



Hartalega

Holdings Berhad (741883-X)

Notes to the Interim financial report for the Second Quarter ended 30 September 2008

A. NOTES PURSUANT TO THE FINANCIAL REPORTING STANDARD 134 (FRS 134): INTERIM FINANCIAL REPORTING

A1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with requirement of Financial Reporting Standard 134 (FRS 134): Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”) and Appendix 9B part A of the Listing Requirements (“Listing Requirements”) of the Bursa Malaysia Securities Bhd (“Bursa Securities”).

The same accounting policies and methods of computation are followed in the preparation of this interim financial report as compared with the most recent annual financial statements for the year ended 31 March 2008 except for the adoption of the following new and revised FRSs, Amendments to FRSs and Issues Committee (“IC”) interpretations:

FRS 107	Cash Flow Statements
FRS 111	Construction Contracts
FRS 112	Income Taxes
FRS 118	Revenue
FRS 119	Employee Benefits
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance
Amendment to FRS 121	The Effects of Changes in Foreign Exchange Rates - Net Investment in Foreign Operation
FRS 126	Accounting and Reporting by Retirement Benefit Plans
FRS 129	Financial Reporting in Hyperinflationary Economies
FRS 134	Interim Financial Reporting
FRS 137	Provision, Contingent Liabilities and Contingent Assets
IC Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IC Interpretation 2	Members’ Shares in Co-operative Entities and Similar Instruments
IC Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IC Interpretation 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment
IC Interpretation 7	Applying the Restatement Approach under FRS 129 Financial Reporting in Hyperinflationary Economies
IC Interpretation 8	Scope of FRS 2

The adoption of FRS 107, 112, 118, 119, 134, 137 and amendment to FRS 121 do not have any significant financial impact on the results and the financial position of the Group and of the Company.

IC Interpretation 1, 2, 5, 6, 7, 8 and FRS 111, 120, 126 and 129 are not relevant to the Group and to the Company operations.



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A1. Basis of Preparation (cont'd)

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 March 2008 and the accompanying explanatory notes attached to this interim financial report.

A2. Auditors' Report

The auditors' report for the immediate preceding annual financial statements of the Company for the financial year ended 31 March 2008 is not qualified.

A3. Seasonal and Cyclical Factors

The principal business operations of the Group were not affected by any seasonal and cyclical factors.

A4. Items of Unusual Nature and Amount

There were no items affecting the assets, liabilities, equity, net income or cash flow of the Group that are unusual because of their nature, size or incidence for the current quarter and financial year-to-date.

A5. Changes in Estimates

There were no changes in the estimates of amounts reported in the prior interim period of the current financial year or changes in the estimates of amounts reported in the prior financial years that have a material effect in the current quarter or financial year-to-date.

A6. Issuances, Cancellations, Repurchase, Resale and Repayments of Debt and Equity Securities

There were no issuance and repayments of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the current quarter and financial year-to-date.

A7. Dividend Paid

There were no dividends paid by the Company during the current quarter and financial year-to-date.

A8. Segmental Reporting

Segmental reporting is not provided as the Group's primary business segment is principally engaged in the manufacturing and sale of gloves and its operation is principally located in Malaysia.

A9. Valuation of property, plant and equipment

The valuations of property plant and equipment have been brought forward without amendment from the previous annual financial statements.



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A10. Capital Commitments

Capital commitment as at end of the current quarter and financial year-to-date are as follows:-

30 September 2008

RM'000

Approved and contracted for 4,102

Approved but not contracted for 104,711

Total 108,813

A11. Material Events Subsequent to the End of Period Reported

There were no material events subsequent to 30 September 2008 up to latest practicable date, 10 November 2008 that have not been reflected in the financial statements for the current quarter and financial year-to-date.

A12. Changes in the Composition of the Group

There were no changes in the composition of the Group in the current quarter and financial year-to-date.

A13. Contingent liabilities and Contingent Assets

There were no contingent liabilities or contingent assets that had arisen since the last annual balance sheet date except as disclosed in the material litigation under Section B11 below.



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B. ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA'S LISTING REQUIREMENTS

B1. Review of Performance of the Company and its Subsidiaries

For the current financial year-to-date, the Group recorded profit before tax and minority interest of RM36.259 million on the back of revenue of RM199.332 million.

