CEO's Management Discussion & Analysis

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Industry Overview

The financial year ended 30 June 2018 ("FY 2018") was characterised by a climate in the global economy that continued to remain challenging and volatile. Manufacturers around the world had to be vigilant to manage costs against the backdrop of unprecedented levels of foreign exchange fluctuations combined with global commodity prices that escalated at a tremendous pace over specific periods of the year.

In spite of these challenges, the fundamental demand for condoms continued to expand as governments and non-government organisations ("NGOs") around the world remained committed to improving sexual health education. Condoms remain globally recognised as one of the most effective and economical methods of preventing unintended pregnancies, averting the transmission of sexually transmitted infections, HIV/AIDS and reducing the risk of cervical cancer and wart-causing human papillomavirus (HPV) in women.

Data presented during the 2018 International AIDS Conference, held in Amsterdam shows that condom promotion has averted an estimated 50 million new HIV infections since the onset of the epidemic. Despite the increased use of condoms over the past three decades, condom availability and use gaps remain, in particular in sub-Saharan Africa, where the gap between availability and need is estimated to be more than 3 billion condoms.

The stage is set for a condom industry that is on the verge of expanding at a dramatic pace with a dynamic range of consumers that are increasingly demanding condoms in more innovative varieties and packaging to bridge the social stigma that has traditionally limited take up amongst the public.

Operations Review

In a bid to insulate the future of our business from fluctuations in minimum wages as well as foreign labour policies that may sometimes cause disruptions to our labour supply, we have continued to invest in automation. The majority of the new automation equipment installed during the year has been aimed at reducing labour headcount in the electronic testing portion of the condom manufacturing process.

We reported last year that our latest dipping lines were not only more energy efficient but also capable of producing some of the thinnest natural latex condoms in the industry. This is in line with consumer preferences that have shifted towards thinner products that offer users more sensation. As a result, we scaled up the production of ultra-thin condoms to meet growing market demand – a trend that we envisage will continue in the immediate future.

The production of ultra-thin condoms requires not only sophisticated machinery but a more intimate understanding over the latex formulations employed in the manufacturing process. To facilitate this objective and to improve overall quality controls within our Group, construction of our dedicated latex compounding facility was completed during the year. We anticipate to reap the rewards of certain cost savings and more importantly, to be able to more strictly control the properties of the latex used in our manufacturing processes as we scale up production to cater for our Group's requirements.

Personal lubricants are a product sub-segment within our sexual wellness division that have become increasingly in demand. Not only are purchases amongst retailers escalating, many government agencies have also begun making enquiries making lubricants the fastest growing product sub-segment in our portfolio. Fittingly, we have this year commenced construction of a state-of-the-art personal lubricant manufacturing facility in Hat Yai, Thailand.

Financial Review

During FY 2018, the Group delivered topline growth in excess of 13% to register record high sales of RM408.0 million. This expansion has been driven by the sexual wellness division that continues to push new boundaries in spite of the competitive environment that is currently still being faced in the Tender market specifically.

TOPLINE GROWTH IN EXCESS OF
13%

OBM SEGMENT CONTRIBUTION OF
15%
OF REVENUE

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Despite encouraging sales growth, rising global commodity prices lead to an increase in prices of critical inputs, most notably of silicone oil and packaging materials. Moreover, the strengthening Ringgit Malaysia outpaced our ability to adjust prices with our customers during the year leading to gross profit margins falling to 26.3% for the financial year.

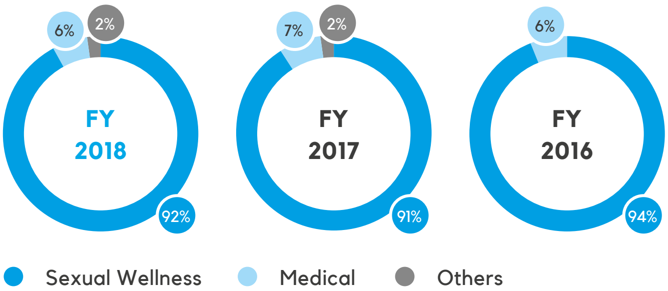
Distribution and administrative expenses also increased during the year as increased freight charges were incurred in line with rising global oil prices. Promotional expenditure during the year included launches for our own branded products in the United Kingdom ("UK") as well as in the United States of America ("USA"). This resulted in a decrease in both profit before tax and profit after tax to RM14.3 million and RM10.2 million respectively for the financial year.

On the back of higher sales volumes for the year, inventories also increased to RM122.3 million contributing to our total current assets for the year of RM277.8 million. Capital expenditures amounted to RM26.1 million as we continued to invest in upgrading our manufacturing facilities that contributed to an increase in total non-current assets to RM306.7 million and a corresponding total asset base of RM584.5 million by the end of the financial year.

In conjunction with our record own brand manufacturing ("OBM") sales contribution, we exercised our option to acquire an additional 15% of Global Protection Corporation for a cash consideration of RM7.6 million. Notwithstanding the investment, we continued to maintain agility in our balance sheet with a net cash position of RM20.4 million and shareholders' funds of RM483.3 million translating to a gearing ratio of 0.06x.

