Hartalega Holdings Berhad
MSWG Q&A
2018
As reported on Page 29 of the Chairman’s Review and MD&A, Malaysian glove producers further benefitted from a supply deficit from China, as stricter environmental policies by the Chinese government impacted vinyl glove makers in the country.

a) Is the impact only on vinyl gloves and not on other types of gloves?

b) Please also brief on the extent of the impact/benefit and how long is it expected to last?

Chinese government’s strict stance on environmental compliance control has led to a nationwide clampdown on factories which do not meet these requirements. Many vinyl glove plants due to their highly polluting nature were shutdown as they do not comply with the new environmental controls. This led to increased demand for nitrile and latex gloves due to the vinyl glove supply deficit.

Vinyl gloves capacity has been normalizing since the beginning of the year as major vinyl glove players have either relocated their plants or implemented controls to comply with the new requirements.
2. The Chairman’s Review and Management Discussion & Analysis (MD&A) on pages 30 and 32 stated that Hartalega was well prepared to meet demand growth given its continuous expansion in production capacity via its Next Generation Integrated Glove Manufacturing Complex (NGC). Hartalega also operates the fastest and most efficient production lines in the world, producing over 45,000 pieces of gloves per hour.

a) What is the expected timeline when all the plants in NGC become operational?

b) What is the gap between the Group’s current productions versus demand?

All plants in NGC are expected to become operational by FY2021.

Our current production and capacity growth are aligned with market demand. As we continue to expand our production capacity via NGC, we remain mindful of the importance of maintaining healthy market supply and demand dynamics, which are currently well-balanced.
c) What is the fastest speed (no. of pieces of gloves per hour) of production achieved by its peers in the industry? 

To the best of our knowledge, our peers have not achieved our fastest line speed of 45,000 pieces of gloves per hour.
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3. The Chairman’s Review and Management Discussion & Analysis (MD&A) on pages 31, 34 and 35 mentioned about Hartalega’s revolutionary antimicrobial gloves, which was successfully launched in Europe in May 2018 and its process of securing approval from the US Federal Drug Administration to introduce the product in the US market.

a) What expected percentage of the Group’s production will be focused on this product?

b) To what extent has the product gained acceptance and demand?

Our plan is to make the antimicrobial gloves the new standard of glove globally. We hope to convert majority of our production into antimicrobial gloves. Thus this product will be priced at an acceptable premium to ensure quick market acceptance. The premium that we are looking at is up to 5% on top of the current glove price, depending on volumes.

After our launch in London on 31st May 2018, we have secured orders from a major German medical supplies company for the antimicrobial gloves to be delivered in September. This is a testament of the customers’ confidence in the product. We have also received orders from customers from U.K., Korea, Australia, Chile and Singapore. We believe the sales of this product is gaining momentum.
MSWG Q&A – Strategic & Financial Matters

c) Could the Board share when the US FDA approval is expected to be obtained and what would be the prospect in US?

We expect to obtain the approval in 1H CY2019.

We expect a greater adoption of our AMG glove in US as there is greater awareness among US healthcare professionals on the dangers of healthcare-associated infections and US is the largest market that we operate in.
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4. As stated on Page 36 (Chairman’s Review and MD&A), the Company is in the process of upgrading its Enterprise Resource Planning (ERP) system which will enable it to reduce costs and wastage in its production process, as well as strengthen its operations and integrate automation across its supply chain.

Please brief on what and how the achievements/improvements have been made, particularly in terms of measuring them against any KPIs set.

To date, the ERP system is in the process of upgrading. The upgraded system is targeted to launch in April 2019 at our NGC facility in Sepang and subsequently rolled out to Bestari Jaya plants in 2020.

The ERP system is part of Hartalega’s Industry 4.0 broader initiative. The ERP system aims to computerized most business processes within Hartalega and also to integrate supply chain management where resources could used effectively and efficiently.

