



**Notes to the Interim financial report for the Fourth Quarter ended 31 March 2012**

**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:

**FRS 3 Business Combinations (Revised) and FRS 127 Consolidated and Separate Financial Statements (Revised)**

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.

#### **MFRS Framework issued but not yet effective**

On 19 November 2011, MASB issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards ("MFRS Framework") in conjunction with the MASB's plan to converge with International Financial Reporting Standards ("IFRS") in 2012. The MFRS Framework comprises Standards as issued by the International Accounting Standards Board ("IASB") that are effective on 1 January 2012 and new/revised Standards that will be effective after 1 January 2012.

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual financial periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture and IC Interpretation 15 Agreements for Construction of Real Estate, including its parent, significant investor and venturer. As such, the Group will prepare its first financial statements using the MFRS Framework for the year ending 31 March 2013. In presenting its first MFRS financial statements, the Company may be required to restate the comparative financial statements to amounts reflecting the application of the MFRS Framework.

The Group is currently in the process of determining the financial impact arising from the adoption of the MFRS Framework.

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 31 March 2012, a total of 688,500 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 1,531,400 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.
- (c) First interim dividend of 6 sen per share single tier amounting to RM21,843,384 in respect of the financial year ended 31 March 2012 on 8 December 2011.
- (d) Second interim dividend of 6 sen per share single tier amounting to RM21,905,316 in respect of the financial year ended 31 March 2012 on 28 March 2012.

**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:-

	31 March 2012
	RM'000
Approved and contracted for	119,117
Approved but not contracted for	48,625
Total	<u>167,742</u>

**A11. Material Events Subsequent to the End of Period Reported**

There were no material events subsequent to 31 March 2012 up to latest practicable date, 4 May 2012 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**

- (a) 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.
- (b) On 29 March 2012, the Company incorporated a wholly-owned company namely, Hartalega NGC Sdn Bhd ("HNGC"). The Authorised Share Capital of HNGC is RM500,000,000 divided into 500,000,000 ordinary shares of RM1 each with an initial Issued and Paid-up Share Capital of RM10,000,000 divided into 10,000,000 ordinary shares of RM1 each.

**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.



**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 2012	4th Quarter Ended 31 Mar 2011	Variance		Year-To- Date 31 Mar 2012	Year-To- Date 31 Mar 2011	Variance	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	240,217	192,524	47,693	24.8	931,081	734,921	196,160	26.7
Profit before tax	64,460	66,290	(1,830)	(2.8)	258,583	242,834	15,749	6.5

For the 4<sup>th</sup> quarter year-on-year basis, the Group's sales revenue increased by 24.8% and profit before tax decreased by 2.8%. The significant increase in revenue is in line with the Group's continuous expansion in production capacity and increase in demand. However, the profit before tax margin reduced to 26.8% from 34.4% due to increase in raw material prices of nitrile latex, fuel cost and more competitive sales pricing for the current quarter compared with the corresponding quarter of the preceding year.

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

	Current Quarter ended 31 Mar 2012	Preceding Quarter ended 31 Dec 2011	Variance	
	RM'000	RM'000	RM'000	%
Revenue	240,217	241,951	(1,734)	(0.7)
Profit before tax	64,460	63,902	558	0.9

In the current quarter, the Group's revenue was 0.7% lower and the profit before tax was 0.9% higher when compared to the preceding quarter.

The reduction in revenue for the current quarter is basically due to the weakening of the USD. The increase in profit before tax is basically due to the net gain in foreign exchange of RM984,000 for the current quarter compared with a net loss in foreign exchange of RM202,000 for the preceding quarter.

**B3. Commentary on Prospects and Targets**

The global demand for nitrile gloves continued to grow by 29% for the year 2011 due mainly to switching momentum from natural rubber gloves to nitrile gloves. This has spurred a significant increase in nitrile gloves production capacity by the industry which we are confident would be more than matched by resilient demand dynamics. Furthermore, we do



not expect a price war from the second half of 2012, as claimed by certain quarters as global demand growth continues to outpace growth in industry capacity.

On the contrary, we had to put some of our customers on allocation for their April 2012 purchase and beyond despite adding two new production lines in plant 5 to meet escalating demand. Based on our experiences, there are no expectations for a price war in the foreseeable future. Rather, the continued expansion in global demand for nitrile rubber gloves would be satisfied by industry capacity increase. This would only generate healthy competition among competitive rubber glove manufacturers.

We anticipate demand growth for nitrile gloves should be sustainable at 20% annually for the mid term. To meet the increasing export demands of nitrile gloves, our new plant, namely Plant 6, have begun construction in February 2012 with its first production line targeted to commence operations in August 2012. Plant 6 will commission 10 production lines in total and is expected to give at least a 30% boost to our production capacity which translates to a further 3.5 billion pieces per annum. The construction of the 10 production lines in Plant 6 is expected to be fully completed in June 2013.

In view of current and anticipated bullish market conditions, we are making concerted efforts to put in place the foundation for long term sustainable growth. On this note, we have already strategized to beef up our human resource training facilities and manpower numbers.

We view that the concerted long term planning and efforts should bear fruit due to productivity gains and benefits of economies of scale derived from building capacity and leveraging on in-house technological competence to countervail the potential margin compression arising from greater competition. Faced also with the systemic challenges of weak US Dollar and strong nitrile raw material pricing, we remained resilient and continued to grow our top line and bottom line.

