

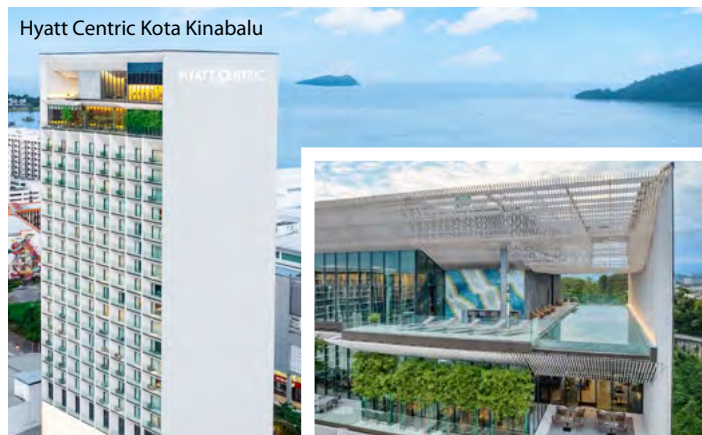
## MANAGEMENT DISCUSSION AND ANALYSIS

### HOSPITALITY

In 2023, the division's maiden hotel, Hyatt Centric Kota Kinabalu enjoyed an encouraging occupancy rate due to the resumption of international flights and the recent announcement of 30-day visa-free entry for nationals from China and India. The division has two additional premium international hotels in Kuala Lumpur in the pipeline.

#### Hyatt Centric Kota Kinabalu

Opened in October 2022, the 22-storey Hyatt Centric Kota Kinabalu is the latest 5-star lifestyle hotel with GreenRE Silver accreditation in the heart of Kota Kinabalu. Designed by world-renowned award-winning Japanese architect Mr. Kengo Kuma, the hotel's 222 guestrooms and suites were inspired by the surrounding landscape of Sabah's undulating hills and South China Sea islands. It features duplex dining experience on the highest floors at ON22 and ON23 crowned with an infinite pool offering one of the best panoramic island sunset views in Kota Kinabalu.



#### Hyatt Regency Kuala Lumpur

Designed by Mr. Kengo Kuma, Hyatt Regency Kuala Lumpur is set to open its doors in 2025. This 33-storey hotel, perching atop a six-storey hotel podium, will feature 306 hotel rooms with sizes ranging from 450 square feet to 2,446 square feet and 104 serviced suites with sizes ranging from 708 square feet to 1,077 square feet. It will also feature 13 conference rooms of various sizes and exciting dining venues, including a market café, a Japanese restaurant & bar, a Chinese restaurant and a lobby lounge. Additionally, it will include a 1,000 square-meter ballroom capable of hosting up to 1,000 guests. Upon completion, the hotel will be GreenRE Gold compliant, offering world-class hospitality.

#### Hyatt Centric Kuala Lumpur

The inaugural Hyatt Centric hotel in Kuala Lumpur, situated in the bustling Golden Triangle at the heart of Kuala Lumpur city centre, will provide easy access to iconic landmarks like the Petronas Twin Towers and Menara Kuala Lumpur. This distinctive lifestyle hotel, spanning 21 storeys, will offer 312 guestrooms and suites, each inspired by the vibrant history of Kuala Lumpur. Upon completion in 2024, it will be GreenRE complied and seamlessly linked to Plaza Hap Seng, expanding the range of entertainment and dining venues available to the business community of Plaza Hap Seng and neighbouring offices.



## MANAGEMENT DISCUSSION AND ANALYSIS

Body & Paint Competence Centre at Hap Seng Business Park



### SHORT AND LONG-TERM GOALS

The division continues to innovate selling strategies and expand marketing channels whilst pursuing growth in property development as well as to improve and achieve an attractive yield for its investment and hospitality properties.

### OUTLOOK FOR 2024

#### Residential sector

For 2024, the division remains cautiously optimistic about the demand for residential properties in prime and strategic locations. This optimism is supported by a stable interest rate environment, attractive packages offered, including collaborative efforts with various agencies, banks and supportive government initiatives.

