Notes to the Interim financial report for the Third Quarter ended 31 December 2014

A. NOTES PURSUANT TO THE MALAYSIAN FINANCIAL REPORTING STANDARD 134 (MFRS 134): INTERIM FINANCIAL REPORTING

A1. Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with requirement of Malaysian Financial Reporting Standard 134 (MFRS 134): Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB"), International Accounting Standard ("IAS") 34: Interim Financial Reporting issued by the International Accounting Standards Board ("IASB") and paragraph 9.22 (Appendix 9B part A) of the Main Market Listing Requirements ("Listing Requirements") of the Bursa Malaysia Securities Berhad ("Bursa Securities").

The significant 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 Group for the financial year ended 31 March 2014 except for the adoption of the following new Malaysian Financial Reporting Standards ("MFRS") and IC Interpretations ("IC Int."):

MFRSs/IC Interpretations

IC Interpretation 21	Levies
Amendments to MFRS 10, MFRS 12 and MFRS 127	Investment Entities
Amendments to MFRS 132	Financial Instruments: Presentation (Amendments relating to Offsetting Financial Assets and Financial Liabilities)
Amendments to MFRS 136	Impairment of Assets (Amendments relating to Recoverable Amounts Disclosures for Non-Financial Assets)
Amendments to MFRS 139	Financial Instruments: Recognition and Measurement (Amendments relating to Novation of Derivatives and Continuation of Hedge Accounting)

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

MFRS 9	Financial Instruments (IFRS 9 issued by IASB in July 2014)[5]
MFRS 14	Regulatory Deferral Accounts[3]
MFRS 15	Revenue from Contracts with Customers[4]
Amendments to MFRS 10, MFRS 12 and MFRS 128	Investment Entities: Applying the Consolidation Exception[3]
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture[3]
Amendments to MFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to MFRS 101	Disclosure Initiative[3]

Amendments to MFRS 116 and MFRS 138	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to MFRS 116 and MFRS 141	Agriculture: Bearer Plants[3]
Amendments to MFRS 119	Defined Benefit Plans: Employee Contributions[1]
Amendments to MFRS 127	Equity Method in Separate Financial Statements[3]

Annual Improvements to MFRSs 2010 – 2012 cycle[2]
Annual Improvements to MFRSs 2011 – 2013 cycle[1]
Annual Improvements to MFRSs 2012 – 2014 cycle[3]

[1] Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions. Earlier application is permitted.
[3] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
[4] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[5] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

The Directors anticipate that the adoption of the abovementioned standards and interpretations, when they become effective, are not expected to have material impact on the financial statements of the Group in the period of initial application.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 March 2014 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 Group for the financial year ended 31 March 2014 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 December 2014, a total of 2,772,500 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 ended 31 December 2014, a total of 4,624,300 new ordinary shares of RM0.50 each were allotted and issued pursuant to the Company's Executive Share Option Scheme.
(c) During the current quarter ended 31 December 2014, a total of 9,293,320 new ordinary shares of RM0.50 each were allotted and issued pursuant to the Company's Warrants.
(d) For the financial year-to-date ended 31 December 2014, a total of 40,153,787 new ordinary shares of RM0.50 each were allotted and issued pursuant to the Company's Warrants.

Other than the above, there were no issuance and repayments of debt and equity securities, share buy-backs, share cancellations and shares held as treasury shares for the current quarter and financial year-to-date.

A7. Dividends Paid

Dividends paid by the Company during the financial year were as follows:
(a) Third interim single tier exempt dividend of 3.5 sen per share amounting to RM26,155,733 in respect of the financial year ended 31 March 2014, declared on 6 May 2014 and paid on 18 June 2014.
(b) Final single tier exempt dividend of 4 sen per share amounting to RM31,172,932 in respect of the financial year ended 31 March 2014, proposed on 8 July 2014 and approved on 26 August 2014 and paid on 24 September 2014.
(c) First interim single tier exempt dividend of 3 sen per share amounting to RM23,696,785 in respect of the financial year ended 31 March 2015, declared on 18 November 2014 and paid on 24 December 2014.

