

Hartalega Holdings Bhd

MSWG Q&A 2012



MSWG Q&A

1. As stated in the Executive Chairman Statement, Malaysian export of synthetic gloves rose by 10.6% in United States & 81.2% in Europe.

- **With the continuing Eurozone crisis & global economy slowdown, would this not affect demand for nitrile gloves?**
- **Is the strong growth in exports sustainable in 2012 and the next few years?**
- Economic crisis & slowdown have not affected demand for nitrile gloves as it is a recession-proof product & necessity in the healthcare sector. It is a proven fact that global demand for rubber gloves grew at the average annual rate of 8% and is expected to sustain growth
- Global demand for nitrile rubber gloves are expected to grow at least 20% in 2012 & maintain positive growth for foreseeable future

MSWG Q&A

2. With more rubber glove manufacturers moving into the nitrile glove segment and increasing capacity aggressively, would the Board be able to provide some comfort to shareholders by sharing with them the dynamics of the demand vis-à-vis supply situation, the impact on prices and to what extent such development would erode Hartalega's profit margins?

- There is no overcapacity. Current global consumption of nitrile gloves is 60 bln pieces and conservative growth rate estimates of 20% per annum ie 12 bln pieces per annum should accommodate listed rubber glove company new capacity of 21 bln pieces in the next two years (CLSA research report on Hartalega: 9 April 2012, page 6)
- MREPC reported that Malaysian export of synthetic or nitrile rubber gloves grew 29% last year
- Hartalega major expansion program will result in substantial cost savings to counter price competition and mitigate margin erosion

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3. We note that the Group's gross profit margin had declined to 31.8% in FY2012 from 37.2% in FY2011. What percentages of the decline were attributed to price decline and increase in cost of sales? What percentage of cost of sales can be passed on to customers and how long does it take effect?

- The gross profit margin decline of 5.4% is attributable to price competition and cost inflation. FY2012 saw nitrile raw materials inflate approximately 30% coupled with USD dip of 3% - a large percentage of these increased costs were passed on to our customers
- How long it takes to pass on cost inflation to our customers depends on case by case basis and on market conditions

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- 4. With an expected removal of subsidies from natural gas, would Hartalega be able to pass on the increased costs to customers?**
- **If not, how much would the profit margin be eroded?**
 - **Currently what is the % mix in usage of natural gas and other fuels and how would the mix changed if subsidies from natural gas were to be removed?**
 - Profit margin will not be significantly affected as natural gas comprises less than 5% of sales. Moreover, the expected increase in gas price will impact all the industry players and the increase will be passed on to our customers. Take note that Hartalega, as the *most efficient* producer, will be the least affected by gas price hikes
 - 90% natural gas and 10% biomass – the mix would not change if gas subsidies were removed

MSWG Q&A - Governance

MSWG is promoting high standards of corporate governance best practices in public listed companies. In this regard, we hope the Board would give due consideration to address the following issues:-

- 1. Reinforce independence**
 - a) the position of Chairman and CEO should be held by different individuals and the Chairman should be a non-executive member**

The Board has taken note of the recommendation for separation of Chairmanship and executive roles. We have in fact acknowledged this in page 32 of our Annual Report 2012. Our Board and Chairman have successfully steered the company growth since listing and with such an enviable track record of growth we feel that we should maintain the same Board structure to oversee the present and future major expansion plans

- b) The Board must comprise a majority of independent directors where the Chairman of the Board is not an independent director. In this regard, it is proposed that the Board should be comprised a majority of independent directors to ensure balance of power and authority on the Board**

We adhere to the minimum requirements of Board independence with 3 independent Directors. As a proactive step in maintaining good corporate governance, we have appointed a Senior Independent Director and created a new email sid@hartalega-kl.com.my specifically to respond to minority shareholder inquiries

- 2. We note that the Group has Committees for remuneration and nomination. However, the information for their memberships was not disclosed in the Annual Report 2012. MSWG recommends that the Group discloses such information in future Annual Reports**

We have incorporated the said information in page 9 of our Annual Report 2012 and in previous Annual Reports under “Corporate Information” Heading as follows:-

Remuneration Committee	
Dato Mohamed Zakri bin Abdul Rashid	Chairman
Liew Ben Poh	Member
Dato Tan Guan Cheong	Member

Nomination Committee	
Dato Mohamed Zakri bin Abdul Rashid	Chairman
Chuah Phaik Sim	Member
Liew Ben Poh	Member