

**13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION**

**MOORE STEPHENS**

CHARTERED ACCOUNTANTS  
(FIRM NO: AF.0282)

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

Tel: 603 2094 1888  
Fax: 603 2094 7673

**REPORTING ACCOUNTANTS' LETTER ON THE  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION OF  
HARTALEGA HOLDINGS BERHAD**

(Prepared for inclusion in this Prospectus)

The Board of Directors  
**HARTALEGA HOLDINGS BERHAD**  
Mezzanine Floor,  
No. 8A, Jalan Sri Semantan Satu,  
Damansara Heights,  
50490 Kuala Lumpur.

Dear Sirs,

**PROFORMA CONSOLIDATED FINANCIAL INFORMATION**

We have reviewed the presentation of the proforma consolidated financial information of Hartalega Holdings Berhad ("HHB") and its subsidiary companies ("Group") for the past three (3) financial years ended 31 March 2005 to 2007 and the six (6) months period ended 30 September 2006 and 2007 together with the notes and assumptions thereto, as set out in this Prospectus, which we have stamped for the purpose of identification, in connection with the admission of HHB to the Official List and the listing of and quotation for the entire issued and paid-up share capital of HHB on the Main Board of Bursa Malaysia Securities Berhad and should not be relied on for any other purposes. The proforma consolidated financial information have been prepared for illustrative purposes only on the basis of assumptions set out below and after making certain adjustments to show that:

- (i) the financial results of the Group for the past three (3) financial years ended 31 March 2005 to 2007 and the six (6) months period ended 30 September 2006 and 2007 would have been if the group structure as at the date of this Prospectus had been in existence throughout the financial years and periods being reported on;
- (ii) the financial position of the Group as at 30 September 2007 would have been if the group structure as of the date of this Prospectus had been in place on that date, adjusted for the payment of interim dividend subsequent to that date and the estimated listing expenses; and
- (iii) the cash flows of the Group for the six (6) months period ended 30 September 2007 would have been if the group structure as of the date of this Prospectus had been in existence throughout the six (6) months period ended 30 September 2007, adjusted for payment of interim dividend subsequent to end of the period and the estimated listing expenses.

The proforma consolidated financial information, because of its nature, may not be reflective of the Group's actual financial results, financial position and cash flows.

It is the sole responsibility of the Directors of HHB to prepare the proforma consolidated financial information in accordance with the requirements of the Prospectus Guidelines in respect of Public Offerings issued by the Securities Commission. Our responsibility is to express an opinion on the proforma consolidated financial information based on our work.

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Moore Stephens  
International Limited  
- members in principal  
cities throughout  
the world*

13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

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

**REPORTING ACCOUNTANTS' LETTER ON THE  
PROFORMA CONSOLIDATED FINANCIAL INFORMATION OF  
HARTALEGA HOLDINGS BERHAD (CONTINUE)**

(Prepared for inclusion in this Prospectus)

In providing this opinion, we are not up-dating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the proforma consolidated financial information, nor do we accept responsibility for such reports or opinion beyond that is owned to those to whom those reports or opinions were addressed by us at the date of their issue.

Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the proforma consolidated financial information to the audited financial statements of the Group covering the past three (3) financial years ended 31 March 2005 to 2007 and the six (6) months period ended 30 September 2007 and the unaudited financial statements for the six (6) months period ended 30 September 2006, considering the evidence supporting the adjustments and discussing the proforma consolidated financial information with the Directors of HHB.


In our opinion:

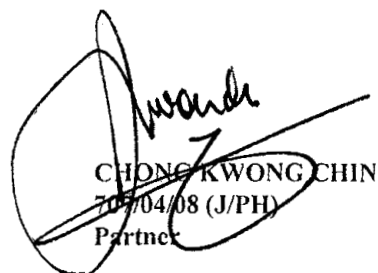
- (a) the proforma consolidated financial information together with the accompanying notes which are provided solely for illustrative purposes only have been properly prepared:
  - (i) in a manner consistent with the basis and accounting policies of the Group; and
  - (ii) in accordance with the approved accounting standards in Malaysia;

and

- (b) each material adjustment made to the information used in the preparation of the proforma consolidated financial information is appropriate for the purposes of preparing such financial information.

Yours faithfully,

  
MOORE STEPHENS  
Chartered Accountants  
(AF.0282)

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

Dated: 29 February 2008

### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION *(Cont'd)*

**HARTELEGA HOLDINGS BERHAD**  
**(Company No: 741883-X)**  
**(Incorporated in Malaysia)**  
**AND ITS SUBSIDIARY COMPANIES**

#### BASIS OF PREPARATION OF PROFORMA CONSOLIDATED FINANCIAL INFORMATION

1. The proforma consolidated financial information has been prepared to illustrate that:
  - (i) the financial results of Hartalega Holdings Berhad (“HHB”) and its subsidiary companies (“HHB Group” or “Group”) for the past three (3) financial years ended 31 March 2005 to 2007 and the 6-months period ended 30 September 2006 and 2007 would have been if the group structure as at the date of this Prospectus had been in existence throughout the financial years and period being reported on;
  - (ii) the financial position of the Group as at 30 September 2007 would have been if the group structure as of the date of this Prospectus had been in place on that date, adjusted for the payment of interim dividend subsequent to that date and the estimated listing expenses; and
  - (iii) the cash flows of the Group for the six (6) months period ended 30 September 2007 would have been if the group structure as of the date of this Prospectus had been in existence throughout the 6-months period ended 30 September 2007, adjusted for payment of interim dividend subsequent to end of the period and the estimated listing expenses.
2. The proforma consolidated financial information have been prepared based on the audited financial statements of the Group for the past three (3) financial years ended 31 March 2005 to 2007 and the 6-months period ended 30 September 2007 and the unaudited financial statements for the 6-months period ended 30 September 2006, using the bases and accounting principles consistent with those adopted in the audited consolidated financial information of HHB, after giving effect to the proforma adjustments which is considered appropriate.
3. The audited financial statements of the Group have been prepared in accordance with the applicable MASB Approved Accounting Standards for Entities Other Than Private Entities in Malaysia, save for the audited financial statements of Pharmatex (Australia) Pty Ltd (“PAPL”) and Pharmatex USA, Inc (“PUI”) which have been prepared based on the applicable accounting standards in their respective country. The accounting policies based on the accounting standards adopted by PAPL and PUI do not have any material difference from the accounting policies adopted by the Group save for the presentation and disclosures of the financial statements.
4. The auditors’ reports on all the above mentioned audited financial statements were not subject to any reservation or qualification save for an emphasis of matter disclosed in the auditors’ report of Sentinel Engineering Sdn Bhd (“SEMSB”) for the financial year ended 31 March 2005 which draws attention to the SEMSB’s capital deficiency position as at the end of that financial year and that the continuation of SEMSB as a going concern is dependent on financial support from the holding company, Hartalega Sdn Bhd (“HSB”). This reservation has been removed in the auditors’ report for the subsequent two (2) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007 as HSB had given a written confirmation to the auditors to confirm that HSB will provide financial support to SEMSB to meet its obligations as and when they fall due.
5. For illustrative purposes, it is assumed that the acquisition of HSB together with its existing subsidiary companies namely Sentinel Engineering (M) Sdn Bhd (“SEMSB”), PAPL and PUI which was completed on 7 May 2007 took place prior to 1 April 2004 in arriving at the proforma consolidated financial results for the past three (3) financial years ended 31 March 2005 to 2007 and the 6-months period ended 30 September 2006 and 2007.
6. The proforma consolidated financial information have been prepared for illustrative purposes only and, because of their nature, may not give a true picture of the actual financial results, financial position and cash flows of the Group.



**Hartalega**  
 Holdings Berhad (741883-X)

### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

#### A. PROFORMA CONSOLIDATED INCOME STATEMENTS

The proforma consolidated financial results of the Group for the past three (3) financial years ended 31 March 2005 to 2007 and the 6-months period ended 30 September 2006 and 2007 are provided for illustrative purposes on the basis of assumption that the Group existed throughout the financial years and periods under review.

	< Financial year ended 31 March >			6-months period ended	
	2005 RM'000	2006 RM'000	2007 RM'000	< -- 30 September -- > **2006 RM'000	2007 RM'000
<b>Operating revenue</b>	109,579	160,275	240,915	122,921	137,563
<b>Gross profit</b>	23,221	34,811	54,552	27,964	32,629
Profit before depreciation, interest expense, research and development expenses and exceptional items	19,711	31,034	51,263	26,509	29,800
Depreciation	(4,639)	(6,339)	(9,380)	(4,524)	(5,037)
Interest expenses	(262)	(638)	(1,005)	(546)	(388)
Research and development expenses	(204)	(194)	(185)	(93)	(152)
Exceptional items	1,857	-	-	-	-
<b>Profit before taxation</b>	16,463	23,863	40,693	21,346	24,223
Taxation	(3,009)	(4,864)	(3,645)	(2,774)	(4,303)
<b>Profit after taxation</b>	13,454	18,999	37,048	18,572	19,920
<b>Attributable to:-</b>					
Equity holders of the Company	13,507	18,999	37,013	18,582	19,895
Minority interests	(53)	-	35	(10)	25
Profit attributable to shareholders	13,454	18,999	37,048	18,572	19,920
Enlarged number of ordinary share assumed in issue ('000) <sup>(1)</sup>	242,312	242,312	242,312	242,312	242,312
Gross earnings per share (sen)	6.82	9.85	16.78	<sup>(2)</sup> 17.63	<sup>(2)</sup> 19.97
Net earnings per share (sen)	5.57	7.84	15.27	<sup>(3)</sup> 15.34	<sup>(3)</sup> 16.42
GP Margin (%)	21	22	23	23	24
Profit before taxation margin (%)	15	15	17	17	18
Profit after taxation margin (%)	12	12	15	15	14
Effective tax rate (%)	18	20	9	13	18



**Hartalega**  
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### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

- \*\* *Not audited and is included for comparison purposes only.*
- (1) *Based on enlarged number of ordinary shares of RM0.50 each in issue.*
- (2) *Based on annualised profit before taxation but after minority interest.*
- (3) *Based on annualised profit after taxation and minority interest.*

#### NOTES TO THE PROFORMA CONSOLIDATED INCOME STATEMENTS

1. The proforma consolidated income statements for the past three (3) financial years ended 31 March 2005 to 2007 and the 6-months period ended 30 September 2007 are prepared based on the audited income statement of HHB for the financial period from 24 July 2006 (date of its incorporation) to 31 March 2007 and the 6-months period ended 30 September 2007 and the audited income statements of HSB, SEMSB, PAPL and PUI for the past three (3) financial years ended 31 March 2005 to 2007 and the 6-months period ended 30 September 2007.
2. Income statements of PAPL for the past three (3) financial years ended 31 March 2005 to 2007 and the 6-months period ended 30 September 2006 and 2007 which are denominated in Australian Dollars are translated to Ringgit Malaysia using the average rate prevailing in those financial years/periods of RM2.8988:AUD1.00, RM2.7843:AUD1.00, RM2.7138:AUD1.00, RM2.7549:AUD1.00 and RM2.9073:AUD1.00 respectively.
3. Income statements of PUI for the past three (3) financial years ended 31 March 2005 to 2007 and the 6-months period ended 30 September 2006 and 2007 which are denominated in United States Dollars are translated to Ringgit Malaysia using the average rate prevailing in those financial years/period of RM3.8000:USD1.00, RM3.7500:USD1.00, RM3.5750:USD1.00, RM3.6923:USD1.00 and RM3.4225:USD1.00 respectively.
4. The adjustments which were dealt with when preparing our proforma consolidated financial statements are as follows:-

#### Reclassifications adjustments made to the audited income statements of HSB

- (i) Administrative costs stated in the audited income statements of HSB for the financial year ended 31 March 2005 has been segregated into 'Administrative costs' and 'Other operating costs' separately in order to conform with the presentation in the audited income statement for the two (2) financial years ended 31 March 2006 and 2007 and the 6-months period ended 30 September 2007. 'Other operating costs' that have been reclassified from the 'Administrative costs' include gifts, donations and condolences;
- (ii) Foreign exchange losses that have been included in 'Finance costs' in the audited income statements of HSB for the financial year ended 31 March 2005 have been reclassified to 'Other operating costs' to conform with the presentation in the audited income statement for the two (2) financial years ended 31 March 2006 and 2007 and the 6-months period ended 30 September 2007; and
- (iii) Exceptional items which have been presented separately in the face of the audited income statement of HSB for the financial year ended 31 March 2005 have been reclassified to the function of revenue and expense to which they relate in order to comply with the format of presentation of income statement as required by the Financial Reporting Standard 101 (FRS 101) on Presentation of Financial Statements.



