

CEO's Management Discussion & Analysis

INDUSTRY OVERVIEW

At the start of 2020, nobody could have imagined just how dramatically our world was about to change due to a virus that has persisted to impact billions of people around the world in unimaginable ways. As it stands, the COVID-19 pandemic currently sits near the top of a list of pathogens that humanity has so far failed to control, much less eliminate and it has undoubtedly overshadowed the fight against HIV/AIDS in recent times.

MK GOH

Chief Executive Officer



CEO's Management Discussion & Analysis

Nevertheless, we must not overlook the frightening fact that even forty years after the first cases of AIDS were documented, the world is still reporting 1.5 million new HIV infections and 680,000 deaths from AIDS-related causes per year. This represents the immense scale of the virus that still is an ever-present in many places around the world despite a formidable global response over the last few decades that has resulted in a 47% decline in AIDS-related mortality since 2010.

At the core of this response, the proper distribution and application of condoms and lubricants continue to prove extremely effective in preventing the transmission of HIV, other sexually transmitted infections and unintended pregnancies. In this year's Global AIDS Update 2021 published by UNAIDS, it is estimated that condom use since 1990 has averted 117 million new infections, with close to half (47%) of them in sub-Saharan Africa and more than one third (37%) in Asia and the Pacific.

The implication of disruptions to such a vital component of our HIV/AIDS response is amplified by the fact that the World Health Organisation reported that access to birth control is one of the sexual and reproductive health issues that has been most impacted by the COVID-19 pandemic. It is critical that whilst we have managed to make strides to get control of the pandemic situation to date, we must not lose focus of the fact that condoms will still have a critical role to play as the world emerges from its fight against the COVID-19 virus.

Closer to home, the worsening of the COVID-19 pandemic situation in Malaysia and Thailand during the year also required us to shift our perspectives in order to ensure that the safety of our own employees and communities were safeguarded. During the year we took several precautionary steps that went above and beyond what were required by government mandates in order to ensure that the wellbeing of our people was given the appropriate priority. These measures are detailed within our Operational Highlights as well as in the Sustainability Statement that can be found on pages 16 to 27 of this Report.

OPERATIONAL HIGHLIGHTS

In order to ensure minimal disruptions to our operations during the year, we had to devise and adopt new ways of working. This firstly required developing a business continuity plan with our crisis management teams and then ensuring our employees were equipped with the appropriate equipment to allow them to work remotely. Although not previously commonplace within our organisation, we decided to implement these measures as the COVID-19 situation worsened in Malaysia during the year. Notwithstanding that, e-platforms and remote working arrangements opened up new avenues to conduct training and ultimately improved the communication skills of many of our teams.

The COVID-19 pandemic also caused widespread interruption to logistics networks around the world that had never been experienced before. Our teams had to overcome challenges in managing our supply chains as well as react to shipment delays in order to ensure products were delivered to customers in a timely fashion. Our improved inventory management system proved invaluable in assisting us to plan our orders but ultimately these logistics problems



CEO's Management Discussion & Analysis



resulted in many orders being held in-transit for prolonged periods of time or in the worst cases, required more expensive means of delivery to be contracted. Stabilising our operations was made even more problematic as the prices of many of our raw materials fluctuated unpredictably over the course of the year.

The investments in automation that we have made over the last few years bore fruits during the year. The use of purpose-built machines yielded efficiency improvements especially within the electronic testing and packaging stages of production that allowed us to deliver record sales for our Group in spite of the headcount restrictions faced by our Malaysian operations throughout the year. A record proportion of our sales were also notably delivered in the form of fully packed products that were previously much more manual labour intensive and not as commonplace looking back a few years ago. Nevertheless, our teams rose to the occasion to successfully complete these orders with the same headcounts at our facilities a year ago.

The expansion to our catheter capacity at our Thailand facility over the past year also equipped us to deliver record sales for our Medical division. This division is expected to play a more important role as consumers around the world become more aware of the growing intricacies to medical device certifications arising from the pandemic. To further bolster our product offerings within this space, we commenced construction of a glove facility in Hat Yai, Thailand that is expected to enable us to sell complementary offerings to our customers within the medical products industry.

We have also during the year commissioned our dedicated research facility in Pontian, Johor. This facility has been outfitted with state-of-the-art equipment that is designed to enable us to work on new material applications for our products as well as improve the quality and consistency in our existing manufacturing processes. This facility also serves to highlight the importance that we place on innovation in order to stay competitive within the industry for years to come.

In December 2020, we successfully completed the acquisition of the remaining outstanding shares in Global Protection Corp. ("GPC") marking just over 6 years since our partnership was formalised through our initial shareholders agreement. During this period, GPC has expanded our brand presence amongst retailers and consistently delivered a growth in sales and market shares spearheading our impressive performance in the Americas region. GPC has also during this time worked alongside numerous healthcare organisations in order to bring awareness to sexual health throughout North America.

