





# CEO's Statement

## Industry Overview

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The financial year ended 30 June 2017 ("FY 2017") proved to be extremely challenging. The global economy was adversely affected by the surprising results from the European Union referendum in the United Kingdom ("UK") leading to Brexit as well as the outcome of the United States ("US") presidential election. Coupled with the refugee crisis in Syria, many non-governmental organisations ("NGOs") faced uncertainty in securing budgets for humanitarian aid that has historically driven condom sales in the tender segment.

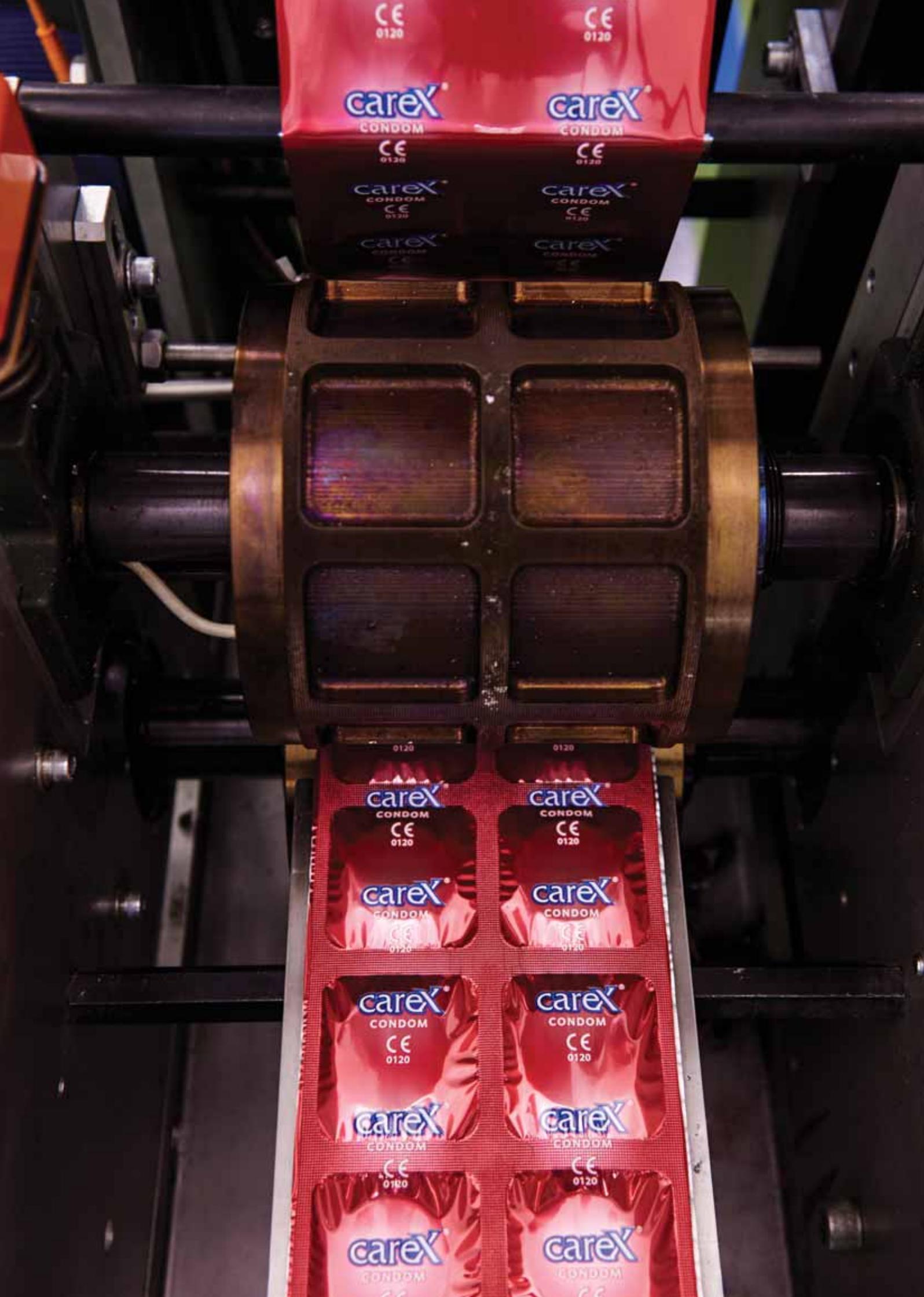
Closer to home, rubber product manufacturers in Malaysia had to contend with escalating production costs in the form of hikes in minimum wages whilst navigating severe volatility in latex prices during the year. The cumulative effect of these uncertainties set the tone for a year that constantly challenged our ability to adapt and evolve as an organisation.