The Group has achieved the internal target growth for both sales revenue and net profit for the financial year ended 31 March 2012. 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. Profit For The Period**

Profit for the period is arrived at after charging/(crediting):

	4th Quarter Ended 31 Mar 2012	4th Quarter Ended 31 Mar 2011	Year-To- Date 31 Mar 2012	Year-To- Date 31 Mar 2011
	RM'000	RM'000	RM'000	RM'000
Interest income	(256)	(561)	(938)	(2,067)
Other income including investment income	(956)	(343)	(3,547)	(666)
Interest expense	391	560	1,737	2,470
Depreciation and amortization	7,444	7,320	29,029	24,953
Foreign exchange (gain)/loss-realised	2,944	(1,043)	126	(5,957)
Foreign exchange (gain)/loss-unrealised	431	53	(1,934)	1,462
Fair value (Gain)/loss on derivatives	(4,359)	(2,433)	4,105	(879)

**B6. Taxation**

	Current quarter RM'000	Current year-to- date RM'000
Current tax expense	14,398	55,023
Deferred tax expense	(4)	2,807
Under/(Over) provision in prior years	-	(893)
	<u>14,394</u>	<u>56,937</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 allowance for increase in export.

**B7. Status of Corporate Proposal**

As at the latest practicable date, 4 May 2012, the outstanding corporate proposals announced but not completed are as follows:

- (a) On 22 February 2012, it was announced that the Company proposed to implement a bonus issue of up to 371,654,940 ordinary Shares of RM0.50 each on the basis of one (1) Bonus Share for every one (1) existing Shares on a date to be determined and announced later. Bursa Malaysia Securities Berhad has approved the listing and quotation of the Bonus Shares with conditions on 6 April 2012.
- (b) On 22 February 2012, the Company also announced to propose to implement a free warrants issue of up to 74,330,988 free warrants on the basis of one (1) Free Warrant for every five (5) existing Shares held on the same Entitlement Date as the proposed Bonus Issue. Bursa Malaysia Securities Berhad has approved the admission to the official list of Bursa Securities and the listing and quotation with conditions on 6 April 2012.



(c) On 22 February 2012, the Company proposed to increase in authorised share capital from RM250,000,000 comprising 500,000,000 Shares to RM750,000,000 comprising 1,500,000,000 Shares.

All the above proposals have been approved by shareholders at the EGM held on 3 May 2012.

## **B8. Group Borrowings and Debt Securities**

Total Group borrowings as at 31 March 2012 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Short term borrowings</u>			
Term Loans (USD denominated)	4,513	-	4,513
Term Loans (RM denominated)	8,043	-	8,043
Finance Lease (USD denominated)	24	-	24
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	12,580	-	12,580
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<u>Long term borrowings</u>			
Term Loans (USD denominated)	6,566	-	6,566
Term Loans (RM denominated)	5,503	-	5,503
Finance Lease (USD denominated)	-	-	-
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	12,069	-	12,069
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## **B9. Financial Derivative Instruments**

As at 31 March 2012, the outstanding foreign currency forward contracts are as follows:

Type of Derivatives	Contract/Notional Value (RM'000)	Fair Value (RM'000)
<u>Foreign Exchange Contracts</u>		
Less than 1 year		
-USD denominated	169,622	168,857

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 derivative liabilities amounting to RM765,000 has been recognised in the financial statements.





**B10. Realised and Unrealised Profits/Losses Disclosure**

	As at 31/03/2012 RM'000	As at 31/03/2011 RM'000
Total retained profits of Hartalega Holdings Berhad and its subsidiaries:		
- Realised	557,232	437,615
- Unrealised	<u>(40,975)</u>	<u>(34,960)</u>
	516,257	402,655
Less: Consolidation adjustments	<u>(94,741)</u>	<u>(95,480)</u>
Total group retained profits as per consolidated accounts	<u>421,516</u>	<u>307,175</u>

**B11. Material Litigation**

As at the latest practicable date, 4 May 2012, there are no material litigations against the Group or taken by the Group saved as disclosed 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.

There is an appeal and cross-appeal against the Court's Judgment dated 25 August 2011. We are currently waiting for the same to be fixed for hearing.

- (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 Plaintiff's appeal against the High Court's decision in dismissing their application to disqualify Cheah Teh & Su from acting for the 1st to 3rd Defendants has been dismissed with costs of RM10,000. The case is still in the pre-trial case management where no trial dates have been set. The Plaintiff had since the last case management case filed an amendment and a discovery application against the 1<sup>st</sup> to 3<sup>rd</sup> defendants.

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.



**B12. 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 2012 and payable on 13 June 2012. The entitlement date has been fixed on 25 May 2012.

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 May 2012 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**

<b>Basic Earnings Per Share</b>	Current Quarter Ended 31/03/2012	Corresponding Quarter Ended 31/03/2011	Current Year-To- Date 31/03/2012	Corresponding Year-To-Date 31/03/2011
Profit attributable to owners of the parent (RM'000)	50,012	52,398	201,616	190,297
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)	598	16	598	16
Weighted average number of ordinary shares in issue ('000)	364,155	363,484	364,155	363,484
Basic earnings per share (sen)	13.73	14.42	55.37	52.35
<b>Diluted Earnings Per Share</b>	Current Quarter Ended 31/03/2012	Corresponding Quarter Ended 31/03/2011	Current Year-To- Date 31/03/2012	Corresponding Year-To-Date 31/03/2011
Profit attributable to owners of the parent (RM'000)	50,012	52,398	201,616	190,297
Weighted average number of ordinary shares in issue ('000)	364,155	363,484	364,155	363,484
Effect of dilution : share options ('000)	1,639	858	1,639	858
Adjusted weighted average number of ordinary shares in issue and issuable('000)	365,794	364,342	365,794	364,342
Diluted earnings per share (sen)	13.67	14.38	55.12	52.23