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### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

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

	<b>2005 RM'000</b>
<b>Other operating revenue</b>	
As per audited financial statements of HSB	988
Add: Reclassification from Exceptional items	1,857
As adjusted	<u>2,845</u>
<b>Administrative costs</b>	
As per audited financial statements of HSB	(5,251)
Less: Reclassification to Other operating costs	72
As adjusted	<u>(5,179)</u>
<b>Other operating costs</b>	
As per audited financial statements of HSB	-
Add: Reclassification from Administrative costs	(72)
Add: Reclassification from Finance costs	(8)
Add: Reclassification from Exceptional items	(278)
As adjusted	<u>(358)</u>
<b>Finance costs</b>	
As per audited financial statements of HSB	(550)
Less: Reclassification to Other operating costs	8
As adjusted	<u>(542)</u>
<b>Exceptional items</b>	
As per audited financial statements of HSB	1,579
Add: Reclassification to Other operating costs	278
Less: Reclassification to Other operating revenue	(1,857)
As adjusted	<u>-</u>

#### Reclassifications adjustments made to the audited income statements of PAPL

The 'Employee benefits', 'Depreciation' and 'Other expenses from ordinary activities' as presented in the audited income statements of PAPL for all the financial years/periods under review have been aggregated and presented as 'Distribution costs' and 'Administrative costs' in order to conform with the classification in the audited income statement of HSB.



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### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

#### Reclassifications adjustments made to the audited income statements of PUI

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

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

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

5. There was no extraordinary item or exceptional item as for all the financial years/ periods under review except for the financial year ended 31 March 2005 where an exceptional gain was made from insurance compensation received in respect of fire damages to HSB's plant and machinery in 1999.
6. All inter-company transactions have been eliminated from the proforma consolidated income statements.



**Hartalega**  
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### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

#### B. PROFORMA CONSOLIDATED BALANCE SHEETS

The proforma consolidated balance sheets of HHB as set out below are prepared solely for illustrative purposes only to show the effects of the offer for sale and the employee equity scheme (details of which are set out in the accompanying Notes to the Proforma Consolidated Balance Sheets), on the audited consolidated balance sheet of HHB as at 30 September 2007 had these transactions been effected on that date.

	Audited Group As at 30 September 2007 RM'000	<u>Proforma (I)</u> Group after Interim Dividend RM'000	<u>Proforma (II)</u> After Proforma (I) and Offer for Sale and EES RM'000
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	129,408	129,408	129,408
Capital work-in-progress	18,843	18,843	18,843
Prepaid land lease payments	153	153	153
Other investment	175	175	175
	148,579	148,579	148,579
<b>Current Assets</b>			
Inventories	17,219	17,219	17,219
Trade and other receivables	40,573	40,573	39,571
Cash and bank balances	34,555	22,439	21,641
	92,347	80,231	78,431
<b>TOTAL ASSETS</b>	240,926	228,810	227,010
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share Capital	121,156	121,156	121,156
Reserves	52,502	40,386	38,586
<b>Total Equity Attributable to Shareholders of the Company</b>	173,658	161,542	159,742
Minority interests	85	85	85
<b>Total Equity</b>	173,743	161,627	159,827
<b>Non-Current Liabilities</b>			
Other borrowings	26,422	26,422	26,422
Deferred taxation	16,690	16,690	16,690
	43,112	43,112	43,112
<b>Current Liabilities</b>			
Trade and other payables	15,530	15,530	15,530
Other borrowings	7,409	7,409	7,409
Taxation	1,132	1,132	1,132
	24,071	24,071	24,071
<b>Total Liabilities</b>	67,183	67,183	67,183
<b>TOTAL EQUITY AND LIABILITIES</b>	240,926	228,810	227,010
Number of ordinary shares in issue ('000)	242,312	242,312	242,312
Net tangible assets	173,658	161,542	159,742
Net tangible assets per share (RM)	0.72	0.67	0.66



**Hartalega**  
Holdings Berhad (741883-X)



### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

#### NOTES TO THE PROFORMA CONSOLIDATED BALANCE SHEETS AS AT 30 SEPTEMBER 2007

1. The proforma consolidated balance sheets had been prepared based on the audited consolidated balance sheet of HHB as at 30 September 2007.
2. The bases and accounting principles applied for the preparation of the proforma consolidated balance sheets are consistent with those presently adopted in the preparation of HHB's consolidated financial statements.
3. The proforma consolidated balance sheets incorporate, on a proforma basis, the following transactions as if they were effected on 30 September 2007: -

##### **Proforma (I)**

Proforma (I) incorporates the payment of tax exempt interim dividend of 5% amounting to RM12,115,600 which was declared on 9 January 2008 and paid on 30 January 2008 ("Interim Dividend").

##### **Proforma (II)**

Proforma (II) incorporates the effect of Proforma (I) and the followings:-

- (i) Offer for sale of 12,116,000 ordinary shares of RM0.50 each in HHB by its participating shareholders ("Offerors") to the Malaysian Public.
- (ii) Offer for sale of 4,000,000 ordinary shares of RM0.50 each in HHB by the Offerors to the eligible directors and employees of the HHB Group and persons who have contributed to the success of the HHB Group.
- (iii) Offer for sale of 8,094,000 ordinary shares of RM0.50 each in HHB by the Offerors to identified investors by way of private placement.
- (iv) Offer for sale of 1,475,000 ordinary shares of RM0.50 each in HHB by the Offerors to selected senior management of the HHB Group via an employee equity scheme.
- (v) Payment of estimated expenses relating to the flotation exercise. The total estimated expenses relating to the flotation exercise amounted to RM1,800,000. As at 30 September 2007, RM1,002,000 of these expenses have been prepaid. As such in this proforma, the balance of these expenses amounting to RM798,000 is assumed to be paid by internally generated funds and the total estimated expenses of RM1,800,000 is assumed to be charged against the share premium account.

The offers for sale in (i), (ii), (iii) and (iv) above have no effect to the proforma consolidated balance sheet as the proceeds arising therefrom accrue entirely to the participating shareholders of HHB.

(The above transactions are referred to as "Offer for Sale and EES")



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### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

4. The movement in reserves are as follows:-

	Share premium RM'000	Translation reserve RM'000	Retained profits RM'000	Total reserves RM'000
As per HHB's audited consolidated balance sheet as at 30 September 2007	2,544	30	49,928	52,502
Interim Dividend appropriated from retained profits	-	-	(12,116)	(12,116)
<b>As per Proforma (I)</b>	<u>2,544</u>	<u>30</u>	<u>37,812</u>	<u>40,386</u>
Total estimated expenses relating to the flotation exercise charged to the share premium account	(1,800)	-	-	(1,800)
<b>As per Proforma (II)</b>	<u>744</u>	<u>30</u>	<u>37,812</u>	<u>38,586</u>

5. The interest bearing borrowings and gearing are as follows:-

	Audited Group As at 30 September 2007 RM'000	Proforma (I) Group after Interim Dividend RM'000	Proforma (II) After Proforma (I) and Offer for Sale and EES RM'000
Short term borrowings	7,409	7,409	7,409
Long term borrowings	26,422	26,422	26,422
Total borrowings	<u>33,831</u>	<u>33,831</u>	<u>33,831</u>
Gearing (times)	<u>0.19</u>	<u>0.21</u>	<u>0.21</u>



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### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

#### C. PROFORMA CONSOLIDATED CASH FLOW STATEMENT

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

6-months period ended 30 September	2007 RM'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	
Profit Before Taxation	24,223
Adjustments for: -	
Allowance for doubtful debts	8
Amortisation of prepaid land lease payments	1
Bad debts written off	16
Depreciation of property, plant and equipment	5,037
Gain on disposal of property, plant and equipment	(17)
Interest expenses	388
Interest revenue	(252)
Unrealised gain on foreign exchange	(484)
Operating Profit Before Working Capital Changes	28,920
Decrease in inventories	2,767
Increase in trade and other receivables	(3,171)
Increase in trade and other payables	2,625
Cash Generated From Operations	31,141
Interest paid	(388)
Interest received	252
Tax paid	(1,221)
<b>Net Cash Generated From Operating Activities</b>	<b>29,784</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	
Capital work-in-progress incurred	(17,006)
Proceeds from disposal of property, plant and equipment	245
Purchase of property, plant and equipment	(4,823)
<b>Net Cash Used In Investing Activities</b>	<b>(21,584)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	
Dividend paid	(12,116)
Payment of estimated expenses relating to the flotation exercise	(798)
Drawdown of term loan	22,424
Payment of finance lease payables	(4)
Repayments of term loans	(1,916)
<b>Net Cash Generated From Financing Activities</b>	<b>7,590</b>
Translation differences	42
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>15,832</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>5,782</b>
Effects of exchange rate changes on cash and cash equivalents	(5)
	5,777
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>21,609</b>



**Hartalega**  
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**13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**

**NOTES TO THE PROFORMA CONSOLIDATED CASH FLOW STATEMENT**

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

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### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

#### D. PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

The following is a detailed proforma consolidated statement of assets and liabilities of the Group as at 30 September 2007 and should be read in conjunction with the Notes to the Proforma Consolidated Statement of Assets and Liabilities. The proforma consolidated statement of assets and liabilities has been prepared for illustrative purposes only based on the audited consolidated balance sheet of HHB as at 30 September 2007 and on assumption that the Interim Dividend and the Offer for Sale and EES as mentioned in paragraph B have been effected on 30 September 2007.

	Note	Proforma Group RM'000
<b>ASSETS</b>		
<b>Non-Current Assets</b>		
Property, plant and equipment	3	129,408
Capital work-in-progress	4	18,843
Prepaid land lease payments	5	153
Other investment	6	175
		<u>148,579</u>
<b>Current Assets</b>		
Inventories	7	17,219
Trade and other receivables	8	39,571
Cash and bank balances	9	21,641
		<u>78,431</u>
<b>TOTAL ASSETS</b>		<u>227,010</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	10	121,156
Reserves	11	38,586
<b>Total Equity Attributable to Shareholders of the Company</b>		<u>159,742</u>
<b>Minority interest</b>		85
<b>Total Equity</b>		<u>159,827</u>
<b>Liabilities</b>		
<b>Non-Current Liabilities</b>		
Other borrowings	12	26,422
Deferred taxation	15	16,690
		<u>43,112</u>
<b>Current Liabilities</b>		
Trade and other payables	16	15,530
Other borrowings	12	7,409
Taxation		1,132
		<u>24,071</u>
<b>Total Liabilities</b>		<u>67,183</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>227,010</u>



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### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION *(Cont'd)*

#### NOTES TO THE PROFORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

##### 1. BASIS OF PREPARATION

The financial statements of the Group are prepared in compliance with the Companies Act, 1965 and applicable approved accounting standards for entities other private entities issued by the Malaysian Accounting Standards Board.

The measurement bases applied in the presentation of the audited financial statements of HHB, HSB, SEMSB, PAPL and PUI included cost, recoverable amount and realisable value. Estimates are used in measuring these values.

The financial statements of HHB, HSB, SEMSB, PAPL and PUI are measured using the currency of the primary economic environment in which the entities operates ("the functional currency"). All the financial statements are presented in Ringgit Malaysia ("RM") and the figures have been round up to nearest RM, unless otherwise stated.

The preparation of financial statements of the Group and of the Company requires management to make assumptions, estimates and judgements that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Assumptions and estimates are reviewed on an ongoing basis and are recognised in the period in which the assumption or estimate is revised.

Significant areas of estimation, uncertainty and critical judgements used in applying accounting principles that have significant effect on the amount recognised in the financial statements are as follows:-

- i) Depreciation of property, plant and equipment - The cost of property, plant and equipment is depreciated on a reducing balance basis over the assets' useful lives. Management estimates the useful lives of these property, plant and equipment to be within 4 to 50 years. These are the common life expectancies applied generally. Changes in the expected level of usage could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.
- ii) Impairment of property, plant and equipment – the measurement of the recoverable amount of cash-generating units are determined based on the value-in-use method, which requires the use of cash flow projections based on financial budgets approved by management.



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### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

#### 2. SIGNIFICANT ACCOUNTING POLICIES

Commencing from the financial year ended 31 March 2007, HHB, HSB and SEMSB adopt all the following new and revised Financial Reporting Standards ("FRS") issued by Malaysian Accounting Standards Board (MASB) mandatory for accounting periods beginning on or after 1 January 2006.

FRS 2	Share-based Payment
FRS 3	Business Combination
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 104	Depreciation Accounting
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events After Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investment in Associates
FRS 129	Financial Reporting in Hyperinflationary Economics
FRS 131	Interest in Joint Ventures
FRS 132	Financial Instrument : Disclosures and Presentation
FRS 133	Earning per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

In addition, HHB, HSB and SEMSB have early adopted FRS 117 on Leases (mandatory for accounting periods beginning on or after 1 October 2006) commencing from the said financial year but have not early adopted the following FRS:

- FRS 124 - Related Party Disclosures, which is effective for accounting periods beginning on or after 1 October 2006. This FRS was adopted by HHB, HSB and SEMSB in the audited financial statements for the 6-months period ended 30 September 2007.
- FRS 139 - Financial Instruments: Recognition and Measurement, for which MASB has yet to announce the effective date.

The adoption of these new and revised FRS does not have any financial effects on the financial statements presented hereunder save for the following reclassification and re-presentation:-

- (i) The carrying value of leasehold land in the audited balance sheets of HSB for the past two (2) financial years ended 31 March 2005 and 2006 have been reclassified out from 'Property, plant and equipment' and shown separately as 'Prepaid land lease payments' as allowed by the transitional provision of FRS 117 on leases.
- (ii) The audited balance sheets of HSB, SEMSB, PAPL and PUI for the past two (2) financial years ended 31 March 2005 and 2006 have been re-presented to conform to the format of presentation as required by FRS 101 on Presentation of Financial Statements.



