



Notes to the Interim financial report for the Second Quarter ended 30 September 2010

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 interim financial report are consistent with those adopted in the audited financial statements of the Company for the financial year ended 31 March 2010 except for the adoption of the following new and revised Financial Reporting Standards (“FRSs”), Amendments to FRSs and IC Interpretations and Technical Releases (“TR”):

FRS 4 Insurance Contracts
FRS 7 Financial Instruments: Disclosures
FRS 8 Operating Segments
Revised FRS 101 (2009) Presentation of Financial Statements
Revised FRS 123 (2009) Borrowing Costs
Revised FRS 139 (2010) Financial Instruments: Recognition and Measurement
Amendments to FRS 1 First-time Adoption of Financial Reporting Standards and FRS 127 Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Amendments to FRS 2 Share-based Payment: Vesting Conditions and Cancellations
Amendments to FRS 139 Financial Instruments: Recognition and Measurement, FRS 7 Financial Instrument : Disclosures and IC Interpretation 9 Reassessment of Embedded Derivatives
Amendments to FRS 132 Financial Instruments: Presentation
IC Interpretation 9 Reassessment of Embedded Derivatives
IC Interpretation 10 Interim Financial Reporting and Impairment
IC Interpretation 11: FRS 2 – Group and Treasury Share Transactions
IC Interpretation 13 Customer Loyalty Programmes
IC Interpretation 14: FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
Amendments to FRSs contained in the document entitled ‘Improvements to FRSs (2009)’
TR i-3 Presentation of Financial Statements of Islamic Financial Institutions

The adoption of the above FRSs, Amendments to FRSs, IC Interpretations and TR did not have any significant impact on the financial performance and financial position of the Group other than as stated below:

FRS 7: Financial Instruments: Disclosures

Prior to the adoption of FRS 7, the disclosures for financial instruments were based on the requirements of the original FRS 132: Financial Instruments: Disclosures and Presentation. This standard requires disclosure on the nature and extent of risks arising from financial instrument which includes qualitative and quantitative disclosure. The Group applied this standard prospectively in accordance with the transitional provision. This standard only affects the form and content of the disclosure in the Group’s financial statements.

**Revised FRS 101 (2009) Presentation of Financial Statements**

The revised FRS 101 requires Statement of Changes in Equity includes only transaction with owners, and all non-owner changes (i.e. other comprehensive income) are presented in a separate statement. This standard also introduces Statement of Comprehensive Income which presents all items of income and expense recognized in profit or loss and all other items of income and expensed recognized directly in equity, either in one single statement or two linked statements. The Group has applied this standard retrospectively and elected to present in one single statement. The adoption of this standard only impacted the form and content of the presentation of the Group's financial statements.

Amendments to FRSs contained in the document entitled 'Improvements to FRSs (2009)' – Amendments to FRS 117: Leases

Amendments to FRS 117 clarify on the classification of leases of land and buildings. The resulting effect of this standard was the reclassification of leasehold land to property, plant and equipment rather than being separately classified under prepaid land lease payments on the consolidation statement of financial position, as disclosed below. The change in accounting policy has been made retrospectively in accordance with the transitional provisions of the amendment. The reclassification does not have any impact on the financial performance and earning per share of the Group.

The following comparatives have been reclassified upon adoption of the Amendments to FRS 117:

	As Restated RM'000	As Previously Stated RM'000
Condensed Consolidated Statement of Financial Position		
Non-current assets		
Property, plant and equipment	284,365	284,216
Prepaid land lease payments	-	149

FRS 139: Financial Instruments: Recognition and Measurement

FRS 139 prescribes the principles for recognising, derecognising and measuring financial asset, financial liabilities, including all derivatives and certain embedded derivatives. The Group has applied this standard prospectively on 1 April 2010 in accordance with the transitional provision. The effects arising from the adoption of this standard has been accounted for by adjusting the opening balance of retained profits as at 1 April 2010. The comparative figures have not been restated.

Prior to 1 April 2010, the Group recognised its foreign currency forward contracts in the financial statements on settlement date. With the adoption of FRS 139, such contracts are now categorized as fair value through profit or loss and measured at their fair values with the gain or loss recognised in the profit or loss. Upon adoption of FRS 139, the gain on forward foreign exchange contracts net of tax of RM1,846,000 at 1 April 2010 was recognised as at that date as an adjustment to the opening balance of retained profits.