Hartalega currently has a set of key KPIs established to monitor performance of the company. Targets such as Sales, PAT, operation efficiency, quality and HR effectiveness. Post implementation of ERP system, we expect improvements in operation efficiency and quality performance.
MSWG Q&A – Strategic & Financial Matters

5. We noted significant changes in the following two items disclosed on Page 88 of the Annual Report:

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<tr>
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<th>FY2018</th>
<th>FY2017</th>
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<tbody>
<tr>
<td>Other income</td>
<td>62,963,190</td>
<td>13,848,838</td>
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<tr>
<td>Other operating expenses</td>
<td>(16,484,775)</td>
<td>(50,487,096)</td>
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a) What were the major components of the two items?

b) What were the reasons for the significant changes and what would likely be the trend moving forward into FY2019?

( ) Major components of the two items are:

( ) Gain/Loss on foreign exchange – Realised
( ) Gain/Loss foreign exchange – Unrealised
( ) Fair value gain/loss on derivative financial instruments

( ) The significant changes are mainly due to the volatile currency movements over the past 2 financial years. As the Company’s sales are largely denominated in foreign currency i.e. USD, these components will continue to fluctuate in the future in accordance with the exchange rate movements.
Practice 4.3

1. The Company in its Corporate Governance Report had stated that it has adopted Step Up Practice 4.3 of MCCG. However, in the explanation column on the application of Step Up Practice 4.3, it was stated that any extension beyond nine years will require Board justification and shareholder approval unless the said Director wishes to be re-designated as Non-Independent Non-Executive Director which shall be a consideration for the Board to decide.” This is contrary to Step Up Practice 4.3 which does not provide for any extension of tenure beyond the 9-year tenure of INEDs.

Please take note of this.

The Company takes note of this for the next annual disclosure.

However, at this juncture, none of the Independent Directors of the Company has served the Company for nine (9) years or more.
The Company in its Corporate Governance Report had stated that it had departed from Practice 7.1 and the Executive and Non-Executive Director’s remuneration packages in bands of RM50,000 were disclosed in the CG overview statement as an alternative due to the sensitivity and confidentiality of the disclosure on named basis.

We wish to highlight that this is in breach of the following:

Appendix 9C, Part A (11) of the Main Market Listing Requirement ("MMLR") which states that the remuneration of the directors of the listed issuer (including the remuneration for services rendered to the listed issuer as a group) on a named basis, stating the amount received or to be received from the listed issuer and on a group basis respectively. The disclosure must include the amount in each component of the remuneration (e.g. directors’ fees, salaries, percentages, bonuses, commission, compensation for loss of office, benefits in kind based on an estimated money value) for each director.

Please take note of this to comply with the Listing Requirements.
Practice 7.1

The Company takes note of this for the next annual disclosure. The Company has conducted benchmarking studies on companies of similar market capitalization size as well as similar industries to ensure that directors’ remuneration are competitive and will disclose on named basis from the next financial year onwards.
MSWG Q&A – Corporate Governance Matters

Practice 7.2

3. The Company did not disclose the top five senior management’s remuneration component in bands of RM50,000 under Practice 7.2 of MCCG and there was no explanation of a suitable alternative practice to meet the Intended Outcome.

Under Paragraph 3.2A(b), Practice Note 9 of the Main Market Listing Requirements, the Company is required to disclose the alternative practice it has adopted and how such alternative practice achieves the Intended Outcome as set out in the MCCG.

We wish to highlight that under paragraph 3.2C(a) & (b) of Practice Note 9 of the Main Market Listing Requirements, a Large Company must disclose firstly the actions which it has taken or intends to take and secondly the timeframe required to achieve the application of the Practice.

Please take note of this.
MSWG Q&A – Corporate Governance Matters

Practice 7.3

( ) The Company understands that disclosing the detailed remuneration of each member of Senior Management is intended to allow Stakeholders to assess whether the remuneration is commensurate with individual performances, taking into consideration the Company’s performance. The Board is of the view that the existing remuneration packages of the Directors and Senior Management which have taken into consideration all the relevant factors are attractive enough to retain them.

( ) The Company will continue to monitor market practices and developments in respect of such disclosure.

( ) We take note of MSWG’s comment and will look into alternative practices for future disclosures pertaining to this.