#### Commercial office sector

Property investments have experienced rising occupancy rates, and the division remains optimistic about leasing momentum. This positive outlook is driven by an uptick in leasing activities and a growing awareness of environmental, social, and governance (ESG) factors, particularly in relation to our ESG-compliant buildings. With a stable tenant portfolio and ongoing initiatives by the leasing and building management teams, the division is confident that its occupancy rate is expected to improve.

#### Hospitality sector

The hospitality sector stands to gain from the resurgence of tourism in Malaysia, particularly with the resumption of flights and the recent announcement of 30-day visa-free entry for nationals from China and India. The division remains confident in the ongoing recovery of tourism and expects an improvement in the performance of Hyatt Centric Kota Kinabalu as a result.

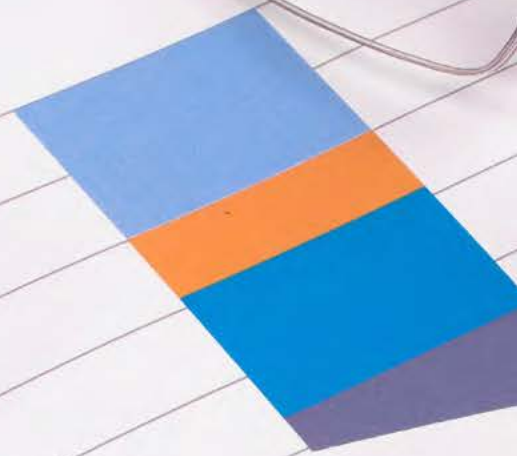
Wisma Mercedes-Benz



# Hap Seng Credit

## Summary

100  
90  
80  
70  
60  
50  
40



# Hap Seng Credit

## Summary

5%  
60%  
50%  
40%  
30%  
20

100  
90  
80  
70  
60  
50  
40  
30  
20  
10  
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Million



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100  
90



## CREDIT FINANCING



The Credit Financing division's principal activity is the provision of secured term loans and industrial hire purchase, primarily to small and medium enterprises (SME). The division has presence both in Malaysia and the United Kingdom (UK), under Hap Seng Credit Sdn Bhd and HS Credit (London) Ltd respectively. Hap Seng Credit Sdn Bhd operates via three regional business centres; two in Peninsular Malaysia and one in Sabah and is one of the leading non-bank credit financing institutions in Malaysia. In the UK, the division only offers secured term loans to the UK market.



Revenue

**RM230.8**  
million






Operating Profit

**RM155.7**  
million

## MANAGEMENT DISCUSSION AND ANALYSIS

### CREDIT FINANCING DIVISION'S OPERATION NETWORK

-  Head Office
-  Regional Business Centres (Central, South & East Malaysia)
-  Credit Business (London)



### MARKET CONDITION

The Malaysian economic growth normalised to 3.7% in 2023 (2022: 8.7%), driven primarily by domestic demand. Loan growth in the banking industry grew by 5.3% in 2023 compared to 5.7% in 2022.

### MANAGEMENT STRATEGIES

The division continues to practice prudent lending by procuring acceptable quality businesses with reasonable return, concentrating on loyal borrowers with proven track record and targeting borrowers from pre-approved growth sectors. The division continues to offer tailored solutions to cater to borrowers' needs.

### OPERATIONAL PERFORMANCE

The division remained cautious in acquiring new business throughout the year. The division continued to prioritize maintaining reasonable interest costs, aiming to achieve acceptable net interest margins. The division continued to focus on efforts in loan collections, recovery and restructuring.

In line with the lower loan portfolio balance, the division recorded an operating profit of RM155.7 million in 2023 (2022: RM194.5 million). The return on average asset for the year was 4.4% (2022: 4.0%), which compares favourably with the industry average of 1.2% (2022: 1.3%). Gross NPL ratio was at 2.85% in 2023 (2022: 2.10%) partly due to lower loan base.