The following are the effects arising from the changes in the accounting policies as at 1 April 2010 upon the first application of FRS 139:

	As Previously Stated RM'000	Effect of FRS 139 RM'000	As Restated RM'000
Condensed Consolidated Statement of Financial Position			
Current assets			
Derivatives	-	2,461	2,461
Non current liabilities			
Deferred tax liabilities	27,782	615	28,397
Equity			
Retained profits	231,645	1,846	233,491

The Group has not applied in advance the following new and revised FRSs, Amendments to FRSs, IC Interpretations and TRs that have been issued by the MASB but are not yet effective for the current financial year:

FRSs/IC Interpretations/TRs	Effective date
Revised FRS 1 (2010) First-time Adoption of Financial Reporting Standards	1 July 2010
Revised FRS 3 (2010) Business Combinations	1 July 2010
Revised FRS 127 (2010) Consolidated and Separate Financial Statements	1 July 2010
Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters (Amendment to FRS 1)	1 January 2011
Improving Disclosures about Financial Instruments (Amendments to FRS 7)	1 January 2011
Additional Exemptions for First-time Adopters (Amendments to FRS 1)	1 January 2011
Group Cash-settled Share-based Payment Transactions (Amendments to FRS 2)	1 January 2011
Amendments to FRS 2 Share-based Payment	1 July 2010
Amendments to FRS 5 Non-current Assets Held for Sales and Discontinued Operations	1 July 2010
Amendments to FRS 138 Intangible Assets	1 July 2010
IC Interpretation 4 Determining whether an Arrangement contains a Lease	1 January 2011
IC Interpretation 12 Service Concession Arrangements	1 July 2010
IC Interpretation 15 Agreements for the Construction of Real Estate	1 July 2010
IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17 Distributions of Non-cash Assets to Owners	1 July 2010
IC Interpretation 18 Transfers of Assets from Customers	1 January 2011
Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives	1 July 2010
TR 3 Guidance on Disclosures of Transition to IFRSs	31 December 2010
TR i-4 Shariah Compliant Sale Contracts	1 January 2011



The adoption of the above FRSs, Amendments to FRSs, IC Interpretations and TR is not expected to have any significant impact on the results and financial position of the Group.

The interim financial report should be read in conjunction with the audited financial statements of the Company for the financial year ended 31 March 2010 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 2010 is not subject to any qualification.

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

On 11 May 2010, it was announced that the Company proposed to implement a bonus issue of 121,156,000 new ordinary shares of RM0.50 each on the basis of one (1) bonus share for every two (2) existing ordinary shares of RM0.50 each held by shareholders.

The bonus issue has been completed with the listing of and quotation for the 121,156,000 bonus shares on the Main Board of Bursa Malaysia Securities Berhad on 7 September 2010.

Other than the above, 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

Dividends paid by the company during the financial year were as follows:

- (a) Third interim dividend of 5 sen per share single tier amounting to RM12,115,600 in respect of the financial year ended 31 March 2010 paid on 25 June 2010.
- (b) Final dividend of 5 sen per share single tier amounting to RM12,115,600 in respect of the financial year ended 31 March 2010 paid on 17 September 2010.



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 September 2010
	RM'000
Approved and contracted for	9,143
Approved but not contracted for	4,969
Total	<u>14,112</u>

A11. Material Events Subsequent to the End of Period Reported

There were no material events subsequent to 30 September 2010 up to latest practicable date, 4 November 2010 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.



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:

	2nd Quarter Ended 30 Sept 2010	2nd Quarter Ended 30 Sept 2009	Variance		Year-To- Date 30 Sept 2010	Year-To- Date 30 Sept 2009	Variance	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	184,312	134,572	49,740	37.0	354,270	259,908	94,362	36.3
Profit before tax	61,018	41,196	19,822	48.1	114,782	73,899	40,883	55.3

Quarter to quarter, the Group's sales revenue increased by 37.0% and profit before tax increased by 48.1%. The significant achievement in revenue and profit before tax is in line with the Group's continuous expansion in production capacity, increase in demand and improvement in production processes.

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

	Current Quarter ended 30 Sept 2010	Preceding Quarter ended 30 June 2010	Variance	
	RM'000	RM'000	RM'000	%
Revenue	184,312	169,958	14,354	8.4
Profit before tax	61,018	53,764	7,254	13.5

In the current quarter, the Group's revenue was 8.4% higher and the profit before tax was 13.5% higher when compared to the preceding quarter. The increase in profit before tax is due to increase in demand for nitrile gloves, effective cost control and the recognition of fair value gain of financial derivative instruments amounting to RM1,587,000.