FINANCIAL REVIEW

Despite the challenges faced during the financial year ended 30 June 2021 ("FY2021"), our Group recorded positive growth in revenue of over 6% from the previous financial year totaling RM419.8 million. This achievement is significant as it represents new customers in new markets with successful price increases in existing markets that were required to make up for the deficit presented by the disruption within the markets of many of our longstanding customers.

CEO's Management Discussion & Analysis

Our Malaysian operations were further disrupted during the year by a worsening of the COVID-19 situation in Malaysia that required the Malaysian government to mandate two additional Movement Control Orders in the first half of 2021. These restrictions not only prevented us from operating at optimum capacity but also forced us to incur unavoidable expenses to ensure that the health and safety of our employees were safeguarded at all times. These exceptional expenses coupled with the price volatility of many of our raw materials continued to pressure gross profit margins during the year.

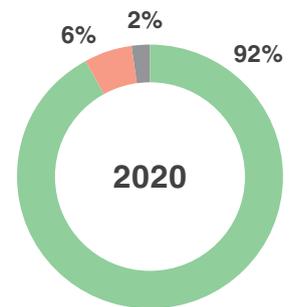
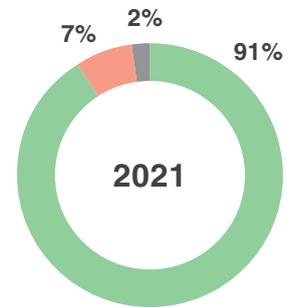
The detrimental effect on our production output was further compounded by volatile global logistics disruptions that caused global freight rates to rise at an alarming pace as well as made delivery times extremely uncertain. This required many of our customers' orders to be air freighted translating to an unavoidable increase in distribution expenses that impacted profitability even further.

As a result of having to manage these supply chain issues, total inventory stood at RM131.2 million at the end of FY2021, representing an increase of approximately 1.8% from the previous financial year. The

elevated totals included buffer stocks that we had to keep on hand in order to avoid manufacturing disruptions compared to pre-pandemic levels. Moreover, many of our shipments to customers were classified as in-transit for lengthy periods of time as a result of the many ports and distribution hubs that were overwhelmed during the year.

A positive net operating cash flow helped us to offset these rising inventory totals as well as increased working capital requirements. Our resulting year end cash balance remained healthy at RM54.1 million with a total of RM465.8 million in shareholders' funds.

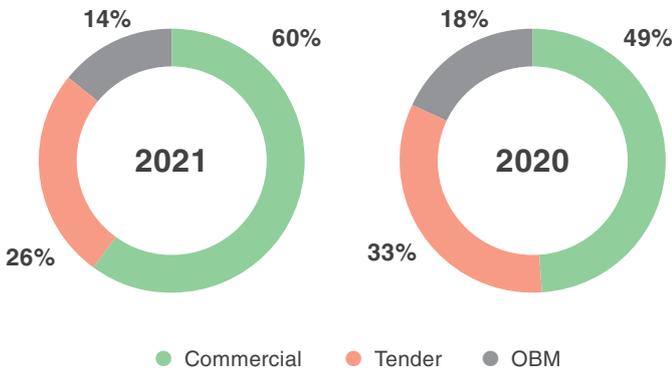
Capital expenditures for the year amounted to RM60.9 million and were mainly related to the commissioning of our glove facility in Hat Yai, Thailand. This contributed to an increase in the total non-current asset base of RM382.3 million and corresponding total asset base of RM674.8 million for the year. Much of this investment was funded by a drawdown in credit facilities resulting in an increase in gearing ratio to 0.25x for the year.



- Sexual Wellness
- Medical
- Others



CEO's Management Discussion & Analysis



Product Divisions

The Sexual Wellness division recorded a year-on-year sales growth in excess of 6% on the back of record condom sales in spite of the challenges faced by the industry as a whole. This was a notable achievement as much of the industry experienced disruptions to manufacturing operations whilst customers faced corresponding challenges in stabilising distribution networks.

Medical division sales recorded growth in excess of 10% during the year in comparison to the previous already-successful financial year. The division's performance was headlined by record catheter and probe cover sales that utilised the expansion in capacity that had been installed during the previous year. The Medical division's contribution is expected to become more significant moving forward with the addition of medical gloves to our product portfolio and as it becomes increasingly evident that the heightened emphasis on personal hygiene is likely to be present for the long term.

Market Segments

Tender sales that have traditionally been characterised by large orders made by non-government organisations for distribution via social welfare channels were amongst the most impacted during the year. Many humanitarian aid programs had budgets redirected towards emergency COVID-19 relief and consequently not able to place regular orders during the year. This dire situation was further amplified as many of the developing nations that rely on these support organisations found their healthcare networks crippled for much of the year. As a result, condom stock levels within key risk population areas have become alarmingly low with an urgent global response required if we are to prevent years of intense humanitarian efforts from being wasted in these areas.