In spite of the challenging macroeconomic landscape, condoms remain the only contraceptive method that provides protection against pregnancy and most sexually transmitted

infections. Governments and NGOs have continued their strong support for sexual health education and improving access to condoms, with the World Health Organisation most recently stating that "access to quality contraceptive services and information should be treated as a human right".

Whilst the United States National Center for Health Statistics recently completed a survey noting that condom use has increased in men by 14% since 2002, they also note that there remains plenty of room for improvement with only 34% of the men surveyed admitting to having used condoms during their last sexual encounter.

On that note, we remain confident that as sexual health education improves in tandem with a greater proportion of the global population arriving at sexual maturity, we are well positioned to take advantage of this growing industry. We believe our emphasis on quality and innovation will set us apart and allow us to deliver solutions to our customers that they will value in the years to come.



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## Operations Overview

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In FY 2017 our operations have seen many improvements, building on our core competencies and consolidating our position at the forefront of the sexual wellness industry.

The changes in the foreign labour policies as well as the rising minimum wages in Malaysia during the recent financial year have once again highlighted the importance of reducing our dependency on labour within our manufacturing facilities. To this note, we have continued to automate our manufacturing processes by adding more automated electronic testing machines with new features in a bid to improve efficiencies as well as to further reduce our dependency on manual labour.

Our latest dipping lines installed during the year incorporate next generation condom dipping technology which is 15% more energy efficient than conventional ones and have the capability to produce some of the thinnest condoms in the condom industry. In conjunction with this, we have also refined our latex formulations and production processes further this year to produce thinner condoms whilst enhancing some of the performance properties aimed at improving our customers' experiences.

In line with our goal to grow our Own Brand Manufacturing ("OBM") segment, we have added new packaging machines to cater more complicated and elaborate packaging, distinguishing our products from our peers. Through the inclusion of Pasante Healthcare Limited ("Pasante") we have also added distribution facilities and expertise to our ranks, allowing us to better serve our customers.

Our efforts to strive towards a more environmentally sustainable production process have also been bolstered with the installation of a state-of-the-art waste water treatment system in our Thailand factory, following which 75% of the treated water from the plant will be reused in future manufacturing processes as well as to maintain a vast greenbelt within the factory premises.

We have also started a dedicated rubber recycling facility to convert condom waste generated during the production process (test samples and rejects from electronic testing) to recycled rubber sheets. This initiative is the first of its kind in condom industry and ensures that the waste from our production processes is carefully handled and reusable following disposal.

## Global Protection Corporation

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The start of 2017 marked the 30<sup>th</sup> anniversary year for Global Protection Corporation (“GPC”). The year was marked with various new product developments, marketing campaigns and international expansion projects culminating in record sales for the year.

GPC's signature ONE® brand was updated with new, stylish packaging to stand out on retail shelves, in addition to new condom wrapper collections designed in partnership with various artists from across the world. ONE® expanded internationally by launching the brand in Superdrug stores in the UK and continued to develop marketing campaigns in the US, Malaysia and Canada. On the retail side, ONE® products were added to shelves in all 4,500 US Walmart stores, expanding their market presence across the US. GPC also won a 5-year condom and lubricant contract from the New York City Department of Health under the ONE® brand.

GPC is also now managing the popular Trustex, Fantasy, and NüVo condoms as members of its family of brands. This is part of GPC's shared mission with Karex to distribute an increasingly wide variety of sexual health products. Most recently, GPC was also preparing to launch myONE® Perfect Fit in the US, a revolutionary condom range offering 60 condom sizes. All these developments have solidified GPC's position as one of the largest condom company in the US health distribution arena.



Pasante®

Naturelle

natural feeling  
shaped fit

3  
condoms

## Pasante Healthcare Limited

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We are pleased to welcome Pasante to our Group with the completion of the acquisition on 1 July 2016. As one of the largest distributors of condoms in the UK, the Pasante team not only brings onboard a wealth of expertise through its experienced sales team, they have also provided us viable platform in Europe to contend tenders and move closer to consumers in the region.