The Company continues to grow and achieve better results despite the recent hike in electricity and natural gas tariff and increase in raw material prices. This is basically due to:

- (a) Contribution from new advanced high capacity & efficient glove production lines.
- (b) Ability of passing some of the increase in cost to customers starting July 2008.
- (c) Reduction in cost due to improvement in production process

The profit before tax included a payment of RM0.477 million for one-off financial assistance to employees to manage inflation caused by the recent hike in fuel and food prices.

In the opinion of the Directors, except as mentioned above, the results for the current quarter and financial year-to-date have not been affected by any transactions or events of a material or unusual nature.

B2. Material Changes in the Quarterly Results Compared to the Results of the Preceding Quarter

	Current Quarter ended 30 Sept 2008	Preceding Quarter ended 30 Jun 2008	Variance	
	RM'000	RM'000	RM'000	%
Revenue	111,495	87,837	23,658	26.9
Profit before tax	21,455	14,804	6,651	44.9

In the current quarter, the Group's revenue was 26.9% higher and the profit before tax was 44.9% higher compared to the preceding quarter. The increase in revenue is due to the increase in demand and a weaker Ringgit Malaysia. The Group's profit margin have improved due to economies of scale, improvements in cost control and operation efficiency.



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B3. Current Year Prospect

Barring any unforeseen circumstances, the sales of the Group is expected to pick up due to increase in production capacity and strong demand for gloves. The Board of Directors is optimistic that the Group is likely to achieve its forecast profit after taxation and minority interest of RM55.457 million for the financial year ending 31 March 2009 as disclosed in the Company's Prospectus dated 28 March 2008.

Our Group's products are sold to the Health Care Industry. Glove consumption is inelastic in the medical environment because the usage of glove is mandatory for disease control. Our Nitrile synthetic glove was well accepted by the end users due to its high quality and elastic properties that mimic that of a natural rubber glove. Our protein free and competitively priced Nitrile glove has made it more affordable for the acute health care industry to continue switching from the Natural Rubber to our synthetic Nitrile glove to avoid the protein allergy problem. We registered strong quarter to quarter sales growth of 27%. We expect the strong demand to continue into the next two quarters despite the economic downturn.

B4. Variance of Profit Forecast/Profit Guarantee

There was no profit guarantee issued by the Group and the profit forecast stated in the Prospectus dated 28 March 2008 is in respect of the year ending 31 March 2009, thus not applicable to this interim report.

B5. Taxation

	Current year quarter RM'000	Current year-to- date RM'000
Current tax expense	1,350	2,191
Deferred tax expense	1,706	2,753
	<u>3,056</u>	<u>4,944</u>

The lower effective tax rate applicable to the Group for the current quarter and financial year-to-date is mainly due to availability of reinvestment allowances arising from acquisition of qualifying property, plant and equipment.

B6. Profit from Sale of Unquoted Investments and/or Properties

There was no disposal of unquoted investments or properties in the current quarter and financial year-to-date.

B7. Quoted Securities

- (a) There were no purchases or disposal of quoted securities in the current quarter and financial year-to-date.
- (b) There was no investment in quoted securities as at end of the reporting period.



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B8. Status of Corporate Proposal

There was no corporate proposal announced or not completed as at the latest practicable date 10 November 2008.

B9. Group Borrowings and Debt Securities

Total Group borrowings as at 30 September 2008 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Short term borrowings</u>			
Onshore Foreign Currency Loan(USD846,000)	-	2,732	2,732
Term Loans (USD2,023,000)	6,999	-	6,999
Export Credit Refinancing (RM denominated)	1,436	-	1,436
Bankers Acceptance(RM denominated)	3,875	16,862	20,737
Term Loan(RM denominated)	100	-	100
Bank Overdraft	-	6,672	6,672
	<hr/>	<hr/>	<hr/>
	12,410	26,266	38,676
<u>Long term borrowings</u>			
Term Loans (USD5,504,000)	19,045	-	19,045
Term Loan (RM denominated)	1,038	-	1,038
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	20,083	-	20,083

B10. Off Balance Sheet Financial Instruments

The Group enters into foreign currency forward contracts to protect the Company from movements in exchange rates by establishing the rate at which a foreign currency asset or liability will be settled. Exchange gains or losses arising on contracts entered into as hedges of anticipated future transactions are deferred until the date of such transactions, at which time they are included in the measurement of such transactions.