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 competitive 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 have commissioned 2 more new advanced high capacity glove production lines for the current quarter ended 30 September 2010, the balance of the 4 lines from Plant 5 will be fully ready by January 2011. We will continue to take advantage of the Demand Growth for nitrile



Hartalega

Holdings Berhad (741883-X)

gloves due to health care reform and the expansion in usage of nitrile gloves in the food industry. Our company is well positioned with the competitive advantage delivered by our high output production lines to compete in what is expected to be a challenging and competitive market as more players will emerge in the synthetic nitrile glove sector. While the weakening of USD continues deliver pressure on product pricing.

Despite that, 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 ending 31 March 2011.

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	12,505	23,497
Deferred tax expense	1,402	2,724
	<hr/>	<hr/>
	13,907	26,221

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

As at the latest practicable date, 4 November 2010, there was no corporate proposal announced and not completed in the current quarter and financial year to-to-date.



B9. Group Borrowings and Debt Securities

Total Group borrowings as at 30 September 2010 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Short term borrowings</u>			
Term Loans (USD denominated)	7,482	-	7,482
Term Loans (RM denominated)	7,068	-	7,068
Finance Lease (USD denominated)	31	-	31
	<hr/> 14,581	<hr/> -	<hr/> 14,581
<u>Long term borrowings</u>			
Term Loans (USD denominated)	14,826	-	14,826
Term Loans (RM denominated)	17,532	-	17,532
Finance Lease (USD denominated)	37	-	37
	<hr/> 32,395	<hr/> -	<hr/> 32,395

B10. Financial Derivative Instruments

As at balance sheet date, the outstanding foreign currency forward contracts are as follows:

Type of Derivatives	Contract/Notional Value (RM'000)	Fair Value (RM'000)
Foreign Exchange Contracts (in US Dollar)		
- Less than 1 year	86,450	88,037

The Group enters into foreign currency forward contracts to hedge its estimated net exposure to movements in exchange rates arising mainly from sales and purchases.

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.

The fair value changes amounting to RM1,587,000 has been recognised in the financial statement.



B11. Material Litigation

As at the latest practicable date, 4 November 2010, there are no material litigations against the Group or taken by the Group saved as disclose below:

The subsidiaries, Sentinel Engineering (M) Sdn Bhd and Hartalega Sdn Bhd (the “Plaintiffs”) have commenced legal proceedings against Ecotherm (TFT) Sdn Bhd (“Ecotherm”) by filing a Writ and Statement of Claim on 6 August 2010 at the High Court of Malaya at Kuala Lumpur. The Plaintiffs are seeking, amongst others, the following reliefs against the Defendant:

- 1) A declaration that Ecotherm’s Malaysian Patent No. My 121188-A entitled “Conveyor system for use in dipping process” is invalid and null and void in Malaysia;
- 2) A declaration that the making, importing, offering for sale, selling or using of the Sentinel/Hartalega System does not constitute an infringement of any of the Claims of the Ecotherm’s Malaysian Patent No.MY 121188-A.

B12. Dividend

The Board has declared a first interim dividend of 4 sen per share single tier in respect of the financial year ending 31 March 2011 and payable on 9 December 2010. The entitlement date has been fixed on 25 November 2010.

Based on the number of RM0.50 fully paid ordinary shares in issue and with voting rights as at 9 November 2010 of 363,468,000, the first interim dividend distribution for the financial year ending 31 March 2011 is approximate RM14,538,720 representing about 16.4% of the attributable profit of the Group for the financial period ended 30 September 2010.

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 25 November 2010 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 30/09/2010	Corresponding Quarter Ended 30/09/2009	Current Year-To- Date 30/09/2010	Corresponding Year-To-Date 30/09/2009
Profit attributable to equity holders of the parent (RM'000)	47,099	33,106	88,560	59,481
Weighted average number of ordinary shares in issue ('000)	363,468	363,468	363,468	363,468
Basic earnings per share (sen)	12.96	9.11	24.37	16.36



Diluted Earnings Per Share

Weighted average number of ordinary shares in issue ('000)	363,468	363,468	363,468	363,468
Effect of dilution : share options ('000)	678	-	678	-
Adjusted weighted average number of ordinary shares in issue and issuable('000)	364,146	363,468	364,146	363,468
Diluted earnings per share (sen)	12.93	-	24.32	-

For comparative purpose, the Earnings Per Share for the corresponding quarter and year to date ended 30 September 2009 had been adjusted to reflect the bonus issue of 1 for 2 existing ordinary shares of RM0.50 each which was completed on 7 September 2010.