## MANAGEMENT DISCUSSION AND ANALYSIS



### SHORT AND LONG-TERM GOALS

In the short term, the Credit Financing division will continue to maintain a strategy of prudent lending, considering uncertainties in both domestic and global economies and a challenging financing landscape. Emphasis will be placed on loan collection and non-performing loan recovery to enhance liquidity and asset quality.

Over the long term, the division will continue striving to enhance the net interest margin and establish a stable and sustainable loan portfolio.

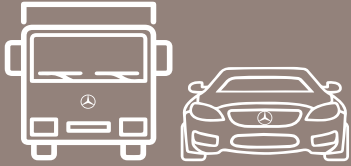
The division thereby prioritizes the development and retention of its human capital. Regular internal training programs covering technical updates and refresher seminars for relevant staff are conducted.

In the long term, the division continues to explore opportunities for expansion both domestically and abroad. This is to ensure the division's sustained growth and market diversification.

### OUTLOOK FOR 2024

Malaysia's economic growth in 2024 is forecast at 4% to 5%, announced during the national budget in November 2023. The division expects businesses to remain challenging in view of uncertainties in the domestic and global economies.





# AUTOMOTIVE



Revenue

**RM1.39**

billion



Operating Profit

**RM65.2**

million



Body & Paint Competence  
Centre Revenue

**↑20.0%**



Body & Paint Competence  
Centre Throughput

**↑6.2%**



The Automotive division is engaged in the sale of Mercedes-Benz passenger cars, smart electric vehicles, and distribution and sale of Mercedes-Benz and FUSO commercial vehicles in Malaysia.

The passenger car business is operated via Hap Seng Star Sdn Bhd (Hap Seng Star), Hap Seng Smart Sdn Bhd (Hap Seng Smart) and Hap Seng Body & Paint Sdn Bhd (Hap Seng Body & Paint). Hap Seng Star, a leading Mercedes-Benz authorized sales agent and service dealer in Malaysia, presently manages a network of nine outlets strategically located in Klang Valley, Melaka, Kota Kinabalu and Kuching. Hap Seng Star also manages two Mercedes-Benz Certified Pre-Owned Centres in Klang Valley, situated in Balakong and Bukit Tinggi. Hap Seng Body & Paint operates a centralised multi-brand Body & Paint Competence Centre (BPC) in Shah Alam.

In 2023, Hap Seng Smart was appointed the authorised dealer for the sale of smart electric vehicles in Malaysia. Hap Seng Smart currently operates two smart dealerships in Kuala Lumpur and Balakong.







The commercial vehicles business is operated via Hap Seng Trucks Distribution Sdn Bhd (Hap Seng Trucks Distribution), the exclusive general distributor of Mercedes-Benz and FUSO commercial vehicles in Malaysia, offering a portfolio of light-duty and heavy-duty European and Japanese trucks. Hap Seng Trucks Sdn Bhd (Hap Seng Trucks) is an authorised dealer of Hap Seng Trucks Distribution.





## MANAGEMENT DISCUSSION AND ANALYSIS

### AUTOMOTIVE DIVISION'S OPERATION NETWORK

-  Hap Seng Star Head Office
-  Hap Seng Trucks Distribution & Hap Seng Trucks Head Office
-  Hap Seng Star Dealerships
-  Hap Seng Trucks Distribution Plant
-  Hap Seng Smart Head Office
-  Hap Seng Trucks Branches



### MARKET CONDITION

In 2023, total industry volume (TIV) of the Malaysian automotive industry achieved an all-time high of 799,731 units (2022: 721,177 units), representing a growth of 10.9%.

Total registration of new passenger vehicles in 2023 increased by 12.0% to 719,160 units from 642,157 units in 2022. The high volume increase was largely due to the strong sales performances by the two national makes. As a result, the combined market share of both national makes rose to 66.9% (481,300 units) in 2023 compared with 65.1% (418,045 units) in 2022. Meanwhile, the non-national makes registered a higher sales volume of 237,860 units or 6.1% growth compared to 2022 with 224,112 units.

