Notes to the Interim financial report for the Second Quarter ended 30 September 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 2011 except for the adoption of the following new and revised Financial Reporting Standards ("FRSs"), Amendments to FRSs and IC Interpretations and Technical Releases ("TRs"):

FRSs/IC Interpretations/TRs

FRS 1 First-time Adoption of Financial Reporting Standards
FRS 3 Business Combinations (Revised)
FRS 127 Consolidated and Separate Financial Statements (Revised)
Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters (Amendment to FRS 1)
Additional Exemptions for First-time Adopters (Amendments to FRS 1)
Improving Disclosures about Financial Instruments (Amendments to FRS 7)
Amendments to FRS 2 Share-based Payment
Group Cash-settled Share-based Payment Transactions (Amendments to FRS 2)
Amendments to FRS 5 Non-current Assets Held for Sales and Discontinued Operations
Amendments to FRS 138 Intangible Assets
Amendments to FRSs contained in the document entitled "Improvements to FRSs (2010)"
IC Interpretation 4 Determining whether an Arrangement contains a Lease
IC Interpretation 12 Service Concession Arrangements
IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17 Distributions of Non-cash Assets to Owners
IC Interpretation 18 Transfers of Assets from Customers
Amendments to IC Interpretation 9: Reassessment of Embedded Derivatives
TR i-4 Shariah Compliant Sale Contracts

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

<u>FRS 3 Business Combinations (Revised) and FRS 127 Consolidated and Separate Financial Statements (Revised)</u>
The revised FRS 3 introduces a number of significant changes to the accounting for business combinations with greater use of fair value. These changes include recognising all acquisition-related costs as expense, measuring any pre-existing interest at fair value and allowing measurement of non-controlling interest (previously known as minority interest) at

either fair value or at its proportionate share of the acquiree's net identifiable assets. The revised FRS 127 requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The revised standard also requires all losses attributable to the minority shareholders to be absorbed by minority shareholders instead of by the parent. The Group applied the changes of revised FRS 3 and FRS 127 prospectively and therefore there will not have any financial impact on the financial statements of the Group for financial period prior to 1 April 2011. The changes will affect future transactions with non-controlling interest.

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

FRSs/IC Interpretations/TRs	Effective date
FRS 124 Related Party Disclosures (Revised)	1 January 2012
IC Interpretation 15 Agreements for the Construction of Real Estate	1 January 2012
IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2011
Prepayments of a Minimum Funding Requirement (Amendments to IC Interpretation 14)	1 July 2011

The adoption of the above FRS, Amendments to FRS and IC Interpretations 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 2011 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 2011 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. Issues, Repurchases and Repayments of Debt and Equity Securities

(a) During the current quarter ended 30 September 2011, a total of 211,800 new ordinary shares of RM0.50 each were allotted and issued pursuant to the Company's Executive Share Option Scheme.
(b) For the financial year-to-date, a total of 386,200 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, and shares held as 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 6 sen per share single tier amounting to RM21,813,432 in respect of the financial year ended 31 March 2011 on 10 June 2011.
(b) Final dividend of 6 sen per share single tier amounting to RM21,827,808 in respect of the financial year ended 31 March 2011 on 21 September 2011.

A8. Segment Information

The Group's business mainly comprises the manufacturing and sale of latex gloves and its manufacturing activities are operated solely in Malaysia. On this basis, the Group Managing Director reviews the operating results of the Group as a whole. Accordingly, no reportable operating segment is presented.

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 2011
	RM'000
Approved and contracted for	7,988
Approved but not contracted for	192,403
Total	200,391

A11. Material Events Subsequent to the End of Period Reported

There were no material events subsequent to 30 September 2011 up to latest practicable date, 2 November 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

On 26 May 2011, Hartalega Sdn. Bhd., a wholly-owned subsidiary of the Company, subscribed for 70% of the registered capital of Yancheng Pharmatex Medical Equipment Co. Ltd. ("Yancheng Pharmatex"), a company incorporated in China, for a total consideration of 700,000 Chinese Renminbi. Consequently, Yancheng Pharmatex became an indirect subsidiary of the Company.

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:

	2nd Quarter Ended 30 Sept 2011	2nd Quarter Ended 30 Sept 2010	Variance		Year-To-Date 30 Sept 2011	Year-To-Date 30 Sept 2010	Variance	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	229,542	184,312	45,230	24.5	448,913	354,270	94,643	26.7
Profit before tax	59,551	61,018	-1,467	-2.4	130,221	114,782	15,439	13.5

Quarter to quarter, the Group's sales revenue increased by 24.5% and profit before tax decreased by 2.4%. The significant increase in revenue is in line with the Group's continuous expansion in production capacity and increase in demand.