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 in respect of Property, Plant and Equipment as at end of the current quarter and financial year-to-date are as follows:-

	31 December 2014
	RM'000
Approved and contracted for	247,511
Approved but not contracted for	1,576,532
Total	1,824,043

A11. Material Events Subsequent to the End of Period Reported

There were no material events subsequent to 31 December 2014 up to latest practicable date 4 February 2015 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 statement of financial position 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

	3rd Quarter Ended 31 Dec 2014	3rd Quarter Ended 31 Dec 2013	Variance		Year-To-Date 31 Dec 2014	Year-To-Date 31 Dec 2013	Variance	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	286,414	267,820	18,594	6.9	840,850	826,787	14,063	1.7
Profit before tax	68,997	74,673	(5,676)	(7.6)	209,550	238,890	(29,340)	(12.3)

The Group's performance for the quarter under review and year-to-date versus the corresponding quarter and year-to-date of the previous financial year is as follows:

(a) The increase in revenue is basically due to increase in sales volume of 7%. The weakening of the Ringgit has mitigated the effect of lower average selling price from declining raw material prices and more competitive selling price.

(b) The operating profit margin reduced from 26.2% to 24.8% due to start-up expenses from NGC project, increase in electricity and natural gas cost.

The Group's performance for the year-to-date versus the corresponding year-to-date of the previous financial year is as follows:

(a) The Group's sales revenue increased by 1.7%. The increase in revenue is due to increase in sales volume.

(b) The operating profit margin reduced from 29.4% to 24.8% for the current year-to-date compared with the corresponding year-to-date of the preceding year. This is due to lower average selling price from declining raw material prices, more competitive selling price, and increase in electricity and natural gas cost.

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

	Current Quarter ended 31 Dec 2014	Preceding Quarter ended 30 Sep 2014	Variance	
	RM'000	RM'000	RM'000	%
Revenue	286,414	275,238	11,176	4.1
Profit before tax	68,997	64,902	4,095	6.3

In the current quarter, the Group's revenue was 4.1% higher and the profit before tax was 6.3% higher when compared to the preceding quarter. The increase in revenue is basically due to the weakening of the Ringgit and small increase on sales volume.

The operating profit margin increased from 23.7% to 24.8% for the current quarter compared with the preceding quarter basically due to increase in production output and better operation efficiency.

B3. Commentary on Prospects and Targets

The global demand for nitrile rubber gloves continued to grow at a high rate of over 19% due mainly to switching momentum from latex to nitrile rubber gloves. This has spurred an increase of nitrile capacity by the industry which we are confident would be more than matched by strong nitrile glove demand. Furthermore, we do not expect price war as claimed by certain quarters as global demand growth continues to be strong. However, average selling price will be lower from declining raw material price and more competitive product selling price. The lower selling price and sustaining demand will support efforts to open new markets.

We have embarked on a new stage of progress with our Next Generation Integrated Glove Manufacturing Complex (NGC). Hartalega NGC Sdn Bhd, a wholly-owned subsidiary of the Company, has completed the acquisition of land for the NGC project. The major portion of this land will be used to build six high capacity manufacturing plants that will house 72 production lines. Hartalega targets to add another 28.5 billion pieces aggregating to total installed capacity of over 42 billion pieces per year upon completion of the NGC project. The total budgeted project cost including land cost about RM2.26 billion. The project expected to take 8 years to complete. The Group will finance the NGC project via a combination of internal funds, conversion of portion of its warrants and bank borrowings. We have started the construction of plant 1 and 2 and supporting facilities in the 4th quarter of calendar year 2013. We have tested and commissioned two of the production lines in January 2015 and other production lines will come on stream progressively.

In view of current and anticipated conducive market conditions, we are making strenuous efforts to put in place the foundation for long term sustainable growth. On this note, we have already made concerted effort in improving our human resource in areas of training and development and man power numbers and have adjusted our salary structure in line with the minimum wage ruling effective January 2013.

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 competencies to mitigate the potential margin compression arising from greater competition. Although we are concerned that lower average selling price continues to impact Hartalega’s top and bottom line, the timing of the incoming NGC capacity should sustain the group’s earnings. On the back of strong demand for nitrile gloves, we are confident that Hartalega’s profit margins will remain above the industry average.