The commercial vehicles segment saw a small growth of 2.0% or 1,551 units to reach 80,571 units in 2023 (2022: 79,020 units). TIV of the European prime mover truck segment reduced by 5.5% to 1,020 units (2022: 1,079 units), whereas TIV of the Japanese light-duty truck and medium-duty truck segment remained at 14,518 units in 2023 (2022: 14,479 units).

The Malaysian Automotive Association (MAA) attributed the notable upswing in the annual TIV for 2023 to several factors, including the success of tax-free car bookings, a robust domestic economy, the introduction of new car models including affordable electric vehicles, and improvements in the overall supply chain conditions within the industry.



## MANAGEMENT DISCUSSION AND ANALYSIS

Hap Seng Star Bukit Tinggi



in Rawang, north of the Klang Valley, and Pahang. New 2S service dealers were added in strategic locations namely Ipoh, Johor Bahru and Port Dickson to support both its FUSO & Mercedes-Benz commercial vehicle customers. This expansion underscores our dedication to making our high-quality product easily available to a broader range of customer.

### OPERATIONAL PERFORMANCE

Hap Seng Star recorded a turnover of RM1.08 billion (2022: RM1.43 billion) with an operating profit of RM42.2 million (2022: RM40.8 million). The decrease in revenue was due lower sales volume, partly due to the expiration of the sales tax exemption in March 2023. The adoption of the agency model by Mercedes-Benz Malaysia since 1 September 2023, which changed the revenue recognition basis, also made 2023 revenue not directly comparable to 2022. The division's aftersales operations recorded a marginal increase in throughput over the previous year. The BPC recorded a 20.0% increase in revenue to RM40.2 million (2022: RM33.5 million) as throughput increase by 6.2% over the previous year.

The commercial vehicle business recorded a total revenue of RM318.3 million representing a 6.4% decrease (2022: RM340.0 million). It recorded an operating profit of RM22.9 million (2022: RM28.3 million).

### MANAGEMENT STRATEGIES

As part of its strategy to enhance customer experience, Hap Seng Star launched a new Autohaus in Bukit Tinggi in April 2023, which brings Mercedes-Benz closer to its valued customers in this strategic and growing township. This new one-stop sales and service center, spanning 262,008 square feet, features a spacious 45-car showroom. It has a service capacity of 900 cars a month and is equipped with a 120 kW DC fast charging facility. This new Autohaus is set to deliver an exceptional Mercedes-Benz buying and service experience to our esteemed customers throughout their ownership journey.

Hap Seng Smart was appointed by Proton New Energy Technology Sdn Bhd (Pro-Net) as the authorised dealer of smart electric vehicles in Malaysia. This provides an opportunity for the Automotive division to broaden and diversify its product range of electric vehicles offered and cater to a wider customer base.

Hap Seng Trucks Distribution continued to strengthen its market presence to provide strong customer support to its customers. It has further expanded its FUSO dealer network



## MANAGEMENT DISCUSSION AND ANALYSIS

### AWARDS AND RECOGNITION

Hap Seng Star has made relentless efforts to provide excellent sales and service experience for its customers. This commitment has earned recognition from Mercedes-Benz Malaysia (MBM).

Mercedes-Benz South East Asia II Service Excellence Award Regional Award Ceremony for 2023 was held on 24 January 2024 in Langkawi and Hap Seng Star has once again been recognised by MBM and Mercedes-Benz AG and clinched the following awards:



#### a. Service Excellence Award:

Award 2022	Champion League	Super League
<b>Champion</b>	Bukit Tinggi	Kota Kinabalu
<b>1<sup>st</sup> Runner Up</b>	Kinrara	-
<b>2<sup>nd</sup> Runner Up</b>	Jalan Ipoh	-

#### b. Top Service Adviser Award:

Hap Seng Star clinched 6 out of 10 service advisor awards



#### c. Platinum Star Award:

##### Group After Sales Head Challenger Group

Branch	Group Head
Head Of National After-Sales Operations	Mr. Choy Wei Chieh

##### After Sales Manager Challenger Group

Branch	After Sales Manager
Hap Seng Star Kinrara	Mr. Albert Lim Wei Peng
Hap Seng Star Bukit Tinggi	Mr. Andrew Tan Eng Chin
Hap Seng Star Kota Kinabalu	Mr. Teng Seng Hin
Hap Seng Star Setia Alam	Mr. Loe Tee Kean
Hap Seng Star Balakong	Mr. Kho Haw Den