However, the increase in raw material prices of both natural and nitrile latex prices has resulted in the operating profit before other operating expense/income margin reduced to 28.5% from 32.3% for the current quarter compared with the corresponding quarter.

The profit before tax margin reduced to 25.9% from 33.1% due to the above mentioned reasons and the recognition of net unrealised loss in foreign exchange and changes in fair value in forward foreign exchange contracts of RM8,658,000 in the current quarter compared with a net unrealised gain of RM1,586,000 in the corresponding quarter.

The inventory level has increased from RM64.7 million as at 31 March 2011 to RM114.5 million as at 30 September 2011 due to increase in raw material prices and also as a result of the Group's stocking up of raw materials. The Group targets to keep higher inventories to reduce pressure on meeting growing sales demand.

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

	Current Quarter ended 30 Sept 2011	Preceding Quarter ended 30 June 2011	Variance	
	RM'000	RM'000	RM'000	%
Revenue	229,542	219,371	10,171	4.6
Profit before tax	59,551	70,670	-11,119	-15.7

In the current quarter, the Group's revenue was 4.6% higher and the profit before tax was 15.7% lower when compared to the preceding quarter.

The increase in raw material prices of both natural and nitrile latex prices has resulted in the operating profit before other operating expense/income margin reduced to 28.5% from 30.3% for the current quarter compared with the preceding quarter.

The profit before tax margin reduced to 25.9% from 32.2% due to the above mentioned reasons and the recognition of net unrealised loss in foreign exchange and changes in fair value in forward foreign exchange contracts of RM8,658,000 in the current quarter compared with a net unrealised gain of RM780,000 in the preceding quarter.

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. In addition, we are also targeting the emerging market and have set up a distribution company in China.

Currently 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 recent high volatility of USD, challenging time is ahead. In view of the current economic condition and competition, the contraction of profit margin in current year is within our expectation.

The fair value derivative liabilities of RM8,435,000 recognised in the financial statement is arising from fair value of the outstanding foreign currency forward contracts that the Group used as hedging instruments. The final actual amount of loss/gain realised will depend on the future movement of USD rate on maturity date within the contract period. If the USD stays at the current level of 1 USD=RM3.1275, the impact would be mitigated by the increase in sales value and operating profits arising from weaker Ringgit. We will be careful in managing the fluctuation of USD through hedging and would not involve in the speculation in foreign currency.

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.

Our Group will continue to implement its expansion plan to reduce lead times to meet demand and also to capitalise on the expected increase in demand. We further expand our Plant 5 to construct 2 more new advanced high capacity glove production lines and target to commission by February 2012. We also plan to construct a new plant next to our existing plants in Bestari Jaya of which the building plan is still pending approval from the local authority.

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 2012.

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	13,158	28,754
Deferred tax expense	222	550
	13,380	29,304

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 allowance for increase in export.

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, 2 November 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 30 September 2011 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
Short term borrowings			
Term Loans (USD denominated)	6,875	-	6,875
Term Loans(RM denominated)	7,531	-	7,531
Finance Lease (USD denominated)	25	-	25
	14,431	-	14,431
Long term borrowings			
Term Loans (USD denominated)	8,362	-	8,362
Term Loans (RM denominated)	9,794	-	9,794
Finance Lease (USD denominated)	11	-	11
	18,167	-	18,167

B10. Financial Derivative Instruments

As at 30 September 2011, the outstanding foreign currency forward contracts are as follows:

Type of Derivatives	Contract/Notional Value (RM'000)	Fair Value (RM'000)
Foreign Exchange Contracts		
Less than 1 year		
-USD denominated	307,059	298,551
-AUD denominated	2,780	2,853
	309,839	301,404

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 loss amounting to RM8,435,000 has been recognised in the financial statement.

B11. Realised and Unrealised Profits/Losses Disclosure

	As at 30/09/2011 RM'000	As at 31/03/2011 RM'000
Total retained profits of Hartalega Holdings Berhad and its subsidiaries:		
- Realised	504,765	437,615
- Unrealised	(45,246)	(34,960)
	459,519	402,655
Less: Consolidation adjustments	(94,990)	(95,480)
Total group retained profits as per consolidated accounts	364,529	307,175

B12. Material Litigation

As at the latest practicable date, 2 November 2011, there are no material litigations against the Group or taken by the Group saved as disclose below:

(a) Sentinel Engineering (M) Sdn. Bhd. and Hartalega Sdn. Bhd. (the "Plaintiffs"), wholly-owned subsidiaries of the Company, have commenced legal proceedings against Ecotherm (TFT) Sdn. Bhd. and Ecotherm Sdn. Bhd. (the "Defendants") by filing a Writ and Statement of Claim on 6 August 2010 at the High Court of Malaya at Kuala Lumpur (the "Court").

