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# **Hartalega Holdings Bhd**

## **MSWG Q&A 2013**





## MSWG Q&A

Growing Global

1. **As stated in the Chairman's Statement, easing raw material costs during the year contributed to a more conducive economic climate for the sector, spurring high demand. This also led to reduction in average selling prices for both latex and nitrile gloves, which further buoyed demand.**
  - Does the Group foresee the demand to be sustainable within the next two years and how would it impact the average selling prices for nitrile gloves?
  - Would there be any erosion in profit margin?
- **We believe demand for nitrile gloves will continue to grow at a rate of over 20% for the next two years. However, the increasing nitrile capacity in the industry and resultant price competition may result in a marginal decline in average selling prices**
- **Erosion in profit margin is a natural consequence of maturing markets with increased industry players. Although margins may contract, Hartalega has a strategic plan in place to generate volume growth that will enable us to sell at competitive prices while maintaining EPS growth. This will ensure that shareholders' investment in Hartalega will be protected**



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2. We note that the Group's R&D initiatives have helped it maintained and continued to strive for its competitive advantage over its peers in the industry.
  - i) How much had been spent on R&D in FY2013 and what would be the budgeted figure for R&D in FY2014? Was it set against a certain targeted percentage of revenue or other criteria?
  - ii) R&D has been looked upon as the catalyst for the Group's growth, including achievement in the production line such as speed capacity, producing 45,000 pieces of glove per hour (the fastest in the world). Apart from that, what are the other areas of improvement which the Group's R&D continued to explore and target?
- Our commitment to product innovation and R&D is one of the core fundamentals that drive the growth of the Group
- To this end, on 19 March 2013, we incorporated Hartalega Research Sdn Bhd as our dedicated research arm to carry out R&D initiatives in collaboration with research centres and academic institutions. This will enable our R&D efforts to be more structured, and will also allow for proper budgeting and measurement of returns. As has been our practice over the years, our R&D expenditure follows a pragmatic approach of incurring reasonable costs which are sufficient to establish and implement our innovation initiatives
- Hartalega is currently prototyping various automation and developing a new product range. As per our Company policy, we are not at liberty to disclose further information on our R&D efforts, in order to protect the long-term interests of the Company and shareholders



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3. On 12 June 2013, Hartalega NGC Sdn Bhd, a wholly-owned subsidiary of the Company, entered into a conditional SPA with Kumpulan Tanjung Balai Sdn Bhd for the acquisition of leasehold agriculture land in Sepang for a total cash consideration of RM96.95 million.
- What is the Group's plan with regard to the acquisition of the land?
  - Does the Group intend to venture upstream?

- The acquisition of the land is for the Hartalega Next Generation Integrated Glove Manufacturing Complex (Hartalega NGC) project which has been widely publicized, and for which full disclosure has been made to Bursa Malaysia. Those who follow us closely are well acquainted with the facts
- The Group has no intention to venture upstream



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3. On 10<sup>th</sup> October 2012, Hartalega Sdn Bhd incorporated a 70%-owned subsidiary called Pharmatex Healthcare Private Limited, a company incorporated in India which intends to engage in trading, import, export , packing and re-packing all kinds of high quality rubber glove. Please update shareholders on latest developments as well as future plans.
- As previously mentioned, Hartalega has set up a distribution centre in Bombay to market products under its own branding. This will be a long term initiative to tap into the huge potential of India's emerging rubber glove market, especially the thriving medical tourism sector. Currently, it is still at the initial stages and Hartalega is implementing the necessary infrastructure to further penetrate this growing market



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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**

**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**

**•The Board has taken note of the recommendation for separation of Chairmanship and executive roles as acknowledged on page 34 of our Annual Report 2013. In this respect, the position of Chairman and CEO are now separately filled by two different individuals since the resignation of the Chairman from the position of Managing Director on 18<sup>th</sup> November 2012. The Board is also of the view that the Chairman should maintain his executive role as he has successfully steered the company growth since listing and will continue to do so to oversee the present and future major expansion plans**

**•Our Board currently comprises 4 Independent Directors including a Senior Independent Director which goes above and beyond Bursa's minimum requirement of 3 Independent Directors for Board Independence**