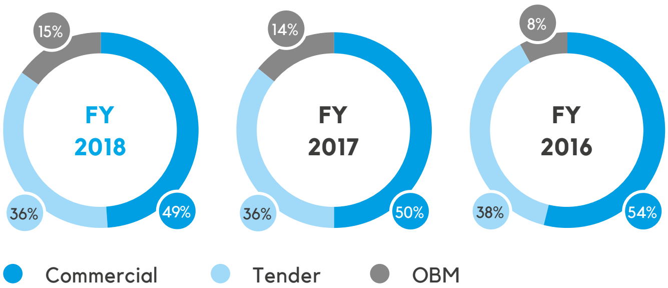
Product Segments

Revenue from the sexual wellness division comprising of predominantly condoms and personal lubricants expanded by over 14% and remained the key product segment for the Group during FY 2018. Revenue from personal lubricants in particular increased by over 50% on a year-to-year basis, underlining the importance and potential of the product segment. The medical segment comprising of probe covers, catheters and test kits registered relatively stable revenue contributions.



Market Segments

Sales volumes to the Tender segment recovered by over 15% in spite of global HIV/AIDS budget reductions over the past few years. Whilst pricing remained competitive, we continued to successfully capture orders and position ourselves strategically to defend our position as the dominant player in the international Tender markets. We have also continued to build on our status as a preferred partner for many notable national healthcare providers and NGOs involved in the distribution of condoms in the USA, UK and Canada.



The Commercial segment remained the greatest contributor to our Group. Our competitive advantage in offering customers the largest product portfolio proved to be pivotal in capturing sales in this segment. Growth in the segment was driven by an increase in the value of orders from existing customers as well as the capture of new orders ranging from private label contracts to retail brands.

OBM sales growth far outpaced overall Group revenue growth to post an all-time high revenue contribution for the financial year. Although it is still very early into the Group's expansion into the segment, indications are very encouraging that there is greater value to be derived from this market segment moving forward.

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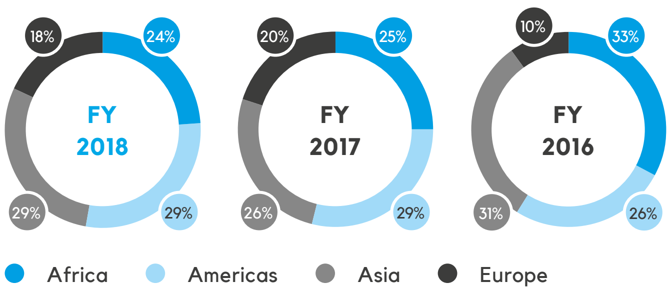
Geographical Location

Building on the sales model following the acquisition of Pasante Healthcare Limited in 2016, sales by geographical location remained evenly spread across the four major regions in the world reflecting a well-diversified customer base.

Record high sales were recorded to the Asia region highlighting the Group's continued success in the Commercial segment with many of the Group's most innovative products continuing to garner high demand in the region.

The Group's sustained expansion in the Americas region also reflects the development of our OBM presence with the USA remaining the primary market for our premium brands. Sales in the South American sub-region was also extremely encouraging, driven predominantly by the Tender business in the region.



Outlook

Notwithstanding the uncertainty in the global macro-environment, we continue to strive to evolve into a company that is better able to service our customers and deliver our shareholders greater value. Whilst making improvements on our manufacturing efficiencies remains a priority, we remain cognisant that majority of the value in the industry relies on providing innovative solutions that encourage consumers to use condoms.

Headlining global efforts to end AIDS as a public health threat, the Joint United Nations Programme on HIV/ AIDS ("UNAIDS") and the United Nations Population Fund ("UNFPA") launched a new road map to reduce new HIV infections during the year. One of the key Global Prevention Targets and Commitments highlighted is to ensure that 20 billion condoms per year are made available in low- and middle-income countries by 2020 underlining the important role that condoms will continue to play in the fight against AIDS for years to come.

Over the course of the last few years, the consumer goods industry has experienced unprecedented levels of disruption, driven by the accelerating pace of technology and shifts in consumer behavior. Manufacturers and retailers have been forced to reinvent how they reach, serve and – ultimately – delight consumers in markets that are more dynamic than ever before.

Today, as our customers demand increasingly innovative products and packaging, our economies of scale and extensive portfolio of products leaves us well positioned to capture a larger share of value in the industry moving forward.

In aggregate, it makes it an extremely exciting time to be in the sexual wellness industry. Whilst change on this scale brings challenges, in my view, there are many more opportunities especially for companies that are able to respond with the kind of speed and agility that today's environment demands.

Acknowledgements

Finally, on behalf of my team, I would like to express sincere appreciation to the Board of Directors for their stewardship during the year and of course our shareholders for your continued support.

MK Goh
Chief Executive Officer