The Plaintiffs are seeking, amongst others, the following reliefs against the Defendants:

(i) a declaration pursuant to Section 57 and 57 of the Patents Act 1983 that Claims 1 to 14 of Malaysia Patent No. MY 121188-A (188 Patent) are invalid and null and void in Malaysia;
(ii) a declaration that the amendments to the application for the 188 Patent are unlawful and ultra vires the Patents Act 1983, further contravene the Patents Regulations 1986 and render the 188 Patent invalid, null and void;
(iii) a declaration pursuant to Section 62 of the Patent Act 1983 that the making, importing, offering for sale, selling or using of the Sentinel/Hartalega System which is the subject matter of Malaysian Patent No. MY 140770-A (770 Patent) does not constitute an infringement of any of the claims on the 188 Patent; and
(iv) damages and costs.

The Defendants counterclaimed for the following reliefs:

(i) a declaration pursuant to Sections 56 and 57 of the Patents Act 1983 that Claims 1 to 7 of the 770 Patent are invalid and null and void in Malaysia;
(ii) a declaration that the first and/or the second Defendant, as the case may be, is validly subsisting and has been infringed by the Plaintiffs jointly and severally;
(iii) an injunction to restrain the Plaintiffs from dealing with the Sentinel/Hartalega System which is the subject matter of the 770 Patent or any other systems that infringe the 188 Patent in whatsoever manner; and
(iv) damages and costs.

On 25 August 2011, the High Court of Malaya delivered its judgment as follows:-

(i) The Sentinel's Patent No. MY 140770-A entitled "The Arrangement and Method of Assembling Former Holders" ("770 Patent") is valid;
(ii) Ecotherm's Patent No. MY 121188-A entitled "Conveyor System for Use in Dipping Process" (188 Patent") is valid;
(iii) Hartalega double former conveyor system does not infringe Ecotherm's 188 Patent.

On 23 September 2011, the Company announced that Ecotherm are appealing against part (i) & (iii) of the judgement of the High Court of Malaya dated 25 August 2011.

(b) Mr. Seow Hoon Hin (the "Plaintiff"), a shareholder of the Company and a former shareholder of Hartalega Sdn. Bhd. ("HSB"), has instituted legal proceedings against the Company, HSB and 3 individuals 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 HSB on 24 March 2011.

The Plaintiff claims as against HSB for the following:

(i) 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");
(ii) declaration that HSB is a trustee for unpaid dividends amounting to RM488,765.25 allegedly due and owing to the Plaintiff (the "said dividends");

(iii) 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;
(iv) an order that HSB account to the Plaintiff for the said dividends and make restitution of the same to the Plaintiff;
(v) interest on the said profits and said dividends at the rate of 8% per annum from the date of the respective dividends were payable until full satisfaction; and
(vi) such other relief as the Court deems fit and costs.

The hearing of plaintiff's application to disqualify the Group's solicitor was fixed on 4 November 2011.

The Directors of the Company, 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. Accordingly, the Group has not made any provision on the financial statements.

B13. Dividend

The board has declared a first interim dividend of 6 sen per share single tier in respect of the financial year ending 31 March 2012 and payable on 8 December 2011 . The entitlement date has been fixed on 24 November 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 24 November 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.

B14. Earnings per Share

Basic Earnings Per Share	Current Quarter Ended 30/09/2011	Corresponding Quarter Ended 30/09/2010	Current Year-To-Date 30/09/2011	Corresponding Year-To-Date 30/09/2010
Profit attributable to owners of the parent (RM'000)	46,127	47,099	100,901	88,560
Number of shares in issue as at beginning of the year ('000)	363,557	363,468	363,557	363,468
Effect of exercise of ESOS ('000)	296	-	296	-
Weighted average number of ordinary shares in issue ('000)	363,853	363,468	363,853	363,468
Basic earnings per share (sen)	12.68	12.96	27.73	24.37

Diluted Earnings Per Share	Current Quarter Ended 30/09/2011	Corresponding Quarter Ended 30/09/2010	Current Year-To-Date 30/09/2011	Corresponding Year-To-Date 30/09/2010
Profit attributable to owners of the parent (RM'000)	46,127	47,099	100,901	88,560
Weighted average number of ordinary shares in issue ('000)	363,853	363,468	363,853	363,468
Effect of dilution : share options ('000)	1,227	678	1,227	678
Adjusted weighted average number of ordinary shares in issue and issuable('000)	365,079	364,146	365,079	364,146
Diluted earnings per share (sen)	12.63	12.93	27.64	24.32