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**13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)****(a) Basis of Consolidation**

The consolidated financial statements include the financial statements of the Company and all of its subsidiary companies made up to the end of the financial year.

All intra-group balances, transactions and resulting unrealised profits and losses (unless cost cannot be recovered) are eliminated on consolidation and the consolidated financial statements reflect external transactions only.

The results of the subsidiary companies acquired or disposed during the financial year are included in the consolidated financial statements based on the purchase method from the effective date of acquisition or up to the effective date of disposal respectively. The assets and liabilities of a subsidiary company are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet.

Minority interests represent the portion of profit or loss and net assets in subsidiary companies not held by the Group. It is measured at the minority interests' share of the fair value of net assets at the acquisition date and the minorities' share of changes in the equity since then.

The consolidated financial statements are prepared on the basis that excess of losses attributable to minority shareholders over their equity interest will be absorbed by the Group. All profits subsequently reported by the subsidiary company will be allocated to the Group until the minority shareholders share of losses previously absorbed by the Group has been recovered.

**(b) Subsidiary Company**

A subsidiary company is an enterprise in which the Group has the power to exercise control over its financial and operating policies so as to obtain benefits from its activities.

Investments in subsidiary companies, which are eliminated on consolidation, are stated at cost less accumulated impairment losses, if any, in the Company's financial statements. Impairment loss is determined on individual basis.

Gains or losses arising from the disposal of an investment is determined as the difference between the estimated net disposal proceeds and the carrying amount of the investment, and is recognised in the income statement.

**(c) Goodwill on Consolidation**

Goodwill or negative goodwill acquired in a business combination represents the difference between purchase consideration and the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities in the subsidiary companies at the date of acquisition.

Any excess of the Group's interest in the net fair value of the identified assets, liabilities and contingent liabilities assumed over the cost of acquisition is recognised as negative goodwill in the consolidated income statement.



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### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

Goodwill is allocated to cash generating units and is stated at cost less accumulated impairment losses, if any. Impairment test is performed annually. Goodwill is also tested for impairment when indication of impairment exists. Impairment losses recognised are not reversed in subsequent periods.

Upon the disposal of interest in the subsidiary company, the related goodwill will be included in the computation of gain or loss on disposal of interest in the subsidiary company in the consolidated income statement.

**(d) Property, Plant and Equipment and Depreciation/Amortisation**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognised as separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Freehold land is not depreciated and depreciation of other property, plant and equipment is calculated on the reducing balance basis to write off the cost of the property, plant and equipment over their estimated useful lives.

The principal annual rates used for this purpose are: -

Factory buildings	2%
Plant and machinery	10%
Equipment, furniture and fittings	10%-25%
Motor vehicles	20%
Renovation	10%

The residual values, useful lives and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the income statement.

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these property, plant and equipment.



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**13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)****(e) Impairment of Assets**

The carrying amounts of assets other than inventories and financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of fair value less cost of sales and the value in use, which is measured by reference to discounted future cash flows and is determined on an individual asset basis, unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs to. An impairment loss is recognised whenever the carrying amount of an item of assets exceeds its recoverable amount.

An impairment loss is recognised as an expense in the income statement. Any subsequent increase in recoverable amount of an asset, other than goodwill, due to a reversal of impairment loss is restricted to the carrying amount that would have been determined (net of accumulated depreciation, where applicable) had no impairment loss been recognised in prior years. The reversal of impairment loss is recognised as revenue in the income statement.

**(f) Capital Work-In-Progress**

Capital work-in-progress is stated at cost during the period of construction.

No depreciation is provided on capital work-in-progress and upon completion of construction, the cost will be transferred to property, plant and equipment.

**(g) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in-first-out basis. Cost includes the actual cost of materials and incidentals in bringing the inventories into store and for manufactured inventories, it also includes a portion of labour and relevant production overheads.

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

**(h) Employee Benefits****i. Short Term Benefits**

Wages, salaries, social security contributions and bonuses are recognised as expenses in the year in which the associated services are rendered by employees of the Group and of the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.



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### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

#### ii. Defined Contribution Plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund. Such contributions are recognised as expenses in the income statement when incurred.

#### (i) Foreign Currencies

##### i. Transactions in foreign currencies

Transactions in foreign currencies are translated into Ringgit Malaysia at the rates of exchange ruling at the time of the transaction date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

##### ii. Translation of foreign currency financial statements

Assets, liabilities and reserves of foreign subsidiary companies are translated into Ringgit Malaysia at the rates of exchange as at the financial year end. Income statements items are translated at the average rate of exchange for the year which approximate the exchange rate at the date of transaction. The translation differences arising therefrom are recorded as movement in translation reserve. Upon disposal of a foreign subsidiary company, the cumulative amount of translation differences at the date of disposal of the subsidiary company is taken to the consolidated income statement.

#### (j) Taxation

Taxation in the income statement represents the aggregate amount of current and deferred tax. Current tax is the expected amount payable in respect of taxable income for the year and any adjustments recognised in the year for current tax of prior years.

Deferred tax is recognised, using the liability method, on all temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit. Deferred tax is measured at the tax rates that are expected to apply in the period in which the assets are realised or the liabilities are settled.

Deferred tax is recognised in equity when it relates to items recognised directly in equity. When deferred tax arises from business combination that is an acquisition, the deferred tax is included in the resulting goodwill or negative goodwill.

Deferred tax assets are recognised only to the extent that there are sufficient taxable temporary differences relating to the same taxation authority to offset or when it is probable that future taxable income will be available against which the assets can be utilised.



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### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

#### (k) Revenue recognition

##### i. Goods sold

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

##### ii. Dividend revenue

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

##### iii. Interest revenue

Interest revenue is recognised on an accrual basis using the effective interest method.

#### (l) Lease payments

##### i. Finance Leases

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases.

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a periodic constant rate of interest on the remaining balance. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance charge is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

##### ii. Operating Leases

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on the straight-line basis.

In the case of a lease of land, the minimum lease payments or the up-front payments made represents prepaid lease payments and are recognised as a rental expense on a straight-line basis over the lease term.

#### (m) Financial Instruments

Financial instruments are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangement. Interests, dividends, losses and gains relating to financial instruments classified as assets or liabilities are reported as expense or revenue. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.



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**13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**

The recognised financial instruments comprise cash and cash equivalents, trade and other receivables, trade and other payables, other non-current investments, bank borrowings and ordinary shares. These instruments are recognised in the financial statements when a contract or contractual arrangement has been entered into with the counter-parties.

**i. Receivables**

Receivables are stated at cost less allowance for doubtful debts, if any, which are the anticipated realisable values. Known bad debts are written off and specific allowance is made for those debts considered to be doubtful of collection.

**ii. Payables**

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

**iii. Interest Bearing Bank Borrowings**

Interest bearing bank borrowings which include term loans, suppliers credit financing scheme and bank overdrafts are stated at the amount of proceeds received, net of transaction costs.

**iv. Equity Instruments**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

**v. Cash and Cash Equivalents**

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, bank overdrafts and short term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

**vi. Other Non-current Investments**

Non-current investments other than investments in subsidiary companies, associated companies, jointly controlled entities and investment properties are stated at cost less allowance for diminution in value, if any.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in income statement.



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**13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)****3. PROPERTY, PLANT AND EQUIPMENT**

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

- (a) All the property, plant and equipment belongs to HSB are pledged for banking facilities granted to HSB as mentioned in note 14 to the detailed proforma consolidated balance sheet.
- (b) Included in the above property, plant and equipment are furniture, fittings and equipment acquired under the finance lease plan with cost of RM19,820 and net book value of RM13,263.

**4. CAPITAL WORK-IN-PROGRESS****Proforma Group**

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

Capital work-in-progress are pledged for banking facilities granted to HSB as disclosed in note 14 to the detailed proforma consolidated balance sheet.

**5. PREPAID LAND LEASE PAYMENTS****Proforma Group**

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

- i) The long term leasehold land has an unexpired lease period of more than 50 years.
- ii) The leasehold land is pledged for banking facilities granted to HSB as disclosed in note 14 to the detailed proforma consolidated balance sheet.



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### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

#### 6. OTHER INVESTMENT

##### Proforma Group

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

#### 7. INVENTORIES

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

There were no inventories carried at net realisable value and all inventories are pledged for banking facilities granted to HSB as mentioned in note 14 to the detailed proforma consolidated balance sheet.

#### 8. TRADE AND OTHER RECEIVABLES

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

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

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



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### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

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

#### 9. CASH AND BANK BALANCES

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

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

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

#### 10. SHARE CAPITAL

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

@ This represents RM2.00.



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**13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**


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**11. RESERVES**

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

**12. OTHER BORROWINGS**

	<b>Proforma Group RM'000</b>
<b>Current Liabilities</b>	
Finance guarantee contract	53
Finance lease payable (note 13)	6
Term loans – secured (note 14)	7,350
	<u>7,409</u>
<b>Non-Current Liabilities</b>	
Term loans – secured (note 14)	26,422
	<u>26,422</u>



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**13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)****13. FINANCE LEASE PAYABLE**

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

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

**14. TERM LOANS - SECURED**

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

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

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

**15. DEFERRED TAX LIABILITIES**

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

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



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**13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)**

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

	<b>Proforma Group RM'000</b>
Unrelieved tax losses	<u>7</u>

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

**16. TRADE AND OTHER PAYABLES**

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

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

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

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



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### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

#### 17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the followings: -

	<b>Proforma Group RM'000</b>
Cash deposits with licensed banks (note 9)	21,578
Less: Cash deposits on lien (note 9)	(32)
	<u>21,546</u>
Cash at banks and in hand (note 9)	12,977
Less: Balance of estimated expenses relating to the flotation exercise	(798)
Less: Interim dividend paid by HHB on 30 January 2008	(12,116)
	<u><u>21,609</u></u>

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

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

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

#### 18. CAPITAL COMMITMENT

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

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

#### 19. CONTINGENT LIABILITIES

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



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### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

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

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

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

### 20. FINANCIAL INSTRUMENTS

#### (a) Financial Risk Management Policies

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

##### i) Foreign Exchange Risk

The Group is exposed to foreign currency risk when the currency denomination differs from its functional currency.

The Group enters into foreign currency forward contracts to protect from movements in exchange rates by establishing the rate at which a foreign currency asset or liability will be settled.

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

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

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

##### ii) Interest Rate Risk

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

- Interest bearing financial assets

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



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### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

- Interest bearing financial liabilities

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

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

iii) **Credit Risk**

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

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

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

iv) **Liquidity and Cash Flow Risks**

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

(b) **Fair Values**

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

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

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

ii) **Borrowings**

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

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

iii) **Other Investment**

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

iv) **Forward Foreign Exchange Contracts**

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



**Hartalega**  
Holdings Berhad (741883-X)

### 13. PROFORMA CONSOLIDATED FINANCIAL INFORMATION (Cont'd)

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

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

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

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



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

### MOORE STEPHENS

CHARTERED ACCOUNTANTS  
(FIRM NO: AF.0282)

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

Tel: 603 2094 1888  
Fax: 603 2094 7673

ACCOUNTANTS' REPORT  
(Prepared for inclusion in this Prospectus)

Date: 29 February 2008

The Board of Directors  
**HARALEGA HOLDINGS BERHAD**  
Mezzanine Floor,  
8A, Jalan Sri Semantan Satu,  
Damansara Heights,  
50490 Kuala Lumpur.

Dear Sirs,

#### A. INTRODUCTION

This report has been prepared by Moore Stephens, an approved company auditor, for inclusion in the Prospectus of Hartalega Holdings Berhad ("HHB" or "Company") to be dated 28 March 2008 in connection with the admission of HHB on the Official List and the listing of and quotation for the entire issued and paid-up share capital of HHB on the Main Board of Bursa Malaysia Securities Berhad ("Bursa Securities").

#### B. FLOTATION SCHEME

In conjunction with the listing of and quotation for the entire issued and paid-up share capital of the Company on the Main Board of Bursa Securities, the Company undertook the following flotation exercise:-

- (i) Subdivision of the existing 2 ordinary shares of RM1.00 each in HHB into 4 ordinary shares of RM0.50 each which was completed on 3 May 2007 ("Share Split").
- (ii) Acquisition of the entire issued and paid-up share capital of Hartalega Sdn Bhd ("HSB") comprising 15,681,997 ordinary shares of RM1.00 each for a total purchase consideration of RM123,700,000 determined based on the audited consolidated net tangible assets of HSB as at 31 March 2006 after incorporating the effects of disposal of the entire equity interest in Hartalega (Thailand) Co Ltd ("HTCL") and after deducting a net dividend for the said financial year of RM2,352,300 which was approved by HSB's shareholders at its annual general meeting held on 21 September 2006 and paid on 20 October 2006. HTCL, a subsidiary company of HSB as at 31 March 2006, was disposed of subsequent to that date for a total cash consideration of RM1,518,096. The purchase consideration of HSB is satisfied by the issuance of 242,311,996 new ordinary shares of RM0.50 each in HHB at an issue price of approximately RM0.51 per new ordinary share. The acquisition of HSB was completed on 7 May 2007.

