

NOTES TO THE INTERIM FINANCIAL REPORT

A EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD (“FRS”) 134 INTERIM FINANCIAL REPORTING

A1. Basis of Preparation

The interim financial report has been prepared in accordance with requirements of FRS 134: “Interim Financial Reporting” and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad (“**Bursa Securities**”) for the ACE Market (formerly known as MESDAQ Market) to be read in conjunction with the Annual Report for the financial year ended 31 December 2008.

The same accounting policies and methods of computation are followed in the interim financial report as compared with the annual financial statements for the financial year ended 31 December 2008.

A2. Changes in Accounting Policies

The accounting policies and methods of computation adopted by the Group in the quarterly financial report are consistent with those adopted in the audited financial statements of the Group for the financial year ended 31 December 2008 except for the adoption of the revised FRSs and new Interpretations effective for financial periods beginning on or after 1 January 2009:-

Standard/Interpretation

FRS 4 *Insurance Contracts*
FRS 7 *Financial Instruments: Disclosures*
FRS 8 *Operating Segments*
FRS 139 *Financial Instruments: Recognition and Measurement*
IC Interpretation 9 *Reassessment of Embedded Derivatives*
IC Interpretation 10 *Interim Financial Reporting and Impairment*

FRS 4 and the IC Interpretations 9 listed above are not applicable to the Group. By virtue of the exemption given by FRS 139, the adoption of all FRSs and IC Interpretations mentioned above does not have significant financial impact to the Group.

A3. Qualification of Financial Statements

The auditor’s report on the financial statements of HDM-Carlaw for the financial year ended 31 December 2008 was not subject to any audit qualification.

A4. Seasonal or Cyclical Factors

Historically, the Group’s sales are geared towards the second half of the year. Hence, sales in the first half of the year are generally lower.

A5. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group during the current quarter under review.

A6. Material Changes in Estimates

There were no changes in estimates that have a material effect on the current quarter results.

A7. Debts and Equity Securities

There were no issuance, repurchase, cancellation, resale, and repayment of debt and equity securities for the current quarter under review.

As part of HDM-Carlraw's listing scheme, an employees' share option scheme ("**ESOS**") involving up to 15% of HDM-Carlraw's issued and paid-up share capital at any time during the existence of the ESOS was also implemented but not commenced yet.

A8. Dividend

There were no dividends paid during the current quarter under review.

A9. Segmental Information

Segmental information is not presented as the Group is primarily engaged in only one core business segment which is the provision of robotics, automation and flexible manufacturing system solutions for the manufacturing industry.

A10. Valuation of Property, Plant and Equipment

The Group did not revalue any of its property, plant and equipment during the current quarter under review.

A11. Material Events Subsequent To The End of The Quarter

There were no material events subsequent to the end of the current quarter under review.

A12. Changes in Composition of the Group

There were no changes in the composition of the Group for the current quarter under review.

A13. Contingent Assets and Liabilities

There were no contingent assets or contingent liabilities for the current quarter under review.

B EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD FOR THE ACE MARKET

B1. Review of Performance

For the second quarter ended 30 June 2009, the Group recorded revenue and loss before taxation ("LBT") of RM280,000 and RM1,139,542 respectively. There was an increase of RM221,899 in revenue and decrease of RM194,101 in LBT as compared to the preceding year corresponding quarter ended 30 June 2008. The contribution in revenue for the period was generated from the sales of machine products and parts to the customers in the paper and print industry. The improvement in LBT was mainly due to the increase in revenue and costs restrained for operating expenses.

B2. Comparison with Preceding Quarter's Results

The Group recorded a revenue of RM280,000 in the current quarter under review representing an increase of RM162,800 as compared to RM118,000 that achieved in the preceding quarter ended 31 March 2009. There was mainly due to the sale of two (2) units of machine products as compared to last quarter.

LBT of RM1,139,542 was recorded by the Group during the current quarter ended, which represented an increase of RM621,353 as compared to LBT of RM518,189 in the preceding quarter ended 31 March 2009. This was mainly due to the losses on disposal of machinery that amounted to RM614,461 during this current reporting quarter.

B3. Prospects for 2009

The Group will continue to focus on its core activities and barring any unforeseen circumstances, the Directors expect that the performance of the Group will be challenging for the financial year ending 31 December 2009 as per the global economic turmoil and downturn in major industrial countries as well as the lack of orders received and intense industry competition.

B4. Variance on Profit Forecast/Profit Guarantee

The Group did not issue any profit forecast/profit guarantee for the current period and financial year to-date. Thus, this is not applicable to the Group.

B5. Taxation

For the financial period ended 30 June 2009, there is no tax liability to be expected.

B6. Profit on Sales of Unquoted Investment and/or Properties

There were no disposals of unquoted investments and/or properties by the Group for the current quarter under review and the current financial year to date.

B7. Quoted Securities

There were no purchases or disposals of quoted securities by the Group for the current quarter under review.