##### After Advisor Challenger Group

Branch	Service Advisor
Hap Seng Star Jalan Ipoh	Alvin Thian Lik Hao
Hap Seng Star Bukit Tinggi	Tee Yi Tong

#### d. Retail Partner Award 2023

Award	Champion	1 <sup>st</sup> Runner-up	2 <sup>nd</sup> Runner-up
<b>Retail Partner of the Year</b>	Bukit Tinggi	Kinrara	-
<b>Best in Financial Services</b>	Bukit Tinggi	Kinrara	-
<b>Best in CSI (5 Star Rater)</b>	Bukit Tinggi	-	-
<b>Best in Customer Services</b>	Setia Alam	-	Bukit Tinggi
<b>Best in Business Excellence</b>	-	-	Kinrara

## MANAGEMENT DISCUSSION AND ANALYSIS



### SHORT AND LONG-TERM GOALS

Hap Seng Star's immediate objectives are to maintain its customer service excellence and achieve profitable and sustainable growth. Recognizing the essential role of customer retention in achieving these objectives, Hap Seng Star is placing a high priority on customer care programs and other initiatives aimed at retaining its customer base.

Hap Seng Trucks Distribution will continue its short-term goal to developing a strong commercial vehicle business and drive the future growth of Mercedes-Benz and FUSO commercial vehicles with stronger network development programs.

In line with the government's sustainable development goal in mandating the adoption of Euro 4 emission standards in 2024, Hap Seng Trucks Distribution will launch the new generation of Euro 5 Mercedes-Benz Actros and FUSO commercial vehicles. The new generation FUSO TF Canter will have class-leading emission and safety standards. Hap Seng Trucks Distribution will continue to focus to offer the best-in-class customer experience in the industry.



### OUTLOOK 2024

MAA is expecting Malaysia's new motor vehicle sales to decline by 7.5% in 2024, following record sales of 799,731 units in 2023. The expected decline in TIV is partly due to the concerns emanating from the reduction in disposable income as a result of the Government's drive to rationalise subsidies and the absence of a sales tax exemption granted earlier.

However, the recent decision by Bank Negara Malaysia (BNM) to maintain the benchmark overnight policy rate at 3.0% and is expected to continue with an accommodative monetary policy is a favourable development. This decision ensures stability in loan borrowing costs, which is poised to have positive implications for the industry.







## TRADING



The Trading division comprises the fertilizer trading and general trading operations. The ceramic trading operations has been consolidated into Hafary Holdings Limited.



