



Notes to the Interim financial report for the Fourth Quarter ended 31 March 2011

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 124 (2010) Related Party Disclosures	1 January 2012
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
Amendments to FRSs contained in the document entitled "Improvements to FRSs (2010)"	1 January 2011
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 January 2012
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
IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2011



Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives	1 July 2010	
Prepayments of a Minimum Funding Requirement (Amendments to IC Interpretation 14)	1 July 2011	
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 FRSSs, Amendments to FRSSs, 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

- (a) On 6 September 2010, a total of 121,156,000 new ordinary shares of RM0.50 each were issued pursuant to the Company's bonus issue exercise.
- (b) During the current quarter ended 31 March 2011, a total of 78,200 new ordinary shares of RM0.50 each were allotted and issued pursuant to the Company's Executive Share Option Scheme.
- (c) For the financial year-to-date, a total of 89,200 new ordinary shares of RM0.50 each were allotted and issued pursuant to the Company's Executive Share Option Scheme.

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.
- (c) First interim dividend of 4 sen per share single tier amounting to RM14,538,720 in respect of the financial year ended 31 March 2011 paid on 9 December 2010.
- (d) Second interim dividend of 5 sen per share single tier amounting to RM18,176,885 in respect of the financial year ended 31 March 2011 paid on 11 March 2011.

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:-

	31 March 2011
	RM'000
Approved and contracted for	10,064
Approved but not contracted for	-
Total	<u>10,064</u>

A11. Material Events Subsequent to the End of Period Reported

There were no material events subsequent to 31 March 2011 up to latest practicable date, 3 May 2011 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 B12.



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:

	4th Quarter Ended 31 Mar 2011	4th Quarter Ended 31 Mar 2010	Variance		Year-To- Date 31 Mar 2011	Year-To- Date 31 Mar 2010	Variance	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	192,524	163,385	29,139	17.8	734,917	571,893	163,024	28.5
Profit before tax	66,290	56,562	9,728	17.2	243,278	177,775	63,840	36.8

Quarter to quarter, the Group's sales revenue increased by 17.8% and profit before tax increased by 17.2%. The significant achievement in revenue and profit before tax is in line with the Group's continuous expansion in production capacity, increase in demand, effective cost control and improvement in production processes.

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

	Current Quarter ended 31 Mar 2011	Preceding Quarter ended 31 Dec 2010	Variance	
	RM'000	RM'000	RM'000	%
Revenue	192,524	188,123	4,401	2.3
Profit before tax	66,290	62,206	4,084	6.6

In the current quarter, the Group's revenue was 2.3% higher and the profit before tax was 6.6% higher when compared to the preceding quarter. The increase in profit before tax is due to the contribution from plant 5's more efficient production lines and higher capacity to generate higher sales.

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.

The switching from Natural Rubber to Nitrile glove has gather momentum in Europe and demand is growing rapidly. We expect the Nitrile glove demand will continue to grow by 30% for calendar year 2011 and our Group is well positioned to take advantage of such demand growth with the completion of our plant 5 production lines which has started to contribute toward increasing our output capacity.



Hartalega

Holdings Berhad (741883-X)

Correspondingly more producers are switching their production facilities to produce Nitrile glove and we may see some overcrowding of nitrile gloves producers. With the sharp increase in Nitrile material price and a weaker USD, challenging time is ahead.

Our Group is well positioned with the competitive advantage, leveraging on our technological competency, we will be able to deal with the competitive environment and limiting the impact on our margin and absolute profit.

The Group has achieved the internal target growth of net profit for the financial year ended 31 March 2011. The Board of Directors is optimistic that the Group will achieve continuous growth and securing better results for the next financial year.

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	10,789	44,149
Deferred tax expense	3,067	9,025
Over Provision in Prior Years	-	(102)
	<u>13,856</u>	<u>53,072</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

As at the latest practicable date, 3 May 2011, 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 31 March 2011 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Short term borrowings</u>			
Term Loans (USD denominated)	6,971	-	6,971
Term Loans (RM denominated)	7,531	-	7,531
Finance Lease (USD denominated)	30	-	30
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	14,532	-	14,532
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<u>Long term borrowings</u>			
Term Loans (USD denominated)	10,926	-	10,926
Term Loans (RM denominated)	13,503	-	13,503
Finance Lease (USD denominated)	19	-	19
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	24,448	-	24,448
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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	159,024	162,364

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 RM3,340,000 has been recognised in the financial statement.