B8. Status of Corporate Proposals

There were no corporate proposals announced but not completed as at the date of this report.

B9. Status of Utilisation of Proceeds

The Group has fully utilised its proceeds from its listing exercise.

B10. Borrowings and Debt Securities

As at 30 June 2009, the Group has outstanding secured and non-secured overdraft of RM1.1 million and RM1.0 million respectively, and a term loan balance of RM1.4 million during the period.

The Group does not have any long term or foreign currency borrowings other than above term loan which is to fund the construction of the Group's new factory in Prai.

B11. Off Balance Sheet Financial Instruments

The Group does not have any off balance sheet financial instruments as at the date of this report.

B12. Material Litigation

Other than set out below, the Group is not engaged in any litigation or arbitration either as plaintiff or defendant which has a material effect on the financial position of the Group and the directors do not have any knowledge of any proceedings pending or threatened against the Group or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of the Group as at the date of this report.

1. HDM-Carlaw Corporation Berhad ("HDMC") has served a Summons and Statement of Claim dated 18 June 2008 against Esameg Sdn. Bhd., ESA-Switchgears Engineering Sdn. Bhd. and Esa-Switchgears Sdn. Bhd. (hereinafter referred to as "Defendants"). The Summons and Statement of Claim is for :-
 - a. RM1,213,875.00 outstanding amount as stated in the Statement of Claim;
 - b. Interest at a rate of 8% per month for the amount of RM1,213,875.00 from 14 March 2008 until full settlement;
 - c. cost; and
 - d. relief or court order from the high court until full settlement date.

A copy of the "Memorandum Kehadiran" was duly filed to the Penang High Court on 9 September 2008. The Solicitors of HDMC will take the necessary steps to defend the claims and to counter claim against the defendants in the legal suit. No hearing date has been fixed as at the date of issuance of this report.

2. The Lotus City Bearings (M) Sdn. Bhd. has served a Summons and Statement of Claim dated 20 November 2008 against a wholly-owned subsidiary of HDMC, HDM-Carlaw (Malaysia) Sdn. Bhd. The Summons and Statement of Claim is for a total claim amounting to RM11,384.40.

The Board of Directors of HDMC are of the opinion that the case is defensible but not withstanding that, the claims should not have a material impact on the Company's performance which has been accrued in the account. The court hearing for the case was fixed on 12 January 2009 at Magistrate Court in Ipoh, Perak and a new hearing date has been fixed to 23 February 2009. On 23 February 2009, the court hearing was adjourned until a further new date is fixed. No hearing date has been fixed as at the date of issuance of this report.

3. The Hong Kheng Construction Sdn. Bhd. has served a Summons and Statement of Claim dated 3 February 2009 against HDMC. The Statement of Claim is as follows:-
- Total amounting to RM276,179.80;
 - interest on RM276,179.80 based on the Maybank Base Lending Rate with additional 1% per year from the date of filing until settlement of the case;
 - cost; and
 - relief or other claims as the Court think fit.

The Group had, via a stamped agreement dated 11 May 2009, agreed to transfer certain of its fixed assets for a total consideration of RM276,179.80 ("Proposed Disposal") to Hock Kheng Construction Sdn. Bhd. ("HKC"). In respect of above subject matter, there are additional information as follows:

- The net book value of the fixed assets as per the audited accounts as at 31 December 2008 is RM940,346.00.
- The loss on disposal is not expected to have a material effect on the loss per share of the Group.
- The total consideration of RM276,179.80 was arrived at on a willing-buyer willing-seller basis after taking into consideration the amount owing to HKC by HDMC as well as the idle status and limited usage of those fixed assets.
- The total amount owing to HKC before the Proposed Disposal is RM276,179.80 which will be fully settled pursuant to the Proposed Disposal.

On 30 June 2009, the Group received a notification that Hock Keng Construction Sdn. Bhd. had, on 2 June 2009, withdrawn the above mentioned suit against HDMC.

B13. Dividend

The Board of Directors did not recommend any dividends for the current quarter ended 30 June 2009.

B14. Earnings Per Share

The basic earnings per share is calculated based on the net profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares of RM0.10 each in issue for the period.

	3 months ended		Cumulative 6 months ended	
	30.6.2009	30.6.2008	30.6.2009	30.6.2008
Loss for the period attributable to the ordinary equity holder of the parent (RM'000)	(1,140)	(1,334)	(1,658)	(2,246)
Weighted average number of ordinary shares in issue ('000)	88,000	88,000	88,000	88,000
Basic loss per share attributable to equity holders of the parent (sen)	(1.29)	(1.52)	(1.88)	(2.55)

Diluted earnings per share is not disclosed as the options under the Company's ESOS have not been granted as at the date of this report.

B15. Authorisation for Issue

This interim financial report has been approved by the Board of Directors of HDM-Carlaw for issuance on 28 August 2009.