



Hartalega

Holdings Berhad (741883-X)

Notes to the Interim financial report for the First Quarter ended 30 June 2009

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 accounting policies and methods of computation adopted in the preparation of this financial report are consistent with those adopted in the audited financial statements of the Company for the financial year ended 31 March 2009.

The interim financial report should be read in conjunction with the audited financial statements of the Company for the financial year ended 31 March 2009 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 2009 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.



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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.

A10. Capital Commitments

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

| | 30 June 2009 |
|---------------------------------|----------------|
| | RM'000 |
| Approved and contracted for | 6,578 |
| Approved but not contracted for | 97,700 |
| Total | <u>104,278</u> |

A11. Material Events Subsequent to the End of Period Reported

There were no material events subsequent to 30 June 2009 up to latest practicable date, 11 August 2009 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.



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

B1. Review of Performance of the Company and its Subsidiaries

The Group's performance for the quarter under review versus the corresponding quarter of the previous financial year is tabled below:

| | 1st Quarter ended 30 June 2009 | 1st Quarter ended 30 June 2008 | Variance | |
|-------------------|-----------------------------------|-----------------------------------|----------|-------|
| | RM'000 | RM'000 | RM'000 | % |
| Revenue | 125,336 | 87,837 | 37,499 | 42.7 |
| Profit before tax | 32,703 | 14,804 | 17,899 | 120.9 |

Quarter to quarter, the Group's sales revenue increased by 42.7% and profit before tax increased by 120.9%. The significant achievement in revenue and profit before tax is in line with the Group's continuous expansion in production capacity, higher nitrile sales mix, and improvement in production process, lower synthetic & natural latex price and favourable exchange rate.

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

| | Current Quarter ended 30 June 2009 | Preceding Quarter ended 31 Mar 2009 | Variance | |
|-----------------------------------|---------------------------------------|--|----------|------|
| | RM'000 | RM'000 | RM'000 | % |
| Revenue | 125,336 | 124,816 | 520 | 0.4 |
| Profit before tax | 32,703 | 34,010 | -1,307 | -3.8 |
| Profit before tax (Normalised) | 32,703 | 28,648 | 4,055 | 14.2 |

In the current quarter, the Group's revenue was 0.4% higher and the profit before tax (normalised) was 14.2% higher when compared to the preceding quarter. The profit before tax for the preceding quarter included net insurance compensation of RM5.362 million. The profit before tax (normalised) for the preceding quarter was RM28.648 million. The increase in profit before tax (normalised) is basically due to more efficient production process and lower price of raw material for both synthetic and natural latex.

B3. Commentary on Prospects and Targets

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.



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Demand remains strong for both synthetic and natural latex gloves. We have started to build another plant with 12 new advanced high capacity glove production lines in June 2009. With strong demand, lower raw material price of natural and synthetic latex and favourable exchange rate, the Group has a positive outlook.

The Board of Directors is optimistic that the Group will achieve the internal target growth for both sales revenue and net profit for the financial year ended 31 March 2010.

B4. Variance of Profit Forecast/Profit Guarantee

Not applicable as no profit forecast/profit guarantee was issued.

B5. Taxation

| | Current quarter | Current year-to-date |
|----------------------|-----------------|----------------------|
| | RM'000 | RM'000 |
| Current tax expense | 5,774 | 5,774 |
| Deferred tax expense | 541 | 541 |
| | <u>6,315</u> | <u>6,315</u> |

The effective tax rate of the Group is lower than the statutory tax rate for the current quarter and financial year-to-date is mainly due to the availability of reinvestment allowances arising from the 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.

B8. Status of Corporate Proposal

There was no corporate proposal announced or not completed as at the latest practicable date 11 August 2009.