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):

	3rd Quarter Ended 31 Dec 2014	3rd Quarter Ended 31 Dec 2013	Year-To-Date 31 Dec 2014	Year-To-Date 31 Dec 2013
	RM'000	RM'000	RM'000	RM'000
Interest income	(309)	(334)	(927)	(846)
Other income including investment income	(1,672)	(1,472)	(5,772)	(4,889)
Interest expense	24	52	82	272
Depreciation and amortisation	11,150	11,513	32,982	33,318
Provision and write off of bad debts	-	-	88	-
Foreign exchange (gain)/loss-realised	4,615	5,529	1,309	8,452
Foreign exchange (gain)/loss-unrealised	(4,202)	(1,435)	(6,405)	(1,417)
Fair value (gain)/loss on derivatives	3,606	(6,931)	10,734	2,821

B6. Taxation

	Current quarter	Current year-to-date
	RM'000	RM'000
Current tax expense	19,534	51,399
Deferred tax expense	(663)	2,470
Under provision in prior years	482	482
	19,353	54,351

B7. Status of Corporate Proposal

As at the latest practicable date, 4 February 2015, there was no corporate proposal announced and not completed in the current quarter and financial year-to-date.

B8. Group Borrowings and Debt Securities

Total Group borrowings as at 31 December 2014 are as follows:

	Secured RM'000	Unsecured RM'000	Total RM'000
Short term borrowings			
Term Loans (USD denominated)	2,195	-	2,195
Term Loans(RM denominated)	136	-	136
Finance Lease (USD denominated)	26	-	26
	2,357	-	2,357
Long term borrowings			
Term Loans (USD denominated)	-	-	-
Term Loans (RM denominated)	309	-	309
Finance Lease (USD denominated)	66	-	66
	375	-	375

B9. Financial Derivative Instruments

As at 31 December 2014, 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	180,621	171,727
-AUD denominated	3,648	3,753

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 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 RM8,789,000 has been recognised in the financial statements.

B10. Realised and Unrealised Profits/Losses Disclosure

	As at 31/12/2014 RM'000	As at 31/03/2014 RM'000
Total retained profits of Hartalega Holdings Berhad and its subsidiaries:		
- Realised	744,715	664,562
- Unrealised	(64,411)	(57,029)
	680,304	607,533
Less: Consolidation adjustments	(97,173)	(98,141)
Total group retained profits as per consolidated accounts	583,131	509,392

B11. Material Litigation

As at the latest practicable date, 4 February 2015, there are no material litigations against the Group or taken by the Group saved as disclosed below:

Mr. Seow Hoon Hin (the "Plaintiff"), a shareholder of the Company and a former shareholder of Hartalega Sdn. Bhd. ("HSB") vs Hartalega Holdings Berhad ("the Company" or "1st Defendant"), HSB ("2nd Defendant") and three (3) individuals (3rd, 4th and 5th defendant") (collectively "the Defendants") (Kuala Lumpur High Court Writ and Statement of Claim).

The Plaintiff has instituted legal proceedings against the Defendants by filing 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 the Company on 24 March 2011.

The Plaintiff claims against the Defendants for the following:

(i) he had delivered to the 3rd Defendant, acting on behalf of the 2nd Defendant substantial part of another two (2) assembly lines for the manufacture of gloves for storage at the 2nd Defendant's factory to which he purportedly intended to be reimbursed for. The Plaintiff contends that the 3rd Defendant (whom the Plaintiff contends is the controlling mind and person behind the 2nd Defendant) has represented to him that the said parts would be kept in the possession of the 2nd Defendant as a trustee for the Plaintiff;

(ii) the Plaintiff contends that the 2nd Defendant had in flagrant breach of trust utilised the said parts to assemble another 2 assembly lines for the manufacture of latex gloves and that the 2nd Defendant had in breach of trust converted the same for its use and acquired proceeds and/or profits from the assembly of the said parts and as a consequence thereof has purportedly been unjustly enriched;