(The above transaction is hereinafter referred to as "Acquisition")

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



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

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

- (iii) Offer for sale and employee equity scheme by participating shareholders of HHB as follows:-
- (i) Offer for sale of 12,116,000 ordinary shares of RM0.50 each in HHB by its participating shareholders ("Offerors") to the Malaysian Public.
  - (ii) Offer for sale of 4,000,000 ordinary shares of RM0.50 each in HHB by the Offerors to the eligible directors and employees of HHB and its subsidiary companies and persons who have contributed to the success of the HHB Group.
  - (iii) Offer for sale of 8,094,000 ordinary shares of RM0.50 each in HHB by the Offerors to identified investors by way of private placement.
  - (iv) Offer for sale of 1,475,000 ordinary shares of RM0.50 each in HHB by the Offerors to selected senior management of the HHB and its subsidiary companies via an employee equity scheme.

(The above transaction is hereinafter referred to as "Offer for Sale and EES")

**C. GENERAL INFORMATION****(i) Background**

HHB was incorporated in Malaysia on 24 July 2006 as a public limited liability company under the name of Hartalega Holdings Berhad.

**(ii) Principal Activities**

The principal activity of the Company is investment holding. The principal activities of the subsidiary companies are disclosed in paragraph (iv) below.

**(iii) Share Capital**

The authorised share capital of the Company is RM250,000,000 comprising 500,000,000 ordinary shares of RM0.50 each.

The changes in the issued and paid-up share capital of the Company since its incorporation are as follows: -

Date of Allotment	No. of ordinary shares of RM1.00 each	No. of ordinary shares of RM0.50 each	Consideration/Type of issue (at par unless otherwise stated)	Total issued and paid-up share capital RM
24 July 2006	2	-	Subscribers' shares	2
3 May 2007	(2)	4	Subdivision of shares	2
7 May 2007	-	242,311,996	Issued at approximately RM0.51 per share for acquisition of 100% equity interest in HSB	121,156,000

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

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

## (iv) Subsidiary Companies and Associated Company

The information on the Company's subsidiary companies as at the date of this report is as follows:-

Name	Date and place of incorporation	Authorised share capital	Issued and paid-up share capital	Par value	Effective equity interest	Principal activities
HSB	12 September 1981 Malaysia	RM25,000,000	RM15,681,997	RM1	100%	Manufacturing of latex examination gloves
Sentinel Engineering (M) Sdn Bhd ("SEMSB")	28 September 1987 Malaysia	RM 100,000	RM 1,000	RM1	100%	Providing management services
Pharmatex (Australia) Pty Ltd ("PAPL")	2 September 1996 Australia	AUD 70,001	AUD 70,001	Not applicable	82%	Retailing and wholesaling of gloves
Pharmatex USA, Incorporated ("PUI")	11 February 2003 United States of America	USD 250,000	USD 250,000	USD 1	80%	Retailing and wholesaling of gloves

As at the date of this report, HHB does not have any associated company.

## D. DIVIDENDS

The details of dividends declared and paid by the Company and its subsidiary companies ("HHB Group" or "Group") for the financial years and periods under review are as follows:-

Name of company	Financial Year Ended	Date of declaration	Date of payment	Entitled issued and paid-up share capital RM	Gross dividend per share %	Tax rate %	Net dividend per share RM	Aggregate dividend Paid RM
HHB	6-months period ended 30 September 2007	9 January 2008	30 January 2008	121,156,000	5	Tax Exempt	0.05	12,115,600
HSB	31 March 2005	28 October 2005	7 November 2005	15,681,997	10	Tax Exempt	0.10	1,568,200
	31 March 2006	21 September 2006	20 October 2006	15,681,997	15	Tax Exempt	0.15	2,352,300
	31 March 2007	18 December 2006	15 January 2007	15,681,997	45	Tax Exempt	0.45	7,056,899
	6-months period ended 30 September 2007	2 January 2008	23 January 2008	15,681,997	79	Tax Exempt	0.79	12,388,778

The Group did not have any fixed dividend payment policy for all the financial years and periods under review.

**14. ACCOUNTANTS' REPORT (Cont'd)****MOORE STEPHENS**CHARTERED ACCOUNTANTS  
(FIRM NO: AF.0282)**E. FINANCIAL STATEMENTS AND AUDITORS**

The auditors for the financial years and periods under review and the audited financial statements in respect of which the financial information set out in this report are based upon are as follows: -

<u>Company</u>	<u>Period of financial statements</u>	<u>Auditors</u>
HHB	Financial period from 24 July 2006 (date of its incorporation) to 31 March 2007 and the 6-months period ended 30 September 2007	Messrs. Moore Stephens
HSB	Financial year ended 31 March 2005 Past two (2) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007	Messrs. Raja Salleh, Lim & Co. Messrs. Moore Stephens
SEMSB	Financial year ended 31 March 2005 Past two (2) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007	Messrs. Raja Salleh, Lim & Co Messrs. Moore Stephens
PAPL	Past three (3) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007	Messrs. KWV Consulting
PUI	Past three (3) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007	Messrs. Tanya Pontep, C.P.A.

The auditors' reports on all the above mentioned financial statements were not subject to any reservation or qualification save for an emphasis of matter disclosed in the auditors' report of SEMSB for the financial year ended 31 March 2005 which draws attention to the SEMSB's capital deficiency position as at the end of that financial year and that the continuation of SEMSB as a going concern is dependent on financial support from the holding company, HSB. This reservation has been removed in the auditors' report for the subsequent two (2) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007 as HSB had given a written confirmation to the auditors to confirm that HSB will provide financial support to SEMSB to meet its obligations as and when they fall due.

**F. BASIS OF ACCOUNTING AND SIGNIFICANT ACCOUNTING POLICIES**

The financial information in this report is prepared based on the audited financial statements of HHB, HSB, SEMSB, PAPL and PUI save for the financial information in respect of the 6-months period ended 30 September 2006 which is prepared based on the unaudited financial statements of the said companies. The audited financial statements of HHB, HSB, and SEMSB have been prepared in accordance with the applicable MASB Approved Accounting Standards for Entities Other Than Private Entities in Malaysia, whereas the audited financial statements of PAPL and PUI have been prepared based on the applicable accounting standards in their respective country.

The accounting policies based on the accounting standards adopted by PAPL and PUI do not have any material difference from the accounting policies adopted by HHB, HSB and SEMSB save for the presentation and disclosures of the financial statements.

In arriving at the financial information, certain reclassification adjustments, re-presentation of balance sheets to conform with the format of presentation required by the Financial Reporting Standard 101 on Presentation of Financial Statements, and re-presentation of cash flow statements from the 'direct method' to the 'indirect method' for consistency and for better comparison purposes, have been made to the audited financial statements of HSB, SEMSB, PAPL and PUI where applicable. These adjustments can be referred to in paragraph G, H and I.

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

**MOORE STEPHENS**  
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The basis of accounting and the summary of significant accounting policies are as follows: -

**1. BASIS OF ACCOUNTING**

The measurement bases applied in the presentation of the audited financial statements of HHB, HSB, SEMSB, PAPL and PUI included cost, recoverable amount and realisable value. Estimates are used in measuring these values.

The financial statements of HHB, HSB, SEMSB, PAPL and PUI are measured using the currency of the primary economic environment in which the entities operates ("the functional currency"). All the financial statements are presented in Ringgit Malaysia ("RM") and the figures have been round up to nearest RM, unless otherwise stated.

The preparation of financial statements of the Group and of the Company requires management to make assumptions, estimates and judgements that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Assumptions and estimates are reviewed on an ongoing basis and are recognised in the period in which the assumption or estimate is revised.

Significant areas of estimation, uncertainty and critical judgements used in applying accounting principles that have significant effect on the amount recognised in the financial statements are as follows:-

- i) Depreciation of property, plant and equipment - The cost of property, plant and equipment is depreciated on a reducing balance basis over the assets' useful lives. Management estimates the useful lives of these property, plant and equipment to be within 4 to 50 years. These are the common life expectancies applied generally. Changes in the expected level of usage could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.
- ii) Impairment of property, plant and equipment – the measurement of the recoverable amount of cash-generating units are determined based on the value-in-use method, which requires the use of cash flow projections based on financial budgets approved by management.

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

### MOORE STEPHENS

CHARTERED ACCOUNTANTS  
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#### 2. SIGNIFICANT ACCOUNTING POLICIES

Commencing from the financial year ended 31 March 2007, HHB, HSB and SEMSB adopt all the following new and revised Financial Reporting Standards ("FRS") issued by Malaysian Accounting Standards Board (MASB) mandatory for accounting periods beginning on or after 1 January 2006.

FRS 2	Share-based Payment
FRS 3	Business Combination
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 104	Depreciation Accounting
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events After Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investment in Associates
FRS 129	Financial Reporting in Hyperinflationary Economics
FRS 131	Interest in Joint Ventures
FRS 132	Financial Instrument : Disclosures and Presentation
FRS 133	Earning per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

In addition, HHB, HSB and SEMSB have early adopted FRS 117 on Leases (mandatory for accounting periods beginning on or after 1 October 2006) commencing from the said financial year but have not early adopted the following FRS:

- FRS 124 - Related Party Disclosures, which is effective for accounting periods beginning on or after 1 October 2006. This FRS was adopted by HHB, HSB and SEMSB in the audited financial statements for the 6-months period ended 30 September 2007.
- FRS 139 - Financial Instruments: Recognition and Measurement, for which MASB has yet to announce the effective date.

The adoption of these new and revised FRS does not have any financial effects on the financial statements presented hereunder save for the following reclassification and re-presentation:-

- (i) The carrying value of leasehold land in the audited balance sheets of HSB for the past two (2) financial years ended 31 March 2006 have been reclassified out from 'Property, plant and equipment' and shown separately as 'Prepaid land lease payments' as allowed by the transitional provision of FRS 117 on leases. This reclassification is disclosed in paragraph H 2.
- (ii) The audited balance sheets of HSB, SEMSB, PAPL and PUI for the past two (2) financial years ended 31 March 2006 have been re-presented to conform to the format of presentation as required by FRS 101 on Presentation of Financial Statements.

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

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

**(a) Basis of Consolidation**

The consolidated financial statements include the financial statements of the Company and all of its subsidiary companies made up to the end of the financial year.

All intra-group balances, transactions and resulting unrealised profits and losses (unless cost cannot be recovered) are eliminated on consolidation and the consolidated financial statements reflect external transactions only.

The results of the subsidiary companies acquired or disposed during the financial year are included in the consolidated financial statements based on the purchase method from the effective date of acquisition or up to the effective date of disposal respectively. The assets and liabilities of a subsidiary company are measured at their fair values at the date of acquisition and these values are reflected in the consolidated balance sheet.

Minority interests represent the portion of profit or loss and net assets in subsidiary companies not held by the Group. It is measured at the minority interests' share of the fair value of net assets at the acquisition date and the minorities' share of changes in the equity since then.

The consolidated financial statements are prepared on the basis that excess of losses attributable to minority shareholders over their equity interest will be absorbed by the Group. All profits subsequently reported by the subsidiary company will be allocated to the Group until the minority shareholders share of losses previously absorbed by the Group has been recovered.

**(b) Subsidiary Company**

A subsidiary company is an enterprise in which the Group has the power to exercise control over its financial and operating policies so as to obtain benefits from its activities.

Investments in subsidiary companies, which are eliminated on consolidation, are stated at cost less accumulated impairment losses, if any, in the Company's financial statements. Impairment loss is determined on individual basis.

Gains or losses arising from the disposal of an investment is determined as the difference between the estimated net disposal proceeds and the carrying amount of the investment, and is recognised in the income statement.

**(c) Goodwill on Consolidation**

Goodwill or negative goodwill acquired in a business combination represents the difference between purchase consideration and the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities in the subsidiary companies at the date of acquisition.

Any excess of the Group's interest in the net fair value of the identified assets, liabilities and contingent liabilities assumed over the cost of acquisition is recognised as negative goodwill in the consolidated income statement.

Goodwill is allocated to cash generating units and is stated at cost less accumulated impairment losses, if any. Impairment test is performed annually. Goodwill is also tested for impairment when indication of impairment exists. Impairment losses recognised are not reversed in subsequent periods.

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

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

Upon the disposal of interest in the subsidiary company, the related goodwill will be included in the computation of gain or loss on disposal of interest in the subsidiary company in the consolidated income statement.

**(d) Property, Plant and Equipment and Depreciation/Amortisation**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognised as separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Freehold land is not depreciated and depreciation of other property, plant and equipment is calculated on the reducing balance basis to write off the cost of the property, plant and equipment over their estimated useful lives.

The principal annual rates used for this purpose are: -

Factory buildings	2%
Plant and machinery	10%
Equipment, furniture and fittings	10%-25%
Motor vehicles	20%
Renovation	10%

The residual values, useful lives and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the income statement.

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these property, plant and equipment.

**(e) Impairment of Assets**

The carrying amounts of assets other than inventories and financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of fair value less cost of sales and the value in use, which is measured by reference to discounted future cash flows and is determined on an individual asset basis, unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs to. An impairment loss is recognised whenever the carrying amount of an item of assets exceeds its recoverable amount.

