increasing sales outside the USA

To date, Malaysian manufacturers have focused significantly on the USA 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.

(c) Focusing on new area of business

Traditionally, the focus of the usage of Latex Gloves has been predominantly within the healthcare industry led 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.

(d) 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:

- i. Ability to meet users' needs and specifications, especially in the light of the natural rubber allergy issue;
- ii. Prevents existing customers from replacing Malaysian natural rubber Latex Gloves with new material gloves from other countries; and
- iii. Serves new areas of applications such as electric protective gloves, and specialised gloves for use when administering chemotherapy.

Synthetic gloves such as nitrile, polyvinyl chloride and polychloroprene/ neoprene gloves may be the next closest substitute to natural rubber Latex Gloves.