B11. Realised and Unrealised Profits/Losses Disclosure

	As at 31/03/2011 RM'000	As at 31/03/2010 RM'000
Total retained profits of Hartalega Holdings Berhad and its subsidiaries:		
- Realised	341,971	
- Unrealised	<u>(34,781)</u>	
Total group retained profits as per consolidated accounts	<u>307,190</u>	N/A

Comparative figures are not required in the first financial year of complying with the Realised and Unrealised Profits/ Losses Disclosure.

B12. Material Litigation

As at the latest practicable date, 3 May 2011, there are no material litigations against the Group or taken by the Group saved as disclose below:

Litigations taken by the Group:

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.

Litigations taken against the Group:

Mr. Seow Hoon Hin (the "Plaintiff") has instituted legal proceedings against Hartalega Holdings Berhad ("HHB"), its wholly owned subsidiary Hartalega Sdn Bhd ("HSB") and 3 others (namely: Kuan Kam Hon @ Kuan Kam Onn, Kuan Kam Peng and Ching Hean Chong) by way of a writ of summons and a statement of claim in the High Court of Malaya at Kuala Lumpur (the "Action"). The writ of summons and statement of claim were served on HHB and HSB on 24 March 2011.

The Plaintiff claims as against HHB for the following:

- 1) Damages for negligent misstatement or alternatively breach of statutory duty pursuant to section 357 Capital Markets and Services Act 2007 (the "CMS Act") read with section 214 CMS Act and/or tort of breach of statutory duty under sections 177 and/or 179 CMS Act;
- 2) Damages arising from the alleged breaches above and interest at 8% per annum;
- 3) Such other relief as the Court deems fit and costs.

The Plaintiff claims as against HSB for the following:



- 1) Declaration that HSB is trustee for proceeds and/or profits made from use of certain two assembly lines and substantial parts of another two assembly lines (the “said parts”);
- 2) Declaration that HSB is a trustee for unpaid dividends amounting to RM488,765.25 allegedly due and owing to the Plaintiff (the “said dividends”);
- 3) An order that HSB account to the Plaintiff for the proceeds and/or profits made from the benefit and use of the said parts (the “said proceeds/profits”) and make restitution of the same to the Plaintiff;
- 4) An order that HSB account to the Plaintiff for the said dividends and make restitution of the same to the Plaintiff;
- 5) Interest on the said profits and said dividends at the rate of 8% per annum;
- 6) Such other relief as the Court deems fit and costs.

The Directors of HHB 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 as the Action is largely based on issues and events that are clearly time-barred. In the unlikely event that the Plaintiff obtains judgment in the Action against the Defendants, HHB is confident that it would not give rise to any material or adverse impact to the financial position of HHB.

B13. Dividend

The Board has declared a third interim dividend of 6 sen per share single tier in respect of the financial year ending 31 March 2011 and payable on 10 June 2011. The entitlement date has been fixed on 26 May 2011.

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 26 May 2011 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.

The Board of directors also proposed a final dividend of 6 sen per share single tier in respect of the financial year ended 31 March 2011, subject to the shareholders’ approval at the forthcoming Annual General Meeting.

The total dividend declared and proposed for the current financial year ended 31 March 2011 was 21 sen per share.

B14. Earnings per Share

Basic Earnings Per Share	Current Quarter Ended 31/03/2011	Corresponding Quarter Ended 31/03/2010	Current Year-To- Date 31/03/2011	Corresponding Year-To-Date 31/03/2010
Profit attributable to equity holders of the parent (RM'000)	52,398	46,409	190,161	142,909
Weighted average number of ordinary shares in issue ('000)	363,557	363,468	363,557	363,468
Basic earnings per share (sen)	14.41	12.77	52.31	39.32



Diluted Earnings Per Share	Current Quarter Ended 31/03/2011	Corresponding Quarter Ended 31/03/2010	Current Year-To- Date 31/03/2011	Corresponding Year-To-Date 31/03/2010
Weighted average number of ordinary shares in issue ('000)	363,557	363,468	363,557	363,468
Effect of dilution : share options ('000)	857	-	857	-
Adjusted weighted average number of ordinary shares in issue and issuable('000)	364,414	363,468	364,414	363,468
Diluted earnings per share (sen)	14.38	-	52.18	-

For comparative purpose, the Earnings Per Share for the corresponding quarter and year to date ended 31 March 2010 had been adjusted to reflect the bonus issue of 1 for 2 existing ordinary shares of RM0.50 each which was completed on 6 September 2010.