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

**MOORE STEPHENS**  
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(FIRM NO: AF.0282)

An impairment loss is recognised as an expense in the income statement. Any subsequent increase in recoverable amount of an asset, other than goodwill, due to a reversal of impairment loss is restricted to the carrying amount that would have been determined (net of accumulated depreciation, where applicable) had no impairment loss been recognised in prior years. The reversal of impairment loss is recognised as revenue in the income statement.

**(f) Capital Work-In-Progress**

Capital work-in-progress is stated at cost during the period of construction.

No depreciation is provided on capital work-in-progress and upon completion of construction, the cost will be transferred to property, plant and equipment.

**(g) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in-first-out basis. Cost includes the actual cost of materials and incidentals in bringing the inventories into store and for manufactured inventories, it also includes a portion of labour and relevant production overheads.

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

**(h) Employee Benefits****i. Short Term Benefits**

Wages, salaries, social security contributions and bonuses are recognised as expenses in the year in which the associated services are rendered by employees of the Group and of the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

**ii. Defined Contribution Plans**

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund. Such contributions are recognised as expenses in the income statement when incurred.

**(i) Foreign Currencies****i. Transactions in foreign currencies**

Transactions in foreign currencies are translated into Ringgit Malaysia at the rates of exchange ruling at the time of the transaction date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.



**14. ACCOUNTANTS' REPORT (Cont'd)****MOORE STEPHENS**CHARTERED ACCOUNTANTS  
(FIRM NO: AF.0282)**ii. Translation of foreign currency financial statements**

Assets, liabilities and reserves of foreign subsidiary companies are translated into Ringgit Malaysia at the rates of exchange as at the financial year end. Income statements items are translated at the average rate of exchange for the year which approximate the exchange rate at the date of transaction. The translation differences arising therefrom are recorded as movement in translation reserve. Upon disposal of a foreign subsidiary company, the cumulative amount of translation differences at the date of disposal of the subsidiary company is taken to the consolidated income statement.

**(j) Taxation**

Taxation in the income statement represents the aggregate amount of current and deferred tax. Current tax is the expected amount payable in respect of taxable income for the year and any adjustments recognised in the year for current tax of prior years.

Deferred tax is recognised, using the liability method, on all temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit. Deferred tax is measured at the tax rates that are expected to apply in the period in which the assets are realised or the liabilities are settled.

Deferred tax is recognised in equity when it relates to items recognised directly in equity. When deferred tax arises from business combination that is an acquisition, the deferred tax is included in the resulting goodwill or negative goodwill.

Deferred tax assets are recognised only to the extent that there are sufficient taxable temporary differences relating to the same taxation authority to offset or when it is probable that future taxable income will be available against which the assets can be utilised.

**(k) Revenue recognition****i. Goods sold**

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

**ii. Dividend revenue**

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

**iii. Interest revenue**

Interest revenue is recognised on an accrual basis using the effective interest method.

**14. ACCOUNTANTS' REPORT (Cont'd)****MOORE STEPHENS**CHARTERED ACCOUNTANTS  
(FIRM NO: AF.0282)**(l) Lease payments****i. Finance Leases**

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases.

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a periodic constant rate of interest on the remaining balance. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance charge is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

**ii. Operating Leases**

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on the straight-line basis.

In the case of a lease of land, the minimum lease payments or the up-front payments made represents prepaid lease payments and are recognised as a rental expense on a straight-line basis over the lease term.

**(m) Financial Instruments**

Financial instruments are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangement. Interests, dividends, losses and gains relating to financial instruments classified as assets or liabilities are reported as expense or revenue. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The recognised financial instruments comprise cash and cash equivalents, trade and other receivables, trade and other payables, other non-current investments, bank borrowings and ordinary shares. These instruments are recognised in the financial statements when a contract or contractual arrangement has been entered into with the counter-parties.

**i. Receivables**

Receivables are stated at cost less allowance for doubtful debts, if any, which is the anticipated realisable values. Known bad debts are written off and specific allowance is made for those debts considered to be doubtful of collection.

**ii. Payables**

Payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

**iii. Interest Bearing Bank Borrowings**

Interest bearing bank borrowings which include term loans, suppliers credit financing scheme and bank overdrafts are stated at the amount of proceeds received, net of transaction costs.

**iv. Equity Instruments**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

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

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, bank overdrafts and short term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

**vi. Other Non-current Investments**

Non-current investments other than investments in subsidiary companies, associated companies, jointly controlled entities and investment properties are stated at cost less allowance for diminution in value, if any.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is recognised in income statement.

**G. INCOME STATEMENTS**

We set out below the audited income statement of HHB for the financial period from 24 July 2006 (date of its incorporation) to 31 March 2007 and the 6-months period ended 30 September 2007, and the proforma consolidated income statements of the HHB Group for the past three (3) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007, prepared for illustrative purposes only based on the audited income statements of HHB, HSB, SEMSB, PAPL and PUI and on the basis of assumption that the existing group structure of HHB has been in existence throughout the financial years and periods under review.

We have also set out below the audited income statements of the following subsidiary companies: -

- (i) HSB for the past three (3) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007;
- (ii) SEMSB for the past three (3) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007;
- (iii) PAPL for the past three (3) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007; and
- (iv) PUI for the past three (3) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007.

We have also included, for comparison purposes, the income statements of HHB and all its subsidiary companies as well as the proforma consolidated income statement of the HHB Group for the 6-months period ended 30 September 2006 which are prepared based on the unaudited financial statements provided by the management of the HHB Group.

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

## MOORE STEPHENS

CHARTERED ACCOUNTANTS  
(FIRM NO: AF.0282)

## 1. HHB – company

	* Financial period from 24 July 2006 (date of incorporation) to 31 March 2007 RM'000	6-months period ended < ---- 30 September ---- >	
		**2006 RM'000	2007 RM'000
Operating revenue	-	-	-
Administrative costs	(8)	-	(3)
<b>Loss from operations</b>	<b>(8)</b>	<b>-</b>	<b>(3)</b>
Finance costs	-	-	-
<b>Loss before taxation</b>	<b>(8)</b>	<b>-</b>	<b>(3)</b>
Taxation	-	-	-
<b>Loss after taxation</b>	<b>(8)</b>	<b>-</b>	<b>(3)</b>

Loss before taxation is analysed as follows:-

Loss before depreciation and interest expense	(8)	-	(3)
Depreciation	-	-	-
Interest expense	-	-	-
<b>Loss before taxation</b>	<b>(8)</b>	<b>-</b>	<b>(3)</b>

Weighted average number of ordinary shares in issue ('000)	@	@	<sup>(2)</sup> 218,478
Gross loss per share (RM)	(2,000)	-	<sup>(3)</sup> (0.000027)
Net loss per share (RM)	(2,000)	-	<sup>(4)</sup> (0.000027)
Gross profit margin ("GP Margin") (%)	<sup>(1)</sup> N/A	<sup>(1)</sup> N/A	<sup>(1)</sup> N/A
Loss before taxation margin ("LBT Margin") (%)	<sup>(1)</sup> N/A	<sup>(1)</sup> N/A	<sup>(1)</sup> N/A
Loss after taxation margin ("LAT Margin") (%)	<sup>(1)</sup> N/A	<sup>(1)</sup> N/A	<sup>(1)</sup> N/A
Effective tax rate (%)	-	-	-
Gross dividend rate (%)	-	-	5

@ Four (4) ordinary shares of RM0.50 each after retrospective adjustments pursuant to the Share Split which was completed on 3 May 2007.

\* First audited financial statements.

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

<sup>(1)</sup> Not applicable (N/A) because the Company had no operating revenue for the period under review.

<sup>(2)</sup> The number of shares has been prorated on time basis to account for allotment of 242,311,996 new ordinary shares of RM0.50 each on 7 May 2007.

<sup>(3)</sup> Based on annualised loss before taxation.

<sup>(4)</sup> Based on annualised loss after taxation.

14. ACCOUNTANTS' REPORT (Cont'd)

**MOORE STEPHENS**  
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Notes: -

- (a) *There was no extraordinary item or exceptional item for the periods under review.*
- (b) *There was no operating revenue for the periods under review as HHB has not commenced operation during the periods under review.*
- (c) *The loss before tax of approximately RM8,000 and RM3,000 for the financial period from 24 July 2006 (date of incorporation) to 31 March 2007 and the 6-months period ended 30 September 2007 respectively was mainly due to incorporation expenses and statutory compliance fees incurred during the periods under review.*
- (d) *There was no provision for taxation for the periods under review in view of the losses suffered by HHB.*
- (e) *The dividends declared and paid by HHB during the 6-months period ended 30 September 2007 can be referred to in paragraph D.*
- (f) *The gross loss per share is computed based on the loss before taxation divided by the weighted average number of ordinary shares in issue during the period.*
- (g) *The net loss per share is computed based on the loss after taxation divided by the weighted average number of ordinary shares in issue during the period.*

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

**MOORE STEPHENS**  
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## 2. HHB Group – Proforma

	< Financial year ended 31 March >			6-months period ended	
	2005 RM'000	2006 RM'000	2007 RM'000	< -- 30 September -- > **2006 RM'000	2007 RM'000
<b>Operating revenue</b>	109,579	160,275	240,915	122,921	137,563
Cost of sales	(86,358)	(125,464)	(186,363)	(94,957)	(104,934)
<b>Gross profit</b>	23,221	34,811	54,552	27,964	32,629
Other operating revenue	2,867	1,245	2,076	683	1,202
Distribution costs	(2,508)	(3,824)	(5,380)	(2,825)	(3,116)
Administrative costs	(6,493)	(6,460)	(7,482)	(2,959)	(5,654)
Other operating costs	(81)	(847)	(1,530)	(563)	(262)
	(9,082)	(11,131)	(14,392)	(6,347)	(9,032)
<b>Profit from operations</b>	17,006	24,925	42,236	22,300	24,799
Finance costs	(543)	(1,062)	(1,543)	(954)	(576)
<b>Profit before taxation</b>	16,463	23,863	40,693	21,346	24,223
Taxation	(3,009)	(4,864)	(3,645)	(2,774)	(4,303)
<b>Profit after taxation</b>	13,454	18,999	37,048	18,572	19,920
<b>Attributable to:-</b>					
Equity holders of the Company	13,507	18,999	37,013	18,582	19,895
Minority interests	(53)	-	35	(10)	25
Profit attributable to shareholders	13,454	18,999	37,048	18,572	19,920
<i>Profit before taxation is analysed as follows:-</i>					
Profit before depreciation, interest expense and exceptional items	19,507	30,840	51,078	26,416	29,648
Depreciation	(4,639)	(6,339)	(9,380)	(4,524)	(5,037)
Interest expenses	(262)	(638)	(1,005)	(546)	(388)
Exceptional items	1,857	-	-	-	-
Profit before taxation	16,463	23,863	40,693	21,346	24,223
Enlarged number of ordinary share assumed in issue ('000) <sup>(1)</sup>	242,312	242,312	242,312	242,312	242,312
Gross earnings per share (sen)	6.82	9.85	16.78	<sup>(2)</sup> 17.63	<sup>(2)</sup> 19.97
Net earnings per share (sen)	5.57	7.84	15.27	<sup>(3)</sup> 15.34	<sup>(3)</sup> 16.42
GP Margin (%)	21	22	23	23	24
Profit before taxation margin ("PBT Margin") (%)	15	15	17	17	18
Profit after taxation margin ("PAT Margin") (%)	12	12	15	15	14
Effective tax rate (%)	18	20	9	13	18
Gross dividend rate (%) <sup>(4)</sup>	10	15	45	-	<sup>(5)</sup> 5

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

**MOORE STEPHENS**  
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- \*\* *Not audited and is included for comparison purposes only.*
- (1) *Based on enlarged number of ordinary shares of RM0.50 each in issue after the Share Split and the Acquisition.*
- (2) *Based on annualised profit before taxation but after minority interest.*
- (3) *Based on annualised profit after taxation and minority interest.*
- (4) *Based on gross dividend so declared and paid by HSB relating to a financial year divided by the aggregate number of ordinary shares in HSB as at end of the financial year.*
- (5) *Based on gross dividend so declared and paid by HHB relating to the 6-months period ended 30 September 2007 divided by the aggregate number of ordinary shares in HHB as at end of the period.*

Notes: -

- (a) *The proforma consolidated income statements, which have been prepared for illustrative purposes to show the aggregate results of the HHB Group, are based on accounting policies consistent with those previously adopted in the preparation of the audited financial statements of the Group and are prepared on the assumption that the current structure of the HHB Group existed throughout the financial years/periods under review.*
- (b) *The proforma consolidated income statements for the past three (3) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007 are prepared based on the audited income statement of HHB for the financial period from 24 July 2006 (date of its incorporation) to 31 March 2007 and the 6-months period ended 30 September 2007 and the audited income statements of HSB, SEMSB, PAPL and PUI for the past three (3) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007. These audited income statements and the adjustments made are set out in paragraph G 1,3,4,5 and 6.*
- (c) *There was no extraordinary item or exceptional item as for all the financial years/ periods under review except for the financial year ended 31 March 2005 where an exceptional gain was made from insurance compensation received in respect of fire damages to HSB's plant and machinery in 1999.*
- (d) *All inter-company transactions have been eliminated from the proforma consolidated income statements.*
- (e) *The HHB Group's past performances were mainly centered on HSB's manufacturing of natural and synthetic rubber disposable gloves for medical and industrial use by using natural rubber latex and nitrile as the major component of raw materials. Gloves produced using natural rubber latex ("Latex Gloves") mainly comprised latex powdered gloves, latex powdered free gloves and latex polymer coated gloves. Gloves produced using nitrile ("Nitrile Gloves") mainly comprised nitrile powdered gloves, nitrile powdered free gloves and nitrile semi conductor gloves. SEMSB mainly provided management services required by HSB whilst PAPL and PUI were mainly the marketing arms for HSB in Australia and in North America respectively. PAPL also traded in vinyl gloves ("Vinyl Gloves") sourced from third party suppliers commencing from the financial year ended 31 March 2004.*