At the latest practicable date, 10 November 2008, the Group has entered into foreign currency forward contracts with the following notional amounts and maturities:

Hedged item in RM	Contract Rates	Total Notional Amount	Maturity Within 1 Year
Trade receivables and anticipated sales	RM3.1902 to RM3.4895	USD14,600,000	USD14,600,000

As foreign currencies contracts are hedged with creditworthy financial institutions in line with the Group's policy, the Group does not foresee any significant credit and market risks.

There are also no cash requirement risks as the Group only uses forward foreign currencies contracts as its hedging instruments.



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B11. Material Litigation

Save as disclosed below, as at the latest practicable date, 10 November 2008, our Company and our subsidiaries are not engaged in any material litigation, claims or arbitration either as plaintiff or defendant, which has a material effect on the financial position of our Company or subsidiaries and our Board is not aware of any proceedings pending or threatened, or of any fact likely to give rise to any proceedings, which might materially and adversely affect the position or business of our Company or any of our subsidiaries:

- (i) On 30 May 2007, Tillotson filed a complaint with the ITC alleging that certain Nitrile Gloves which are imported into the USA are in violation of Section 337 of the United States Tariff Act 1930. Specifically, Tillotson alleged that 31 manufacturers and resellers of Nitrile Gloves that were imported into the USA, including Hartalega Holdings Berhad (“HHB”), Hartalega Sdn Bhd (“HSB”) and Pharmatex USA Inc (“PUI”), infringed Tillotson’s U.S. Patent No. RE 35,616. Tillotson is seeking a General Exclusion Order which if granted, would block the importation of those infringing Nitrile Gloves.

On 25 August 2008, an Administrative Law Judge at the United States International Trade Commission (“ITC”) issued an initial determination finding that Tillotson Corporation's patent for Nitrile Gloves was invalid on two separate grounds and this was announced to the Bursa by the Company on 29 August 2008. The initial determination is now waiting for the ITC commissioner's review, after which a final determination will be issued by the ITC accordingly.

On 8 September 2008, the ITC had issued a notice to extend the target date for issuing the final determination to 22 December 2008.

- (ii) In addition to the said importation block being sought, Tillotson has also filed a claim for unspecified damages, including a reasonable royalty and treble damages in the United States District Court for the Northern District of Georgia on 27 September 2007 against several defendants including HHB, HSB and PUI (“Georgia Action”). Tillotson has not served that claim but, if it does, the defendants will be permitted to request an automatic stay of that case pending the determination of the ITC investigations. The stay in the Georgia Action is automatic and will be made pursuant to 28 U.S.C. sec 1659, which requires that a “district court shall stay, until the determination of the ITC becomes final, proceedings in the civil action with respect to any claim that involves the same issues involved in the proceedings before the ITC.”



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B12. Dividend

The Board has declared a first interim dividend of 2 sen per share less 25% income tax and 2 sen per share tax exempt in respect of the financial year ending 31 March 2009 and payable on 7 January 2009. The entitlement date has been fixed on 15 December 2008.

Based on the number of RM0.50 fully paid ordinary shares in issue and with voting rights as at 14 November 2008 of 242,312,000, the first interim net dividend distribution for the financial year ending 31 March 2009 is approximate RM8,480,920 representing about 27.1% of the attributable profit of the Group for the financial period ended 30 September 2008.

A Depositor shall qualify for the entitlement only in respect of:

(a) Shares transferred to the Depositor's Securities Account before 4.00 p.m. on 15 December 2008 in respect of ordinary transfers.

(b) Shares bought on Bursa Malaysia Securities Berhad ("BMSB") on a cum entitlement basis according to the rules of BMSB.

B13. Earnings Per Share

Basic Earnings Per Share	Current Quarter Ended 30/9/2008	Corresponding Quarter Ended 30/9/2007	Cumulative Year-To- Date 30/9/2008	Corresponding Year-To-Date 30/9/2007
Profit attributable to equity holders of the parent (RM'000)	18,367	N/A	31,256	N/A
Weighted average number of ordinary shares in issue ('000)	242,312	N/A	242,312	N/A
Basic earnings per share (sen)	7.58	N/A	12.90	N/A