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B9. Group Borrowings and Debt Securities

Total Group borrowings as at 30 June 2009 are as follows:

| | Secured RM'000 | Unsecured RM'000 | Total RM'000 |
|---------------------------------|-------------------|---------------------|-----------------|
| <u>Short term borrowings</u> | | | |
| Term Loans (USD denominated) | 8,427 | - | 8,427 |
| Term Loans (RM denominated) | 6,632 | - | 6,632 |
| Finance Lease (USD denominated) | 9 | - | 9 |
| | <hr/> | <hr/> | <hr/> |
| | 15,068 | - | 15,068 |
| <u>Long term borrowings</u> | | | |
| Term Loans (USD denominated) | 12,635 | - | 12,635 |
| Term Loans (RM denominated) | 26,387 | - | 26,387 |
| Finance Lease (USD denominated) | 13 | - | 13 |
| | <hr/> | <hr/> | <hr/> |
| | 39,035 | - | 39,035 |

B10. Off Balance Sheet Financial Instruments

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

At the latest practicable date, 11 August 2009, 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 3 Month |
|-------------------|----------------------|--------------------------|----------------------------|
| Trade receivables | RM3.5105 to RM3.5880 | USD10,500,000 | USD10,500,000 |

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.

B11. Material Litigation

As at the latest practicable date, 11 August 2009, there are no material litigations against the Group or taken by the Group saved as disclose below:

On 7 April 2009, Smart Glove Holdings Sdn Bhd (the "Plaintiff") has instituted legal proceedings against a group of 6 entities (collectively, the "Defendants"), which includes



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Hartalega Holdings Berhad (“Hartalega”) by way of a writ of summons and a statement of claim in the High Court of Malaya at Kuala Lumpur (the “Action”).

The Plaintiff is seeking, as against all the Defendants in the Action jointly and/or severally, certain declarations arising from alleged sequence of events in retaining the legal services of an American firm Messrs Kirkland & Ellis relating to defending and/or challenging legal proceedings in the United States of America by one Tillotson Corporation d.b.a. Best Manufacturing Company in relation to the Tillotson’s United States Patent No. 35,616. The Plaintiff is seeking monetary compensation and/or refund approximating RM2.6million. The Plaintiff has also alleged that the Defendants in the Action had unlawfully interfered with its business causing loss of its goodwill and reputation in the trade and loss of sales. With respect to this allegation, the Plaintiff has not provided any monetary value of damages suffered by the Plaintiff resulting from the said allegations.

Solicitors retained by the Defendants, Messrs Sekhar & Suaran, have filed and served the Memorandum of Appearance and are preparing a defence to the Action.

The Directors of Hartalega in consultation with the solicitors are of the view that the Action is lacking in merit and that the prospects of successfully defending the Action are good. In the unlikely event that the Plaintiff obtains judgment in the Action against the Defendants, Hartalega is confident that it would not give rise to any material or adverse impact to the financial position of Hartalega.

B12. Dividend

On 20 May 2009, the Board of directors has declared a second interim dividend of 4 sen per share tax exempt amounting to RM9,692,480 and was paid on 1 July 2009 in respect of the financial year ending 31 March 2009.

The Board of directors has also proposed a final dividend of 4 sen per share tax exempt amounting to RM9,692,480 in respect of the financial year ended 31 March 2009, subject to the shareholders’ approval at the forthcoming Annual General Meeting.

The total dividend declared and proposed for financial year ended 31 March 2009 was 12 sen per share.

B13. Earnings per Share

| Basic Earnings Per Share | Current Quarter Ended 30/06/2009 | Corresponding Quarter Ended 30/06/2008 | Cumulative Year-To- Date 30/06/2009 | Corresponding Year-To-Date 30/06/2008 |
|--|---|--|--|---|
| Profit attributable to equity holders of the parent (RM'000) | 26,375 | 12,889 | 26,375 | 12,889 |
| Weighted average number of ordinary shares in issue ('000) | 242,312 | 242,312 | 242,312 | 242,312 |
| Basic earnings per share (sen) | 10.88 | 5.32 | 10.88 | 5.32 |