*The marginal increase in the total operating revenue for the financial year ended 31 March 2005 as compared to the total operating revenue for the financial year ended 31 March 2004 of RM105.92 million was mainly due to increase in HSB's sales revenue from the Nitrile Gloves which was substantially offset by a decrease in its sales revenue from the Latex Gloves. The increase in sales revenue from the Nitrile Gloves was mainly contributed by an increase in orders from a major customer in the North America region. Microflex Corporation, and admission of new customers from the North America region, the Europe region and the Asia Pacific region. The major customer in the North America region, Microflex Corporation, had increased its orders for the Nitrile Gloves while curtailing the orders for the Latex Gloves in view of the increase in selling prices for the Latex Gloves raised by HSB in the previous financial year and hence, the main cause for the decrease in the sales revenue from the Latex Gloves.*

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

**MOORE STEPHENS**CHARTERED ACCOUNTANTS  
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The significant increase in total operating revenue for the financial year ended 31 March 2006 as compared to the total operating revenue for the financial year ended 31 March 2005 was mainly contributed by an increase in orders received by HSB for the Latex Gloves and the Nitrile Gloves from a major customer in the North America region, Microflex Corporation, an increase in orders for the Nitrile Gloves from another three (3) major customers namely Kaechele-Cama Latex GMBH from the Europe region and Verde Trading Co. Ltd and Kyoei Corporation from the Asia Pacific region, an increase in HSB's customer base from all major regions including a former major customer from North America region, Medline Industries Inc, which had ceased orders since the financial year ended 31 March 2002 and resumed orders during the financial year under review, an increase in sales contribution from PAPL upon PAPL securing two (2) major hospitals in the state of New South Wales as its customers, and an increase in sales contribution from PUI lifted by a rating on its nitrile gloves as "overall best combination of characteristics including low cost and low pinholes" by Clinical Research Associates, an independent non-profit dental education and product testing foundation organisation in the United States of America whose monthly newsletter, namely the 'CRA Newsletter', was circulated throughout the United States of America. The sales of the Nitrile Gloves for the financial year under review were also boosted by the introduction of a new range of nitrile gloves produced by HSB which were more elastic and lighter weight as compared to the existing range of nitrile gloves of HSB.

The significant increase in the total operating revenue for the financial year ended 31 March 2007 as compared to the total operating revenue for the financial year ended 31 March 2006 was mainly contributed by the increase in HSB's sales of both the Latex Gloves and the Nitrile Gloves although partially mitigated by the weakening of the United States Dollars against Ringgit Malaysia. The increase in sales of the Latex Gloves arose from an increase in orders from a major customer from the North America region, Microflex Corporation, procurement of a new major customer from the South America region, increase in customers base in all other major regions traded by HSB and increase in the average selling prices of the Latex Gloves. The sales of the Nitrile Gloves increased significantly due to increase in the sales of the more elastic and lighter weight nitrile gloves which was evidenced by the increase in its orders from four (4) existing major customers namely Medline Industries Inc. and Microflex Corporation from the North America region, Kaechele-Cama Latex GMBH from the Europe region and Verde Trading Co. Ltd from the Asia Pacific region, and an increase in customers base for these products in all major regions traded by HSB, an increase in sales contribution from PAPL due to continued increase in the demand for the more elastic and lighter weight nitrile gloves for the NSW Contract and Victoria Contract.

For the 6-months period ended 30 September 2007, HSB Group achieved a total operating revenue of RM137.56 million. On an annualised basis, the total operating revenue was RM275.12 million which represents an increase of 14% as compared to the total operating revenue for the financial year ended 31 March 2007. The increase in revenue was mainly due to increase in HSB's sales revenue from the Nitrile Gloves although partially mitigated by a reduction in the sales of the Latex Gloves as well as the dilution in the selling prices of both the Latex Gloves and the Nitrile Gloves caused by the depreciation of the United States Dollars against Ringgit Malaysia. The increase in sales of the Nitrile Gloves was mainly due to the continued increase in the demand for the more elastic and lighter weight nitrile gloves by certain existing major customer namely Medline Industries Inc., Innovative Healthcare and Hourglass Industries Inc. from the North America region, Kaechele-Cama Latex GMBH from the Europe region and Verde Trading Co. Ltd from the Asia Pacific region, the procurement of three (3) new major customers from the North America region by HSB namely Preventive Care Inc., Sempermed USA Inc and Medline Canada Corporation, and an increase in sales to other existing customers from the North America region and the Europe region. The reduction in sales revenue from the Latex Gloves was mainly due to decrease in orders from two (2) existing major customers namely, Microflex Corporation from the North America region and Embramac Emp. Brasil. Mats. Cir. Ind. Com. ("Embramac") from the South America region.

- (f) The decrease in the PBT Margin for the financial year ended 31 March 2005 as compared to the PBT Margin for the financial year ended 31 March 2004 of 16% was mainly due to the increase in prices of nitrile and a significant increase in heating costs due to rising diesel and medium fuel oil prices although mitigated by an exceptional gain on insurance compensation received in the financial year ended 31 March 2005 in respect of fire damages to the plant and machinery of HSB in 1999.

There was no difference in the PBT Margin for the financial year ended 31 March 2006 as compared to the PBT Margin for the financial year ended 31 March 2005. For the financial year ended 31 March 2006, raw material prices continued to increase, finance costs increased significantly due to new term loan obtained by HSB during the financial year under review to finance new high capacity production lines, and there was no exceptional gain from insurance compensation as compared to the financial year ended 31 March 2005. However despite these unfavourable conditions, the PBT Margin for the financial year ended 31 March 2006 was maintained due to:-

- (i) commencement of operations of five (5) new high capacity production lines by HSB which improved the production processes and hence the labour efficiency;



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

**MOORE STEPHENS**CHARTERED ACCOUNTANTS  
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- (ii) increase in the usage of gas and biomass by HSB, cheaper substitute for fuel, for heating purposes thus resulted in savings of heating costs;
- (iii) refinement of processes for production of powder free latex gloves by HSB which thereby allowed the exclusion of post treatment process and hence the savings of chemical costs;
- (iv) introduction of a new range of more elastic and lighter weight nitrile gloves by HSB which required lesser raw materials (nitrile and chemicals) for their production and hence, these new products earned higher gross profit margin as compared to the existing range of the Nitrile Gloves; and
- (v) increase in gross profit contribution by PAPL and PUI arising from higher sales achieved by these companies during the financial year under review.

Despite the increase in average prices of raw material, namely the natural rubber latex, and the weakening of the United States Dollars against Ringgit Malaysia, the PBT Margin for the financial year ended 31 March 2007 was higher as compared to the PBT Margin for the financial year ended 31 March 2006 mainly due to:-

- (i) full year operations of HSB's five (5) new high capacity production lines which commenced operations in previous financial year coupled with additions of three (3) more new high capacity production lines during the financial year under review which continued to improve the production processes and hence the labour efficiency;
- (ii) continued increase in the usage of the cheaper gas and biomass by HSB for heating purposes which resulted in further savings in heating costs;
- (iii) significant increase in the HSB's sales and hence the sales composition of the more elastic and lighter weight nitrile gloves which required lesser raw materials and contributed higher gross profit margin;
- (iv) economies of scale as a result of the increase in production and sales volume achieved by HSB. Certain costs such as labour costs, certain production overheads and administrative costs did not increase in proportion to the increase in the production and sales volume; and
- (v) contribution of profit before taxation by PAPL as opposed to loss before taxation position for the financial year ended 31 March 2006 as a result of a significant increase in the sales of more elastic and lighter weight nitrile gloves, which earned higher gross profit margin as compared to the existing range of the Latex Gloves and the Vinyl Gloves, and an increase in its other operating revenue due to realised gain on foreign exchange.

The 6-months period ended 30 September 2007 continue to witness the increase in the prices of natural rubber latex and dilution in selling prices of the Latex Gloves and Nitrile Gloves resulted from further depreciation of the United States Dollars against Ringgit Malaysia. Despite these unfavourable circumstances, HSB Group managed to achieve a marginal increase in the PBT Margin for the period under review as compared to the PBT Margin for the financial year ended 31 March 2007 mainly due to:-

- (i) continued increase in the usage of the cheaper gas for heating purposes which resulted in further savings in heating costs;
- (ii) continue significant increase in the sales and sales composition of the more elastic and lighter weight nitrile gloves which earned higher profit margin;
- (iii) increase in the average selling prices of the Latex Gloves; and
- (iv) a significant reduction in the operating loss of PUI for the period under review as compared to the financial year ended 31 March 2007 as a result of increase in the sales of more elastic and lighter weight nitrile gloves, which earned higher gross profit margin as compared to the existing range of the Latex Gloves as well as the increase in selling prices of Latex Gloves.

14. ACCOUNTANTS' REPORT (Cont'd)

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- (g) *The lower effective tax rate applicable to the past two (2) financial years ended 31 March 2006 was mainly due to availability of reinvestment allowance claimed by HSB under Schedule 7A of the Income Tax Act, 1967 in respect of qualifying property, plant and equipment acquired.*

*The lower effective tax rate applicable to the financial year ended 31 March 2007 and the 6-months period ended 30 September 2007 was mainly due to availability of reinvestment allowance claimed by HSB under Schedule 7A of the Income Tax Act, 1967 in respect of qualifying property, plant and equipment acquired, and a reduction in statutory tax rates which resulted in lower taxation on taxable profit for this financial year as well as a reduction in the provision for deferred taxation.*

- (h) *The dividends declared and paid by HHB and HSB for the financial years/periods under review can be referred to in paragraph D. No dividend was declared and paid by other members of the HHB Group.*

- (i) *The proforma gross earnings per share is computed based on the proforma profit before taxation but after minority interest divided by the enlarged number of ordinary shares assumed in issue forthwith the completion of the Share Split and the Acquisition.*

*The proforma net earnings per share is computed based on the proforma profit after taxation and minority interest divided by the enlarged number of ordinary shares assumed in issue forthwith the completion of the Share Split and the Acquisition.*

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

## MOORE STEPHENS

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## 3. HSB

	< Financial year ended 31 March >			6-months period ended < -- 30 September -- >	
	2005 RM'000	2006 RM'000	2007 RM'000	**2006 RM'000	2007 RM'000
<b>Operating revenue</b>	108,227	157,285	237,821	121,199	135,661
Cost of sales	(86,204)	(124,939)	(186,184)	(94,850)	(104,539)
<b>Gross profit</b>	22,023	32,346	51,637	26,349	31,122
Other operating revenue <sup>(1)</sup>	2,845	1,275	2,449	624	1,108
Distribution costs	(1,792)	(2,395)	(3,773)	(2,005)	(2,498)
Administrative costs <sup>(1)</sup>	(5,179)	(5,083)	(5,823)	(2,193)	(4,769)
Other operating costs <sup>(1)</sup>	(358)	(985)	(1,690)	(563)	(65)
	(7,329)	(8,463)	(11,286)	(4,761)	(7,332)
<b>Profit from operations</b>	17,539	25,158	42,800	22,212	24,898
Finance costs <sup>(1)</sup>	(542)	(1,058)	(1,539)	(953)	(574)
Exceptional item <sup>(1)</sup>	-	-	-	-	-
<b>Profit before taxation</b>	16,997	24,100	41,261	21,259	24,324
Taxation	(3,009)	(4,864)	(3,628)	(2,774)	(4,243)
<b>Profit after taxation</b>	13,988	19,236	37,633	18,485	20,081
<i>Profit before taxation is analysed as follows:-</i>					
Profit before depreciation, interest expense and exceptional items	20,306	31,341	51,626	26,323	29,737
Depreciation	(4,626)	(6,323)	(9,362)	(4,518)	(5,026)
Interest expense	(262)	(635)	(1,003)	(546)	(387)
Exceptional items	1,579	(283)	-	-	-
<b>Profit before taxation</b>	16,997	24,100	41,261	21,259	24,324
Weighted average number of ordinary shares in issue ('000)	10,962	<sup>(2)</sup> 15,643	15,682	15,682	15,682
Gross earnings per share (RM)	1.55	1.54	2.63	<sup>(3)</sup> 2.71	<sup>(3)</sup> 3.10
Net earnings per share (RM)	1.28	1.23	2.40	<sup>(4)</sup> 2.36	<sup>(4)</sup> 2.56
GP Margin (%)	20	21	22	22	23
PBT Margin (%)	16	15	17	18	18
PAT Margin (%)	13	12	16	15	15
Effective tax rate (%)	18	20	9	13	17
Gross dividend rate (%)	10	15	45	-	79

