MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF CORE BUSINESSES

The principal activities of Kumpulan H & L High-Tech Berhad in the financial year ended 31 October 2023 ("FY2023") remained unchanged during the financial year and are divided into three business segments:

- Manufacturing and sale of precision engineering moulds (PEM) and machine parts, and customisation of precision engineering plastic injection moulds and components catering to sectors such as automotive, consumer, electrical, industrial and medical.
- Property investment and property development.
- Cultivation of oil palm plantations.

FY2023
OVERVIEW OF THE GROUP'S BUSINESS

14.0%

MANUFACTURING

The overall revenue contribution from our manufacturing business improved by 14.0% from RM14.78 million to RM16.85 million with an increase of segment profit of 13.8%, from RM2.79 million in FY2022 to RM3.18 million mainly due to increase in order for plastic division.

6.60%

PROPERTY INVESTMENT AND PROPERTY DEVELOPMENT

The property investment segment generated higher income in FY2023 by 6.6% compared to FY2022 mainly due to an additional investment property at the beginning of FY2022 as well as rental revision upon renewal of tenancy agreement.

For property development, the group has not launched any project in FY2023 despite holding a land bank in Mukim of Ijuk, Selangor which was purchased about a decade ago.

The management expects to collaborate with an experienced party to develop this land bank in near future.

PLANTATION

The average CPO price for first 10 months in 2023 was RM3,835 a tonne, significantly reduced from RM5,352 in the same period in 2022.

CPO prices saw a decline in 2023 due to the market demand-supply forces which are beyond the control of planters.

Fresh Fruit Bunch ("FFB") production for FY2023 improved with 8,728 metric tonnes ("MT") recorded, showing an increase of 5.3% in FY2023 compared to FY2022. However, the weighted average FFB selling price also plummeted by 31.8% in FY2023 due to lower CPO price.

We expect the FFB production output to continue the uptrend as more acreage of trees start bearing fruits from new leases of land since 2018 and up to the date of this report.

FINANCIAL AND OPERATION PERFORMANCE OF THE GROUP

The group achieved a total revenue of RM27.24 million which is an improvement of 2.1% in FY2023 compared to FY2022.

The group's Profit Before Tax ("PBT") improved by 13.3% to RM12.41 million in FY2023 mainly due to an higher fair value gain on investment properties compared to FY2022. If fair value gain on investment properties were excluded, PBT reduced by 10.4% or RM0.87 million mainly due to lower PBT from Plantation segment.

The group recorded a PAT of RM10.19 million or 11.1% higher than RM9.17 million in FY2022.

2.1%
TOTAL REVENUE INCREASED

13.3%
PBT INCREASED

11.1%
PAT INCREASED

WORKING CAPITAL

Total current assets reduced slightly from RM48.45 million to RM48.29 million with a healthy working capital ratio of 10.37 times mainly because of lower current liabilities. The group continues its prudent policy on working capital management.

Total liquid assets stood at RM39.83 million versus total borrowings of RM13.56 million. Liquid assets in multiple of borrowings improved from 2.59 times to 2.94 times mainly due to lower borrowings. The biggest component of working capital besides liquid cash was receivables which stood at RM2.96 million versus RM3.57 million last year. The average collection period is 44 days, slightly shorter than 46 days in 2022. There have been no bad debts written off or provision of doubt debts.

Cash and cash equivalent at the end of October 2023 was RM39.83 million, or 1.6% higher compared to the RM39.20 million at the end of October 2022 mainly due to the ability to generate cash from operation despite maintaining the dividend payment as well as term loan installment payment.

Total long-term and short-term borrowings at the end of October 2023 was RM 13.56 million, reduced by RM1.55 million compared to previous financial year due to a scheduled term loan installment payment.

CAPITAL INVESTMENT

Other than the completion of the acquisition of a property for own use at purchase price of RM0.27 million there were no major capital investments incurred during FY2023.

OUTLOOK AND PROSPECTS

2024 is going to be a tougher year as the world economy faces greater challenge from multiple military conflicts, including Ukraine war (since February 2022) as well as the recent tensions in Middle-East as well as in Myanmar and Korea, while the interest rate is likely remain to higher for a period longer than expected despite inflation data seem improving as at December 2023. In January 2024, Bank Negara Malaysia maintained the Overnight Policy Rate at 3.00% p.a. while US Federal Reserve's benchmark interest rate also remained high at 5.25% to 5.50% p.a. compared to near zero in March 2022.

Despite the uncertainty, the financial prospect of the group remains well guarded with a net cash position as well as consistent net cash generated from operations in the past.

Manufacturing

The manufacturing business is anticipated to maintain similar level of profits this year.

Property Investment and Property Development

Property investment is expected to be stable as the group employs measures to retain current tenants and ensure that empty units, if any, are rented out as soon as possible. As for property development, we continuously explore joint ventures to develop existing landbank and identify new landbanks for future development.

Plantation

The outlook for the Malaysian palm oil industry is expected to be better in 2024 (in terms of the CPO price) after a long period of low CPO prices in 2023.

MPOB forecasts increase in palm oil production in Malaysia in 2024 while the price of CPO may range between RM3,900 to RM4,200 per tonne with expectation of improvement in most key indicators, according to MPOB Director General during Palm Oil Economic Review and Outlook Seminar held in January 2024.

FFB production of the group are expected to remain the same or higher, despite the potential El-Nino effect in 2024. El Nino is a warming of Pacific waters that typically produces drier conditions over Asia, curbing the output of some crops.

For plantation, the group does not own the land but has low lease commitments. The group will be exempted from rental charges if the oil palm trees are infected by any disease, thus reducing the risk to the plantation business.

RISK FACTORS

Manpower Shortage

The manufacturing and plantation segments are heavily reliant on foreign workers. In the meantime, we are retraining our manpower with new skills and doing our best to retain talents.

Inflation

High inflation and/or high interest rate poses a real risk to businesses including higher operating costs, such as materials, wages and labor costs, as well as a negative impact on revenue as a result of decreased consumer confidence and discretionary spending.

DIVIDEND POLICY

The declaration of interim dividends and the recommendation of final dividends (if applicable) are subject to the Board's discretion and any final dividend for the year is subject to the shareholders' approval.

We have not formulated a dividend policy or payout ratio but historically the company has been distributing dividends regularly twice a year.

We recognise that it is important to reward our investors with dividends. Therefore, it is our intention to declare and recommend dividends in the future to allow shareholders to enjoy the profits, subject to various factors including financial performance and cash flow requirements.