Pasante has a diversified customer base having operated on a distribution model, exporting to various countries around the world. Notable domestic clients include the National Health Service as well as large retail chains such as Tesco, Boots, Superdrug and Costco in the UK. Pasante is also the sole official distributor of Sebamed® products and INSTI™ test kits in the UK.

Following the completion of the acquisition, we have been working alongside our new colleagues at Pasante to shift production back towards our facilities, streamline product offerings and strategise market expansion. Despite the economic effects of Brexit during the year, the results from our first year of collaboration has yielded extremely positive results with the Pasante team having achieved its highest ever sales total since incorporation in 2002.

## Financial Review and Management Discussion & Analysis

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In spite of the challenges faced during the financial year ended 30 June 2017, the Group continued to deliver topline growth with a revenue of RM361.5 million. We were able to maintain a gross profit margin of 31% despite the volatility in latex prices as well as changes to regulations relating to employing foreign labour in Malaysia.

Notwithstanding the above, we feel confident by successfully developing our OBM segment further, having integrated the intellectual property acquired from Line One Laboratories Inc. as well as Pasante recording its first full financial year of results following the completion of the £6.0 million acquisition on 1 July 2016.

Higher distribution and administrative expenses arising from inclusion of the OBM businesses above as well as the absence of one off gains and limited foreign exchange currency gains compared to the preceding year resulted in a decrease in both profit before tax and profit after tax to RM37.0 million and RM28.8 million respectively for the financial year.

In addition to the two acquisitions completed during the year, we have also continued to invest in improving our world class manufacturing facilities having spent a total of RM24.9 million on capital expenditure during the year bringing our total non-current assets for the year to RM298.9 million.

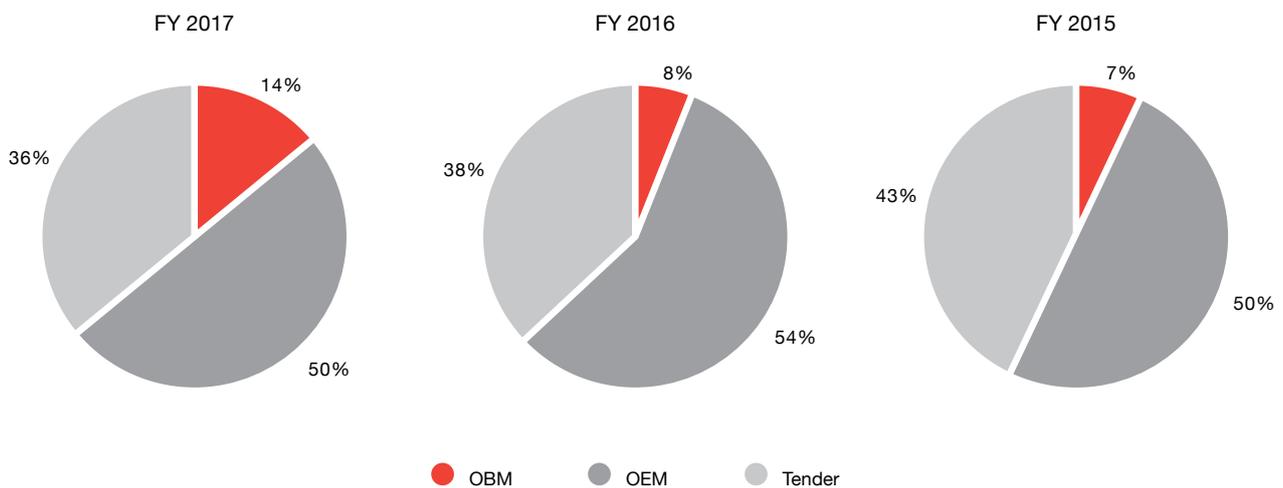
Following the completion of the acquisitions, we have fully utilised the funds raised during our private placement with cash balances standings at RM85.1 million as at 30 June 2017. The integration of Pasante's distribution business model has also resulted in an increase in our Group inventory levels to RM101.0 million, contributing to an increase in our total current assets for the year to RM294.8 million. An increase in trade and other payables resulted in higher total current liabilities of RM75.8 million which was necessary to accumulate the higher levels of inventory.

Earnings before interest, taxation, depreciation and amortisation stood at RM47.0 million whilst we have also maintained our net cash position of RM63.6 million. Shareholders' funds remained healthy, growing to RM496.6 million translating into a gearing ratio of 0.04x and leaving us well positioned to utilise our balance sheet should the need arise in the future.