The Commercial segment comprising of orders whereby we provide input into the design and manufacture of other brand owner products continued to grow at a rapid pace during the year. Much of this growth was catalysed by brands that shifted from traditional

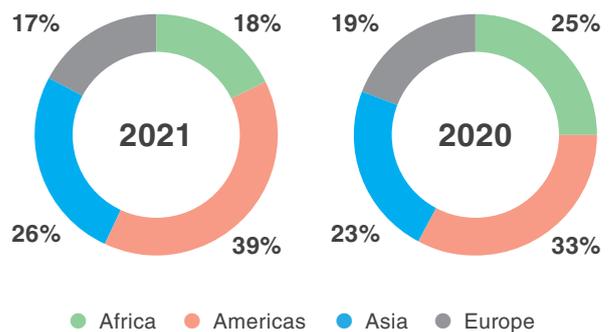
retail to online platforms in order to offer customers alternative means to purchase products during restrictions. Increasingly, new and existing customers put their trust in us to develop their brand presence, requiring our teams to work closely alongside them in order to develop offerings under tight production schedules. The sales milestones in this segment are a testament to the improvements that we have made as a world-leading manufacturer to ensure that our products are competitively priced and that we are able to offer our customers the widest range of product varieties and packaging possible.

Our Own Branded Manufacturing ("OBM") segment sales were affected with many healthcare channels and higher education facilities not able to operate during the year. Despite these setbacks, ONE® Condoms continued to expand its market presence by working with new agencies and utilising new avenues for sales. Direct-to-consumer sales that leveraged on our e-commerce presence grew at a significantly faster pace, outstripping traditional retail during the pandemic.

Geographical Regions

Similar to the market segmental breakdown, sales to each region reflected the severity of the COVID-19 situation in each region as many restrictions affected social activity and logistics networks. Many of the Asia region economies that had the pandemic under control during the early months experienced second and third waves that caused them to tighten restrictions and hence impacted sales to the region that had previously been growing at the fastest pace.

The Africa region that has traditionally relied on funding from the tender segment saw the biggest decrease in sales activity compared to previous years resulting in a 18% contribution towards total revenue for the year.



CEO's Management Discussion & Analysis



Many of the distribution networks in the region require the assistance of humanitarian aid to access and were hence unable to operate for prolonged periods during the year.

Sales to the Americas region contrastingly recovered at a tremendous pace as vaccine rollouts and easing of restrictions sparked a return of socialising and condom use. Whilst healthcare networks in this region were still slow to return to full operations, commercial sales picked up at rapid pace providing plenty of room for optimism for when the rest of the world follows suit.

OUTLOOK

As these results show, in spite of the lockdowns and the redeployment of health resources that the sexual health industry has experienced during the year, there is room for optimism based on our ability to generate sales growth during this period. Our resilience as an organisation will be further tested but I believe we are in a stronger position than ever to capture opportunities that will be presented once the effects of COVID-19 pandemic become more manageable around the world.

The dire situation faced by high-risk demographics around the world was brought into focus in a recent article published by the UNAIDS on 6 August 2021 where it was emphasised progress on sexual and reproductive health and rights is a long-term endeavour that cannot afford to pause, even in a pandemic. This encapsulates the urgency for refocusing on the sexual health industry to recommence and we envisage a surge in collective efforts will be required to make up for the deficit caused by the COVID-19 pandemic. This urgency in combination with the easing of restrictions that allow social interactions to recommence will help the industry to bounce back stronger than ever.

I also draw encouragement in the strong results that our key strategies were delivering before the crisis, and have no doubt that it is this strong foundation that has enabled us to emerge from this crisis in an advantaged position. Core competencies, innovation, branding as well as human capital will be equally as critical to develop a more agile, robust and sustainable organisation moving forward.

In the coming years, we anticipate that the growth in the sexual health industry will be driven by trends such as the emergence of a younger urban population, a greater awareness of hygiene and cleanliness as well as the easing of stigmas traditionally associated with products such as condoms and personal lubricants. I am confident that our organisation is adequately equipped with the necessary tools and is well positioned to take advantage of these opportunities and continue to deliver competitive and sustainable growth for all our stakeholders.

ACKNOWLEDGEMENTS

As I reflect on our achievements over this past year, I am aware that none of them would be possible without our teams, as well as the suppliers and customers that continue to stand by us. I am proud of the relationships that we have forged over the years and I truly believe that these challenging times will only serve to strengthen those bonds.

I would also like to extend my gratitude to our capable Board of Directors that has constantly provided us with the necessary guidance to navigate this unique period.

Finally, thank you to our shareholders for your patience and continued support. This year, more than ever, I am grateful for your faith in us.

MK Goh

Chief Executive Officer