

23 June 2023

Minority Shareholders Watch Group
Level 23, Unit 23-2, Menara AIA Sentral
No 30, Jalan Sultan Ismail
50250 Kuala Lumpur

Attn : Mr Devanesan Evanson

Dear Sir,

**20TH ANNUAL GENERAL MEETING ("AGM") OF ADVENTA BERHAD ("ADVENTA" OR THE "COMPANY")
TO BE HELD ON THURSDAY, 23 JUNE 2023**

With reference to your letter dated 12 June 2023 with regards to questions raised on Operational & Financial matters and Corporate Governance, please find our reply as follows :-

Operational & Financial Matters

1. The business environment for hospital supplies faced challenges due to overstocking by hospitals and reduced demand for key items like rubber gloves and surgical masks. The sector was also impacted by tightening procurement budgets of hospitals, as well as increased manufacturing and logistics costs. Consequently, the Group incurred a pre-tax loss of RM4.8 million in 2022 compared to a pre-tax profit of RM7.6 million in 2021, with revenue declining to RM59.0 million from RM97.6 million in the previous year (page 4 of AR2022).

- (a) How long does Adventa anticipate the current hospital overstocking situation and tightened procurement budgets to last? Please share insights on when Adventa expects the market to rebalance.

Whilst we expect the overstocking situation to ease towards the second half of 2023, the tightened procurement budgets of the public sector hospitals can be expected to continue in the foreseeable future.

- (b) Given the tightening procurement budgets in the public sector, what are Adventa's plans and specific measures to adapt to these challenges? What opportunities in the private sector or other markets is Adventa exploring to compensate for this decrease in demand?

Given the tightened procurement budgets in the public sector, Adventa will need to continue its focus on providing high quality products at the best possible prices and whilst also leveraging on its "Connex" brand presence by further expanding the product range. The private sector market is witnessing increasing demand as we see most major players add new hospitals to their portfolio around the country to capitalize on the country's attractiveness as a medical tourism destination as well as on increasing pool of middle and upper middle class customers requiring private healthcare.

As such, Adventa will be expanding its product offering under the "Connex" brand to offer high quality products at competitive pricing to this expanding sector of the market.



- (c) In 1Q2023, Adventa saw a 25% year-on-year decline in revenue to RM18.3 million and a pre-tax loss of RM831k. What specific expectation does Adventa have for the remaining quarters of 2023?

Whilst we do not expect to achieve the same level of revenue for the remaining quarters of 2023 compared to the corresponding quarters of 2022, it is expected that there will be an improvement in the second half of 2023 compared to 1st quarter 2023.

- 2) In January 2023, Adventa announced the proposed acquisition of industrial land in Central Jawa, Indonesia, spanning approximately 32,400 square meters. The objective is to construct a manufacturing facility targeting the expansive Indonesian and ASEAN markets within the medical equipment industry. This strategic move is considered essential for Adventa to enhance its position in the value chain and secure long-term business prospects (page 4 of AR2022).

- (a) What kind of medical equipment does Adventa plan to manufacture in this new facility, and how will it cater to the needs of the Indonesian and ASEAN markets? What competitive advantages does Adventa hope to leverage in these markets?

Adventa is currently finalizing construction plans for a manufacturing facility at the newly acquired industrial land in Central Jawa, Indonesia, to manufacture disposable medical devices that it is already currently selling in the Malaysian and Indonesian market. The Indonesian market is by far, the largest market in ASEAN, and Adventa hope to leverage on its past expertise in manufacturing medical devices to achieve significant economies of scale to achieve competitive pricing to tap on the vast Indonesian market for these products and eventually for the rest of the ASEAN markets.

- (b) What is the expected timeline for the construction of the manufacturing facility and when is it expected to be operational?

Construction of the manufacturing facility is expected to commence in H2 2023 and the plant is expected to be operational approximately 12 months thereafter.

- (c) What is an estimate of the costs associated with this new venture? What is the expected impact on earnings and overall financial position in the short and long term?

The estimated total costs for this new venture has yet to be finalized and it will be premature to comment on this before the construction tenders are called. As for the expected impact on earnings and overall financial position, Adventa expects to bear some operational set-up cost in the initial 18 months during the construction and plant initialization period. Adventa intends to partially fund this venture by bank borrowings and it's overall gearing position will still be within manageable levels from its current minimal gearing level. In the long term, it is expected that this venture will contribute significantly to the group's profitability.