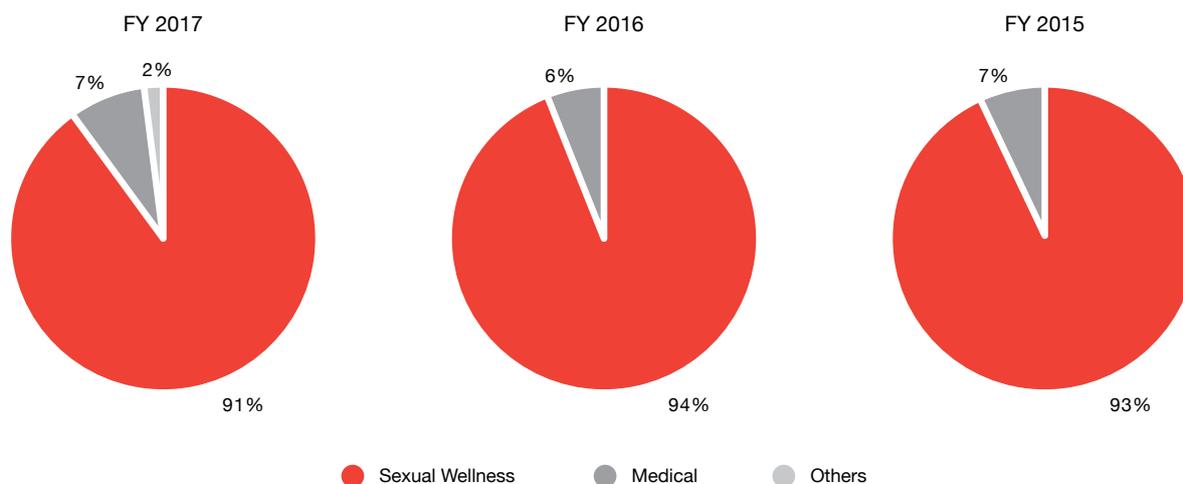
### Product Segments

In line with our overall strategy to position our Group as a leading sexual wellness solution provider, we have re-designated our revenue breakdown as it relates to product segments. Revenue from the sexual wellness segment comprises predominantly of revenue from condoms and lubricants whilst the medical segment comprises of revenue from probe covers, catheters and test kits. The remaining revenue is derived from sales of other products including our exclusive distributorship of Sebamed® products in the UK.



### Geographical Location

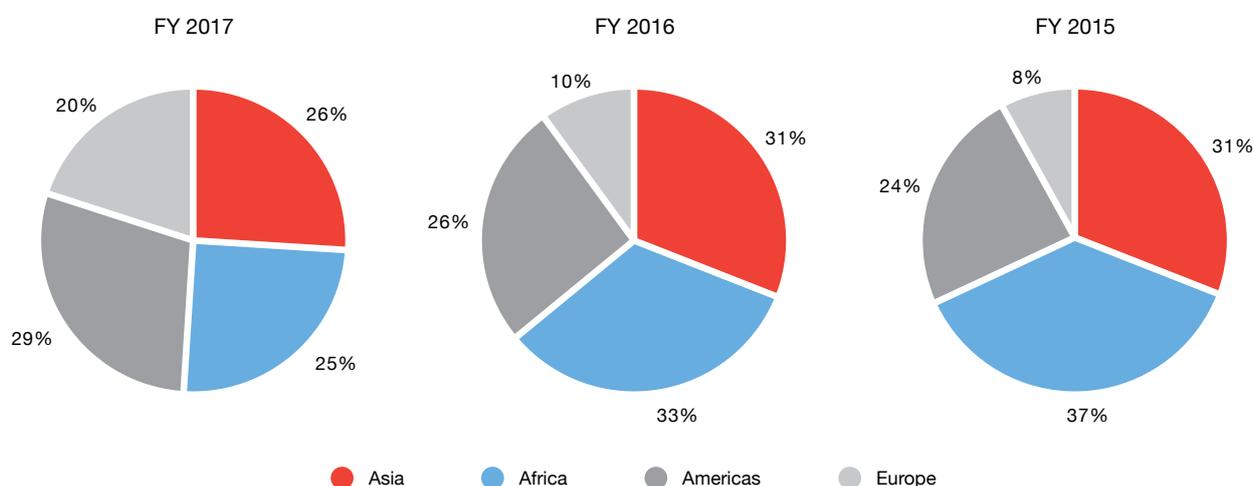
Following the acquisition of Pasante, we successfully established a platform for expansion into Europe as reflected by our highest annual contribution from the Europe region of approximately 20% of revenue for the financial year. This marks the highest revenue contribution that our Group has derived from the Europe region since our listing, leaving us optimistic about our potential to expand our foothold in the region during the years to come. The successful award of several notable tenders also further improved contribution from the Americas region from 26% to 29% of revenue during the financial year.