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

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

## MOORE STEPHENS

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(i) The following reclassifications have been made to the audited income statements:-

- (i) Administrative costs stated in the audited income statements for the financial year ended 31 March 2005 has been segregated into 'Administrative costs' and 'Other operating costs' separately in order to conform with the presentation in the audited income statement for the two (2) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007. 'Other operating costs' that have been reclassified from the 'Administrative costs' include gifts, donations and condolences;
- (ii) Foreign exchange losses that have been included in 'Finance costs' in the audited income statements for the financial year ended 31 March 2005 have been reclassified to 'Other operating costs' to conform with the presentation in the audited income statement for the two (2) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007; and
- (iii) Exceptional items which have been presented separately in the face of the audited income statement for the financial year ended 31 March 2005 have been reclassified to the function of revenue and expense to which they relate in order to comply with the format of presentation of income statement as required by the Financial Reporting Standard 101 (FRS 101) on Presentation of Financial Statements. These exceptional items were as follows:-

	< Financial year ended 31 March >			6-months period ended	
	2005	2006	2007	<-- 30 September --> 2006	2007
	RM'000	RM'000	RM'000	RM'000	RM'000
Allowance for diminution in value of investment in subsidiary companies	(278)	-	-	-	-
Insurance compensation	1,857	-	-	-	-
	1,579	-	-	-	-

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

	< Financial year ended 31 March >			6-months period ended	
	2005	2006	2007	<-- 30 September --> 2006	2007
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Other operating revenue</b>					
As per audited financial statements	988	1,275	2,449	624	1,108
Add: Reclassification from Exceptional items	1,857	-	-	-	-
As adjusted	2,845	1,275	2,449	624	1,108
<b>Administrative costs</b>					
As per audited financial statements	(5,251)	(5,083)	(5,823)	(2,193)	(4,769)
Less: Reclassification to Other operating costs	72	-	-	-	-
As adjusted	(5,179)	(5,083)	(5,823)	(2,193)	(4,769)
<b>Other operating costs</b>					
As per audited financial statements	-	(985)	(1,690)	(563)	(65)
Add: Reclassification from Administrative costs	(72)	-	-	-	-
Add: Reclassification from Finance costs	(8)	-	-	-	-
Add: Reclassification from Exceptional items	(278)	-	-	-	-
As adjusted	(358)	(985)	(1,690)	(563)	(65)

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

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	< Financial year ended 31 March >			6-months period ended	
	2005	2006	2007	<-- 30 September --> 2006	2007
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Finance costs</b>					
As per audited financial statements	(550)	(1,058)	(1,539)	(953)	(574)
Less: Reclassification to Other operating costs	8	-	-	-	-
As adjusted	(542)	(1,058)	(1,539)	(953)	(574)
<b>Exceptional items</b>					
As per audited financial statements	1,579	-	-	-	-
Add: Reclassification to Other operating costs	278	-	-	-	-
Less: Reclassification to Other operating revenue	(1,857)	-	-	-	-
As adjusted	-	-	-	-	-

(2) The number of shares has been pro-rated on time basis to account for allotment of 4,720,000 new ordinary shares of RM1.00 each at RM3.80 per new ordinary share for cash on 4 April 2005.

(3) Based on annualised profit before taxation.

(4) Based on annualised profit after taxation.

Notes: -

(a) There was no extraordinary item for all the financial years/periods under review. The exceptional items for all the financial years/periods under review were as follows:-

	< Financial year ended 31 March >			6-months period ended	
	2005	2006	2007	<-- 30 September --> 2006	2007
	RM'000	RM'000	RM'000	RM'000	RM'000
Allowance for diminution in value of investment in subsidiary companies	(278)	(283)	-	-	-
Insurance compensation	1,857	-	-	-	-
	1,579	(283)	-	-	-

(b) HSB's past performances were mainly centered on manufacturing of natural and synthetic rubber disposable gloves for medical and industrial use namely the Latex Gloves and the Nitrile Gloves.

The marginal increase in the total operating revenue for the financial year ended 31 March 2005 as compared to the total operating revenue for the financial year ended 31 March 2004 of RM1.08 million was mainly due to increase in the sales revenue from the Nitrile Gloves which was substantially offset by a decrease in the sales revenue from the Latex Gloves. The increase in sales revenue from the Nitrile Gloves was mainly contributed by an increase in orders from a major customer in the North America region, Microflex Corporation, and admission of new customers from the North America region, the Europe region and the Asia Pacific region. The major customer in the North America region, Microflex Corporation, had increased its orders for the Nitrile Gloves while curtailing the orders for the Latex Gloves in view of the increase in selling prices for the Latex Gloves raised by HSB in the previous financial year and hence, the main cause for the decrease in the sales revenue from the Latex Gloves.

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

**MOORE STEPHENS**CHARTERED ACCOUNTANTS  
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The significant increase in total operating revenue for the financial year ended 31 March 2006 as compared to the total operating revenue for the financial year ended 31 March 2005 was mainly contributed by an increase in orders for both the Latex Gloves and the Nitrile Gloves from a major customer in the North America region, Microflex Corporation, an increase in orders for the Nitrile Gloves from another three (3) major customers namely Kaechele-Cama Latex GMBH from the Europe region and Verde Trading Co. Ltd and Kyoei Corporation from the Asia Pacific region, and an increase in customer base from all major regions traded by the HSB including a former major customer from North America region, Medline Industries Inc, which had ceased orders since the financial year ended 31 March 2002 and resumed orders during the financial year under review. The sales of the Nitrile Gloves for the financial year under review were also boosted by the introduction of a new range of nitrile gloves produced by HSB which were more elastic and lighter weight as compared to the existing range of nitrile gloves of HSB.

The significant increase in the total operating revenue for the financial year ended 31 March 2007 as compared to the total operating revenue for the financial year ended 31 March 2006 was mainly contributed by both the sales revenue of the Latex Gloves and the Nitrile Gloves although partially mitigated by the weakening of the United States Dollars against Ringgit Malaysia. The increase in sales revenue from the Latex Gloves arose from an increase in orders from a major customer from the North America region, Microflex Corporation, procurement of a new major customer from the South America region, increase in customers base in all other major regions traded by HSB and an increase in the average selling prices of the Latex Gloves. The significant increase in the sales revenue from the Nitrile Gloves was mainly due to increase in the sales of the more elastic and lighter weight nitrile gloves which was evidenced by the increase in its orders from four (4) existing major customers namely Medline Industries Inc. and Microflex Corporation from the North America region, Kaechele-Cama Latex GMBH from the Europe region and Verde Trading Co. Ltd from the Asia Pacific region, and an increase in customers base for these products in all major regions traded by HSB.

For the 6-months period ended 30 September 2007, HSB achieved a total operating revenue of RM135.66 million. On an annualised basis, the total operating revenue was RM271.32 million which represents an increase of 14% as compared to the total operating revenue for the financial year ended 31 March 2007. The increase in the total operating revenue for the period under review was mainly due to increase in the sales of the Nitrile Gloves although partially mitigated by a reduction in the sales of the Latex Gloves as well as the dilution in the selling prices of both the Latex Gloves and the Nitrile Gloves caused by the depreciation of the United States Dollars against the Ringgit Malaysia. The significant increase in the sales of the Nitrile Gloves was mainly due to increase in the sales of the more elastic and lighter weight nitrile gloves which was evidenced by the increase in their orders by certain existing major customers namely, Medline Industries Inc, Innovative Healthcare and Hourglass Industries Inc. from the North America region, Kaechele-Cama Latex GMBH from the Europe region and Verde Trading Co. Ltd from the Asia Pacific region, the procurement of three (3) new major customers from the North America region namely Preventive Care Inc, Sempermed USA Inc and Medline Canada Corporation, and an increase in orders from other existing customers in the North America region and the Europe region. The reduction in sales of the Latex Gloves was mainly due to a decrease in orders from two (2) existing major customers namely Microflex corporation from the North America region, and Embramac from the South America region. The reduction in orders from these customers was mainly due to the increase in selling prices of the Latex Gloves following the increase in the average prices of natural rubber latex.

- (c) The PBT Margin for the financial year ended 31 March 2005 remained the same as the PBT Margin for the financial year ended 31 March 2004. For the financial year ended 31 March 2005, nitrile prices and heating costs increased significantly due to rising diesel and medium fuel oil prices. However the unfavourable impact on the PBT Margin arising from the increased nitrile prices and heating costs was negated by a net exceptional gain recorded for the financial year ended 31 March 2005 which comprised an exceptional gain on insurance compensation in respect of fire damages to the plant and machinery of HSB in 1999, and an exceptional allowance made for diminution in value of investment in HSB's subsidiary companies namely HTCL, PUI and PAPL.

The marginal decrease in the PBT Margin for the financial year ended 31 March 2006 as compared to the PBT Margin for the financial year ended 31 March 2005 was mainly due to an increase in the prices of raw materials, absence of exceptional gain from insurance compensation, further exceptional allowance made for impairment of investment in HTCL, allowance made for debts owing by HTCL and a significant increase in finance costs due to new term loan obtained during the financial year under review to finance new high capacity production lines. However, these unfavourable impacts on the PBT Margin for the financial year ended 31 March 2006 were mitigated by:-

- (i) commencement of operations of five (5) new high capacity production lines which improved the production processes and hence the labour efficiency;

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- (ii) *increase in the usage of gas and biomass, cheaper substitute for fuel, for heating purposes thus resulted in savings of heating costs;*
- (iii) *refinement of processes for production of powder free latex gloves which thereby allowed the exclusion of post treatment process and hence the savings of chemical costs; and*
- (iv) *introduction of a new range of more elastic and lighter weight nitrile gloves which required lesser raw materials (nitrile and chemicals) for their production and hence, earned higher gross profit margin as compared to the existing range of the Nitrile Gloves.*

*Despite the increase in average prices of raw material, namely the natural rubber latex, and the weakening of the United States Dollars against Ringgit Malaysia, HSB's PBT Margin for the financial year ended 31 March 2007 was higher as compared the PBT Margin for the financial year ended 31 March 2006 mainly due to:-*

- (i) *full year operations of the five (5) new high capacity production lines which commenced operations in previous financial year coupled with additions of three (3) more new high capacity production lines during the financial year under review which continued to improve the production processes and hence the labour efficiency;*
- (ii) *continued increase in the usage of the cheaper gas and biomass for heating purposes which resulted in further savings in heating costs;*
- (iii) *significant increase in the sales and hence the sales composition of the more elastic and lighter weight nitrile gloves which required lesser raw materials and contributed higher gross profit margin; and*
- (iv) *economies of scale as a result of the increase in production and sales volume. Certain costs such as labour costs, certain production overheads and administrative costs did not increase in proportion to the increase in the production and sales volume.*

*The 6-months period ended 30 September 2007 continue to witness the increase in the prices of natural rubber latex and dilution in selling prices of the Latex Gloves and the Nitrile Gloves due to further depreciation of the United States Dollars against Ringgit Malaysia. Despite these unfavourable circumstances, HSB managed to achieve a marginal increase in the PBT Margin for the period under review as compared to the PBT Margin for the financial year ended 31 March 2007 mainly due to:-*

- (v) *continued increase in the usage of the cheaper gas for heating purposes which resulted in further savings in heating costs;*
  - (vi) *continued significant increase in the sales and sales composition of the more elastic and lighter weight nitrile gloves which earned higher profit margin; and*
  - (vii) *increase in the average selling prices of the Latex Gloves.*
- (d) *The lower effective tax rates applicable to the past two (2) financial years ended 31 March 2006 was mainly due to availability of reinvestment allowance claimed by HSB under Schedule 7A of the Income Tax Act, 1967 in respect of qualifying property, plant and equipment acquired.*
- The lower effective tax rate applicable to the financial year ended 31 March 2007 and the 6-months period ended 30 September 2007 was mainly due to availability of reinvestment allowance claimed by HSB under Schedule 7A of the Income Tax Act, 1967 in respect of qualifying property, plant and equipment acquired, and a reduction in statutory tax rates which resulted in lower taxation on taxable profit for these financial year/period as well as a reduction in the provision for deferred taxation.*
- (e) *The dividends declared and paid by HSB during the financial years/periods under review can be referred to in paragraph D.*
- (f) *The gross earnings per share is computed based on profit before taxation divided by the weighted average number of ordinary shares in issue during the financial year/period.*

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

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

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## 4. SEMSB

	< Financial year ended 31 March >			6-months period ended < -- 30 September -- >	
	2005	2006	2007	**2006	2007
	RM'000	RM'000	RM'000	RM'000	RM'000
Operating revenue	50	50	98	25	96
Cost of sales	-	-	-	-	-
<b>Gross profit</b>	<b>50</b>	<b>50</b>	<b>98</b>	<b>25</b>	<b>96</b>
Other operating revenue	-	-	-	-	-
Administrative costs	(51)	(51)	(104)	(25)	(99)
<b>Loss before taxation</b>	<b>(1)</b>	<b>(1)</b>	<b>(6)</b>	<b>-</b>	<b>(3)</b>
Taxation	-	-	(1)	-	-
<b>Loss after taxation</b>	<b>(1)</b>	<b>(1)</b>	<b>(7)</b>	<b>-</b>	<b>(3)</b>

*Loss before taxation is analysed as follows:-*

Loss before depreciation and interest expense	(1)	(1)	(6)	-	(3)
Depreciation	-	-	-	-	-
Interest expense	-	-	-	-	-
<b>Loss before taxation</b>	<b>(1)</b>	<b>(1)</b>	<b>(6)</b>	<b>-</b>	<b>(3)</b>

Weighted average number of ordinary shares in issue ('000)	1	1	1	1	1
Gross loss per share (RM)	(1.00)	(1.00)	(6.00)	-	<sup>(1)</sup> (6.00)
Net loss per share (RM)	(1.00)	(1.00)	(7.00)	-	<sup>(2)</sup> (6.00)
GP Margin (%)	100	100	100	100	100
LBT Margin (%)	(2)	(2)	(6)	-	(3)
LAT Margin (%)	(2)	(2)	(7)	-	(3)
Effective tax rate (%)	-	-	(17)	-	-
Gross dividend rate (%)	-	-	-	-	-

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

<sup>(1)</sup> Based on annualised loss before taxation.

