Hartalega

Hartalega Holdings Berhad

MSWG Q&A

2022

MSWG Q&A – Operational & Financial Matters

Growing Global
Innovation & Quality

Question:

The Company's first quarter FYE 2023 results saw its net profit plunge to RM88.3 million from RM2.26 billion a year ago. The Company attributed the decline mainly to falling Average Selling Prices (ASPs) and lower volume of sales. The Company was also affected by higher natural gas tariffs and labour costs due to the implementation of the Minimum Wage Policy.

As the Company faces major headwinds, what are its strategies to address the issue of the falling profitability in FYE 2023?

Response:

To mitigate the impact of margin compression in FYE 2023, we are focusing on several key operational initiatives which include energy optimization and efficiency enhancement measures to improve on the overall cost management. At the same time, we would also continue to scale up automation and drive continuous innovation in our operations and processes to adapt to the more challenging business environment.

We believe the above initiatives in place will strengthen our business resiliency as well as adaptability over the longer term and we will emerge in a stronger position when the market recovers.

MSWG Q&A – Operational & Financial Matters

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Question:

The Company continues to go ahead with its expansion plans with its Next Generation Integrated Glove Manufacturing Complex (NGC 1.5). (Page 25 of AR 2022)

Why is the Company going ahead with its expansion plans as there is an oversupply of gloves in the market? Shouldn't it put its expansion plans on hold until the supply dynamics improve for the sales of gloves?

Response:

The commissioning of our Next Generation Integrated Glove Manufacturing Complex (NGC 1.5) plants will be dependent on the prevailing market supply-demand dynamics as well as closely aligned with the needs of the market. Notwithstanding, the NGC 1.5 would still be our primary expansion pipeline moving forward.

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Question:

The Company incurred RM847 million as Capital Expenditure (CAPEX) for FYE 2022. (Page 26 of AR 2022)

(a) What is the planned CAPEX for FYE 2023?

(b) What will the FYE 2023 CAPEX be spent on?

Are there any updates on any new wins by the Company?

Response:

(a) For FYE 2023, we have budgeted CAPEX amounting to approximately RM700 million.

(b) The budgeted CAPEX for FYE 2023 will mainly be allocated for our NGC1.5 project, whereby two of the plants, namely Plant 10 and Plant 11, are currently at the tail end of the on-going construction phase, as well as for other automation initiatives in our plants.

We believe our CAPEX commitment will continue to enhance our operational capabilities as well as reinforce our competitive advantage to better prepare ourselves for the future.

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Question:

The Company has fully digitalised the factory floors of 3 of its plants to date and there are plans for further digitalisation initiatives of the plants in the pipeline. (Page 28 of AR 2022)

(a) How much has been spent to date on the digitalisation?

(b) How much has been earmarked for this activity in FYE 2023?

Response:

(a) To-date, the Company has spent approximately RM2.3 million on our plant digitalisation initiatives.

(b) The Company has earmarked a total capital expenditure amounting to RM5 million for the overall plant digitalisation initiatives. The digitalisation project is currently on-going and is expected to proceed up to FYE 2024.

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Question:

Other Income rose significantly from RM53.4 million in FYE 2021 to RM95.3 million in FYE 2022. (Page 119 of AR 2022)

What were the reasons for the increase and is this Income recurring?

Response:

The notable increase in Other Income recorded in FYE 2022 is primarily due to the following:-

1) Higher investment and interest income derived from investment in fixed income funds as well as deposit placements with licensed financial institutions, amounting to approximately RM21.3 million, by utilizing the higher cash balances accumulated during the financial year.

2) Fair value gain on revaluation of short-term investment in fixed income funds amounting to approximately RM15.2 million.

3) Foreign exchange gain arising from foreign exchange differences due to favourable foreign exchange rate movement.

These incomes are deemed as non-recurring as they are dependent on the prevailing Company's balance sheet position as well as foreign exchange market condition.

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MSWG Q&A – Corporate Governance Matters

Question:

Practice 12.2 of the Malaysian Code of Corporate Governance (MCCG) 2021 stipulates that Large companies are encouraged to adopt integrated reporting based on a globally recognised framework.

Does the Company plan to adopt Integrated Reporting, and if yes, by when?

> **Practice 12.2** - Large companies are encouraged to adopt integrated reporting based on a globally recognised framework.
> **Hartalega's response:** Departure (page 55 of Corporate Governance Report FYE 2022)

Response:

As per disclosure in Corporate Governance Report, the adoption of integrated reporting based on a globally recognised reporting framework will take place in financial year 2023. Kindly refer to 'Our Reporting Milestones' in the following slide for further details.

MSWG Q&A – Corporate Governance Matters

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Our Reporting Milestones

FY2021

Annual Report & Sustainability Report

Enhanced Sustainability Report disclosures which form part of the Annual Report based on globally recognised sustainability reporting frameworks.

FY2022

Annual Report & Sustainability Report

Sustainability Report with enhanced disclosures and aligning sustainability initiatives to the United Nations Sustainable Development Goals (UN SDGs)

FY2023

Integrated Reporting

Target to adopt integrated reporting based on globally recognized reporting framework in FY2023

Hartalega