### Market Segments

The commercial segment (“OEM”) remained the top market segment in terms of revenue contribution with 50% contribution for the financial year. We have continued to develop long-standing business relationships with our customers by establishing a reputation for reliability and innovation. Our OBM segment continued to break new grounds with a record 14% of our revenue being derived from our brands this year.

The tender segment was adversely affected by the uncertainty in the global economy especially as to how budgets for humanitarian aid were allocated. Nevertheless, our strategy to capture tender orders at more competitive pricing during the challenging climate has facilitated the consolidation of the condom manufacturing industry.



## Branding

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In line with our strategies to develop our OBM segment, we have expanded our diverse team of experienced professionals to manage the branding needs of our organisation. The core objectives of the team are to define, enhance and elevate the equities of our brands.

Continuous efforts have been focused on developing an effective multiple brand strategy through thematic and tactical campaigns to build greater relevance to the younger generation and cultivate a loyal customer base. Corporate branding is aimed at building long-term sustainability and also helps in retaining staff and attracting a younger and more dynamic pool of talent.

Since the launch of ONE® Condoms in Malaysia, we have successfully introduced the brand to local consumers through traditional media, digital (including social media), on-ground activation activities and in-store trade promotions. These campaigns have resulted in ONE® Condoms capturing a top three market share of the premium condoms segment within two years of introduction into the Malaysian market.

Plans are already underway to build on this success and introduce the ONE® Condoms brand in the neighboring countries of Singapore and Thailand in the near future. The branding team will play a significant role to ensure the successful launch of the brand in those countries by engaging in concepts and personalities, analysing local market dynamics, opportunities and competitive landscapes. We are also currently looking into opportunities to introduce other brands from our OBM portfolio to the Asia Pacific region in the near term.



organisation that responds to changing  
views of sexual health and develops  
products that inspire people to make  
better, healthier choices.

We champion social responsibility and  
sustainability, not just as moral imperatives  
but to build better, stronger relationships  
within our communities.



## Sustainability

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Our vision is to accelerate growth in our business whilst remaining mindful to safeguard our long term future and conduct ourselves in a sustainable way.

Demand growth continues to outpace the available resources so it is critical that we succeed in optimising our consumption whilst prioritising sustainably sourced materials.

We are also committed to improving the well-being of the communities around us so that we progress successfully together.

Through this all, our people remain at the center of this business and we must ensure that their career development is constantly kept aligned with the objectives of our organisation.

To this end, we have this year introduced our Sustainability Statement covering how our organisation has addressed the Economic, Environmental, Social and Human Capital aspects of sustainability as part of this year's Annual Report.

## Outlook

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This has been an important year of change for our Group, not only due to challenges faced in navigating the economic landscape, but also the way that we operate as a business. Over the past 29 years, although Karex has never stood still, we have predominantly been a company focused on manufacturing. The period that followed our listing has seen Karex transform into a company that is able to offer our consumers solutions beyond manufacturing of quality condoms. We have built on our competitive strengths, innovated and developed a multiple brand portfolio, showcasing our ability to change and adapt.

Our success relies on knowing our customers better than anyone else. We must continue to strive to offer them what they want now and anticipate what they will want in the future. With so much opportunity identified across our Group and a set of key strategies in place to help us achieve them, we know this will be challenging work – and it will take time. Although there is still much to be done, we firmly believe that the path that we are taking will significantly enhance our ability to deliver long-term sustainable growth.

## Acknowledgement

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I would like to extend a warm welcome to our colleagues at Pasante and thank them in conjunction with the rest of our growing family for their continued efforts and the difference they make to our customers every day. Together with the key strategies that underpin our business, they truly differentiate us from our competitors.

Finally, I would also like to thank the Board for your guidance and commitment, and our shareholders, for your support over the past 12 months.

MK GOH  
Chief Executive Officer