- 3) Adventa will continue its pursuit of expanding its product portfolio with its in-house brand of hospital and surgical disposable supplies under the name 'Connecx' (page 4 of AR2022).



- (a) How has the response been to the 'Connecx' brand in the market so far, and what is Adventa's strategy to increase its market share? What type of new products are being considered?

The response to the 'Connecx' brand in the market has been positive, particularly among hospitals. Adventa, the company behind Connecx, has implemented a strategy to increase market share. This includes conducting marketing and promotion activities and providing continuous nursing education through product training. These training sessions, known as continuous nursing education, aim to educate healthcare professionals about the features, benefits, and applications of Connecx products. By enhancing the knowledge and expertise of healthcare professionals, Adventa aims to increase the adoption and utilization of Connecx products, further solidifying its market position. Adventa is considering the development of new products to complement the existing Connecx line. Specifically, they are exploring the creation of surgical items that would serve as valuable additions to the current product portfolio, especially in operation theaters and surgical wards. This expansion into surgical products demonstrates Adventa's commitment to meeting the evolving needs of healthcare facilities and providing comprehensive solutions for various medical settings.

- (b) How does Adventa plan to differentiate the 'Connecx' brand from competitors in the hospital and surgical disposable supplies market?

Adventa's strategy to differentiate the 'Connecx' brand from competitors in the hospital and surgical disposable supplies market revolves around providing a combination of quality products and competitive pricing. While recognizing that healthcare is a price-sensitive industry, Adventa aims to sustain its presence by offering high-quality products at the best possible prices.

In order to support this differentiation, Adventa invests in continuous nursing education through product training activities. These training sessions, conducted by product specialists, enable healthcare professionals to become familiar with the features, benefits, and applications of Connecx products. By equipping healthcare professionals with in-depth knowledge, Adventa ensures that customers are confident in the quality and effectiveness of the 'Connecx' brand.

By emphasizing both quality and competitive pricing, Adventa seeks to distinguish itself from competitors in the hospital and surgical disposable supply markets. This approach aligns with Adventa's commitment to meeting the needs of healthcare facilities while maintaining a strong value proposition for its customers.

- (c) What is the current contribution of the 'Connecx' brand to Adventa's revenue, and what are the company's expectations regarding its future contribution as the brand expands into specific markets?

The 'Connecx' brand currently contributes approximately 50% to Adventa's revenue. As the brand continues to expand into specific markets, Adventa expects its contribution to grow further. In order to ensure the brand's success in these markets, Adventa recognizes the importance of understanding the needs of the end users, particularly in relation to surgical products. This customer-centric approach will be instrumental in driving the future growth and contribution of the 'Connecx' brand to Adventa's overall revenue.



- 4) What were the reasons for the substantial increase in other expenses from RM3.1 million in 2021 to RM6.5 million in 2022 (page 39 of AR2022)?

The substantial increase in other expenses from RM3.1 million in 2021 to RM6.5 million in 2022 mainly due to provision for doubtful debt in accordance to MFRS 9.

Corporate Governance Matters

- 1) Practice 5.2 of the Malaysian Code of Corporate Governance (MCCG) stipulates that at least half of the board should consist of independent directors.

On 31 May 2023, Mr. Edmond Cheah Swee Leng was re-designated from Senior Independent Non-Executive Director to Senior Non-Independent Non-Executive Director, and Mr. Toh Seng Thong was re-designated from Independent Non-Executive Director to Non-Independent Non-Executive Director. As a result, the board now comprises only one independent director out of a total of five directors, representing 20% of the board.

What specific measures is the company undertaking to ensure compliance with the requirements of Practice 5.2?

Subsequent to the re-designation of Mr. Edmond Cheah Swee Leng and Mr. Toh Seng Thong on 31 May 2023, the Company has identified a potential Independent Director to fill the vacancy in the Board within three (3) months from the date of re-designation and the relevant announcement in relation to the same would be made once the decision has been finalized.

The Company acknowledges that it is a best practice that at least half (1/2) of the Board should consist of Independent Directors although Listing Requirements only required at least two (2) or one-third (1/3) of the Board to consist of Independent Directors. As such, the Company would first fill the vacancy in the Board by appointing an additional Independent Director within three (3) months from the date of re-designation as mentioned above to comply with the Listing Requirements. Thereafter, the Company would consider sourcing more Independent Directors to adopt Practice 5.2 of the Malaysian Code on Corporate Governance as and when the need arises or when suitable candidates are identified.

Thank you.

Yours sincerely,

DATUK MARK ROZARIO
Chief Executive Officer