<sup>(2)</sup> Based on annualised loss after taxation.

Notes: -

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

(b) The total operating revenue for all the financial years/periods under review solely consist of management fees charged to the holding company, HSB.

(c) There have been no changes to the total operating revenue and cost structure of SEMSB for the financial years ended 31 March 2005 and 2006.



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*The significant increase in the total operating revenue for the financial year ended 31 March 2007 as compared to the total operating revenue for the financial year ended 31 March 2006 was mainly due to increase in management fee revenue from HSB from December 2006 onwards. Notwithstanding the increase in the total operating revenue, the loss before taxation for the financial year ended 31 March 2007 increased as compared to the loss before taxation for the financial year ended 31 March 2006 mainly due to increase in administrative costs resulted from an increase in the rental of land charged by Perbadanan Aset Keretapi (land owner) commencing from 1 December 2006 following the renewal of this tenancy. In connection to this renewal tenancy agreement, SEMSB has also incurred bank guarantee charges and stamp duty.*

*For the 6-months period ended 30 September 2007, the total operating revenue of SEMSB was RM96,000. On an annualised basis, the total operating revenue was RM192,000 which represents an increase of 96% as compared to the total operating revenue for the financial year ended 31 March 2007. The significant increase in the total operating revenue for the period under review was mainly due to higher management fees charged to HSB since December 2006. The LBT Margin for the 6-months period ended 30 September 2007 is lower as compared to financial year ended 31 March 2007 mainly due to absence of bank guarantee charges and stamp duty incurred for renewal of tenancy agreement with Perbadanan Aset Keretapi.*

- (d) *There was no provision for taxation for the past two (2) financial years ended 31 March 2006 and the 6-months period ended 30 September 2007 in view of the losses suffered by SEMSB in these financial years/period. In respect of the financial year ended 31 March 2007, the provision for taxation was mainly due to certain administrative expenses being disallowed as deduction for tax purposes.*
- (e) *No dividend has been declared or paid by SEMSB during the financial years/periods under review.*
- (f) *The gross loss per share is computed based on loss before taxation divided by the weighted average number of ordinary shares in issue during the financial year/period.*

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

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## MOORE STEPHENS

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## 5. PAPL

	<Financial year ended 31 March>			6-months period ended <-- 30 September -->	
	2005	2006	2007	**2006	2007
	RM'000	RM'000	RM'000	RM'000	RM'000
Operating revenue	1,783	3,843	4,620	2,502	2,596
Cost of sales	(1,318)	(2,660)	(3,044)	(1,630)	(1,808)
<b>Gross profit</b>	465	1,183	1,576	872	788
Other operating revenue	22	2	176	59	94
Distribution costs <sup>(1)</sup>	(345)	(684)	(914)	(524)	(333)
Administrative costs <sup>(1)</sup>	(331)	(435)	(486)	(217)	(329)
Other operating costs <sup>(1)</sup>	(2)	(135)	(2)	-	-
	(678)	(1,254)	(1,402)	(741)	(662)
<b>(Loss)/Profit before taxation</b>	(191)	(69)	350	190	220
Taxation	-	-	(16)	-	(60)
<b>(Loss)/Profit after taxation</b>	(191)	(69)	334	190	160

(Loss)/Profit before taxation is analysed as follows:-

(Loss)/Profit before depreciation and interest expense	(187)	(65)	355	192	225
Depreciation	(4)	(4)	(5)	(2)	(5)
Interest expense	-	-	-	-	-
(Loss)/Profit before taxation	(191)	(69)	350	190	220

Weighted average number of ordinary shares in issue ('000)	70	70	70	70	70
Gross (loss)/earnings per share (RM)	(2.73)	(0.99)	5.00	<sup>(2)</sup> 5.43	<sup>(2)</sup> 6.29
Net (loss)/earnings per share (RM)	(2.73)	(0.99)	4.77	<sup>(3)</sup> 5.43	<sup>(3)</sup> 4.57
GP Margin (%)	26	31	34	35	30
(LBT Margin)/PBT Margin (%)	(11)	(2)	8	8	8
(LAT Margin)/PAT Margin (%)	(11)	(2)	7	8	6
Effective tax rate (%)	-	-	5	-	27
Gross dividend rate (%)	-	-	-	-	-

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

**14. ACCOUNTANTS' REPORT (Cont'd)****MOORE STEPHENS**CHARTERED ACCOUNTANTS  
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- (1) *The 'Employee benefits', 'Depreciation' and 'Other expenses from ordinary activities' as presented in the audited income statements of PAPL for all the financial years/periods under review have been aggregated and presented as 'Distribution costs' and 'Administrative costs' in order to conform with the classification in the audited income statement of HSB.*
- (2) *Based on annualised profit before taxation.*
- (3) *Based on annualised profit after taxation.*

**Notes:-**

- (a) *Figures for the past three (3) financial years ended 31 March 2007 and the 6-months period ended 30 September 2007 are translated from the audited financial statements denominated in Australian Dollars using the average rate prevailing in those financial years/period of RM2.8988:AUD1.00, RM2.7843:AUD1.00, RM2.7138:AUD1.00 and RM2.9073:AUD1.00 respectively.*
- (b) *Figures for the 6-months period ended 30 September 2006 are translated from the unaudited financial statements denominated in Australian Dollars using the average rate prevailing in that period of RM2.7549:AUD1.00.*
- (c) *The audited income statements of PAPL for all the financial years/periods under review have been re-presented to disclose the expenses in accordance with their function within the enterprise so as to conform to the presentation of the audited financial statements of HSB.*
- (d) *There was no extraordinary item or exceptional item for all the financial years/periods under review.*
- (e) *The increase in total operating revenue for the financial year ended 31 March 2005 as compared to the total operating revenue for the financial year ended 31 March 2004 of RM1.60 million was mainly due to procurement of a contract from the state government of Victoria, Australia ("Victoria Contract" is a contract to supply examination gloves to the various government departments and agencies in the state of Victoria, Australia), an increase in sales revenue from the Blue Care Contract (a contract to supply examination gloves to nursing homes under the charge of United Church in Australia Property Trust in the state of Queensland, Australia, procured in the financial year ended 31 March 2004) and further appreciation in exchange rate of Australian Dollar against Ringgit Malaysia although partially mitigated by a reduction in the sales revenue under a contract with state government of New South Wales, Australia ("NSW Contract" is a contract to supply examination gloves to the various government departments and agencies such as schools, universities, colleges, police force, hospitals, various health organisations, forestry & agriculture organisations, ambulance services, emergency & rescue services and other state government approved entities in the state of New South Wales, Australia) mainly due to cessation of sales to a major customer. During the financial year under review, the state government of New South Wales piloted a new tender which involved four (4) health regions of which the major customer represents one of the health regions. PAPL was unsuccessful in the piloted tender and hence lost the major customer.*

*The significant increase in total operating revenue for the financial year ended 31 March 2006 as compared to the total operating revenue for the financial year ended 31 March 2005 was mainly due to PAPL securing two new major public hospitals as customers under the NSW Contract and the introduction of a new range of more elastic and lighter weight nitrile gloves as compared to the existing range of the nitrile gloves of PAPL which lifted the sales revenue from the Nitrile Gloves for the NSW Contract and the Victoria Contract.*

*The increase in the total operating revenue for the financial year ended 31 March 2007 as compared to the total operating revenue for the financial year ended 31 March 2006 was mainly contributed by the continued increase in the demand for the more elastic and lighter weight nitrile gloves for the NSW Contract and the Victoria Contract.*

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For the 6-months period ended 30 September 2007, PAPL achieved total operating revenue of RM2.60 million. On an annualised basis, the total operating revenue was RM5.20 million which represents an increase of 12% as compared to the total operating revenue for the financial year ended 31 March 2007. The increase in the total operating revenue for the period under review was mainly due to a significant increase in the sales of the Latex Gloves as well as an appreciation in exchange rate of Australian Dollar against Ringgit Malaysia although partially mitigated by a reduction in the selling prices of the Latex Gloves and the Nitrile Gloves and a reduction in the sales of the Nitrile Gloves. The significant increase in the sales of the Latex Gloves was mainly due to the appointment of two (2) new distributors as customers namely, SSS Australia Pty. Ltd and Atlas Healthcare Pty Ltd from Queensland and the state of South Australia respectively. These new distributors are given the rights to act as PAPL's agent to service the customers directly in the state they reside and therefore it allows PAPL to expand its market shares into these new areas with lower overhead expenses by removing the need to establish a sales office in those areas. Furthermore, the sales of the Latex Gloves for the period under review were also boosted by the introduction of a new range of latex gloves at a lower prices as compared to the existing range of latex gloves of PAPL. The significant decrease in the sales of the Nitrile Gloves was mainly due to the departure of another major customer under the NSW Contract namely, Greater Western Area Health Service.

- (f) The loss before taxation suffered by PAPL for the financial year ended 31 March 2005 as compared to profit before taxation for the financial year ended 31 March 2004 of RM150,000 was mainly due to a reduction in the gross profit earned from sales of the Latex Gloves resulted from a downward revision to the selling prices of the Latex Gloves for the NSW Contract. The terms of the NSW Contract provided for a revision to the selling prices charged by PAPL to a price which is no less favourable than that given by PAPL to other customers. Therefore, in view of the lower price for the Latex Gloves applicable to the Victoria Contract, the selling price of the Latex Gloves for the NSW Contract was similarly lowered. In addition, sales rebate was given to the distributors. PAPL sells to its distributors, without exception, at the distributor price list, as agreed from time to time. Given the distributor price lists were set without consideration of contract prices, the distributors would earn lower gross profit from selling to approved contract customers at the contract prices which were lower. Therefore, sales rebate was given to compensate PAPL's distributors for contract sales.

The significant improvement in LBT Margin for the financial year ended 31 March 2006 as compared to the LBT Margin for the financial year ended 31 March 2005 was mainly due to a significant increase in the total operating revenue and gross profit margin of the Nitrile Gloves. The significant increase in the gross profit margin of the Nitrile Gloves was mainly due to a significant proportion of the sales revenue from the Nitrile Gloves for the financial year under review arose from sales of the new range of more elastic and lighter weight nitrile gloves which earned higher gross profit margin as compared to the existing range of the nitrile gloves. In addition, relatively lower increase in administrative costs as compared to the increase in total operating revenue has also contributed to the improvement in the LBT Margin. The major components of the administrative costs were staff costs which did not increase in tandem with the increase in total operating revenue.

The turnaround into profit before taxation for the financial year ended 31 March 2007 as compared to loss before taxation position for the financial year ended 31 March 2006 was mainly due to a significant increase in the sales composition of the Nitrile Gloves (percentage of sales revenue from the Nitrile Gloves over the total operating revenue), especially the more elastic and lighter weight nitrile gloves, which earned higher gross profit margin as compared to the existing range of the Latex and Vinyl Gloves. The profit before taxation position for the financial year ended 31 March 2007 was also contributed by an increase in other operating revenue due to realised gain on foreign exchange and the lower increase in certain distribution and administrative costs such as staff costs, as compared to the increase in total operating revenue.

There was no difference in the PBT Margin for the period ended 30 September 2007 as compared to the financial year ended 31 March 2007. Although reduction in the selling prices of the Latex Gloves and the Nitrile Gloves as well as the a decrease in sales composition of the higher profit margin Nitrile Gloves following the decrease in their sales adversely affected the gross profit margin for the 6-months period ended 30 September 2007, the effects to the PBT Margin were mitigated by a significant reduction in sales rebates granted to customers following the reduction in the prices of the Latex Gloves and the Nitrile Gloves.

- (g) There was no provision for taxation for the past two (2) financial years ended 31 March 2006 in view of losses suffered in these financial years.

The statutory tax rate applicable to Australian Corporation is 30%. The lower effective tax rate applicable to the financial year ended 31 March 2007 and the 6-months period ended 30 September 2007 was mainly due to availability of unutilised tax losses brought forward from the previous financial years to set-off against the taxable profit for the financial year/period under review.