(iii) the Plaintiff further claims that there was a conspiracy to injure the Plaintiff by the 3rd, 4th and 5th Defendant culminating in the share allotment on 4 April 2005. The Plaintiff states that 3rd, 4th and 5th Defendant had agreed to use the said allotment of shares for the predominant purpose of injuring the Plaintiff and that the said allotment was done pursuant to a purported agreement between the 3rd, 4th and 5th Defendants to injure the Plaintiff resulting in damage and loss to him;

(iv) that the 2nd Defendant is a trustee for the unpaid dividends amounting to RM488,765.25 due and owing to the Plaintiff; and

(v) that the Company is guilty of negligent misstatement or alternatively in breach of statutory duty pursuant to Section 357 of the Capital Markets and Services Act, 2007 ("CMSA") read together with, inter alia, Section 214 of the CMSA and/or tort of breach of statutory duty pursuant to Section 177 and/or Section 179 of the CMSA.

The Plaintiff claims against the Company for the following:

(i) damages for negligent misstatement or alternatively of breach of statutory duty pursuant to Section 357 of the CMSA read together with, inter alia, Section 214 of the CMSA and/or tort of breach of statutory duty pursuant to Section 177 and/or Section 179 of the CMSA;

(ii) interest on the said damages at the rate of 8% per annum or any other rate deemed appropriate from 7 April 2008 or such other date deemed appropriate until full satisfaction thereof;

(iii) such further or other relief the Court deems fit; and

(iv) costs.

The matter has since gone for trial on 5, 6, 7 December 2012, 29 and 30 January 2013 and 1 and 2 April 2013 in which the trial has been concluded. The Judge heard parties' oral submissions on 19 March 2014, 2 May 2014, 5 May 2014, 9, 10, 11 and 13 June 2014. Although initially fixed for decision on 5 August 2014 and then 13 November 2014, the matter was subsequently postponed.

Yang Arif Dato' Has Zanah binti Mehat gave her decision on 12 December 2014, wherein she held as follows:

i. That the Plaintiff has failed in all claims against the Defendants, as prayed for in his Statement of Claim; and

ii. That the Plaintiff's action be dismissed with costs of RM150,000.00 to the 1st to 3rd Defendants and RM50,000.00 each to the 4th and 5th Defendants.

On 8 January 2015 the Plaintiff filed a Notice of Appeal against the decision of the High Court. No further dates have been fixed yet.

The directors of the Company, in consultation with the solicitors, are of the opinion that the Group has a valid defence against the Plaintiff's claim. Accordingly, the Group has not made any provision on the financial statements.

B12. Dividend

On 10 February 2015, the board has declared a second interim dividend of 3.0 sen per share single tier in respect of the financial year ending 31 March 2015 and payable on 26 March 2015. The entitlement date has been fixed on 5 March 2015.

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 5 March 2015 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 31/12/2014	Corresponding Quarter Ended 31/12/2013	Current Year-To-Date 31/12/2014	Corresponding Year-To-Date 31/12/2013
Profit attributable to owners of the parent (RM'000)	49,517	57,876	154,764	184,061
Number of shares in issue as at beginning of the year ('000)	747,032	733,308	747,032	733,308
Effect of exercise of ESOS ('000)	2,386	2,631	2,386	2,631
Effect of exercise of Warrants ('000)	25,420	5,492	25,420	5,492
Weighted average number of ordinary shares in issue ('000)	774,838	741,431	774,838	741,431
Basic earnings per share (sen)	6.39	7.81	19.97	24.83

Diluted Earnings Per Share	Current Quarter Ended 31/12/2014	Corresponding Quarter Ended 31/12/2013	Current Year-To-Date 31/12/2014	Corresponding Year-To-Date 31/12/2013
Profit attributable to owners of the parent (RM’000)	49,517	57,876	154,764	184,061
Weighted average number of ordinary shares in issue ('000)	774,838	741,431	774,838	741,431
Effect of dilution : share options (‘000)	1,931	4,361	1,931	4,361
Effect of dilution : warrants (‘000)	9,563	21,525	9,563	21,525
Adjusted weighted average number of ordinary shares in issue and issuable('000)	786,332	767,317	786,332	767,317
Diluted earnings per share (sen)	6.30	7.54	19.68	23.99