Revenue

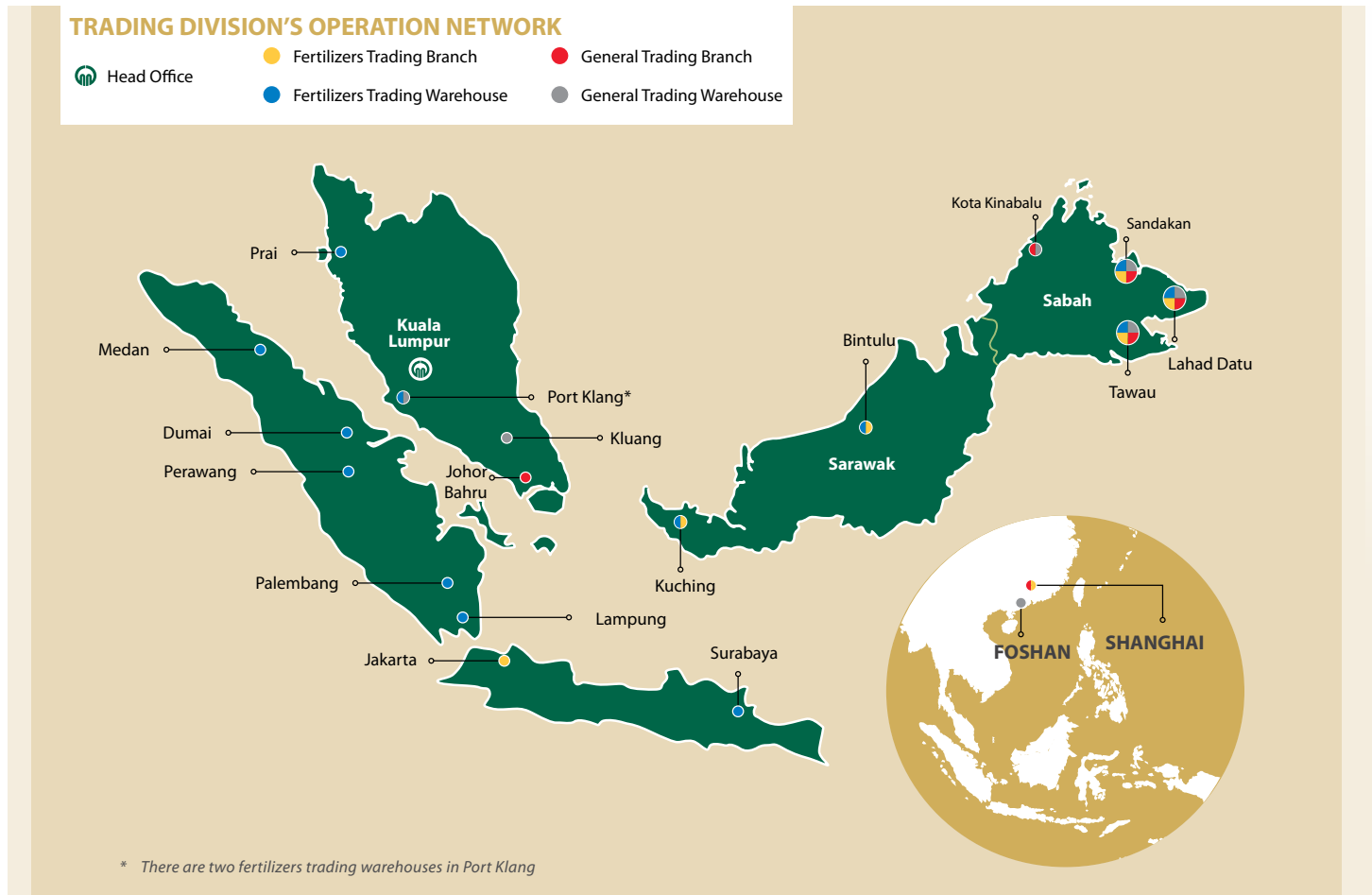
**RM2.80**  
billion



Operating Profit

**RM217.3**  
million

## MANAGEMENT DISCUSSION AND ANALYSIS



### Fertilizers Trading

The fertilizers trading operations supplies a wide range of fertilizers to oil palm plantations in Malaysia and Indonesia that include muriate of potash, ammonium sulphate, rock phosphate, kieserite, ammonium chloride, fused magnesium phosphate and other nitrogen, phosphorus, and potassium (NPK) fertilizers.

Fertilizers trading operates through Hap Seng Fertilizers Sdn Bhd (HSF), PT Sasco Indonesia (PTSI) and MML (Shanghai) Trading Co., Ltd (MMLS). These trading entities operate from 14 warehouses - eight in Malaysia and six in Indonesia. MMLS is based in Shanghai, China and trades in fertilizers globally.

### General Trading

The general trading operations supplies a diverse portfolio of building material products, which include steel bars, cement, tiles, iron & metal, building chemicals, interior fittings, sanitary wares, aggregates and petroleum products.

General trading operates under Hap Seng Trading (M) Sdn Bhd and services the construction, housing development and infrastructure development industries through its network of six branches - four in Sabah, one in Johor and the main office in Kuala Lumpur.

## MANAGEMENT DISCUSSION AND ANALYSIS



### MARKET CONDITION

#### Fertilizers Trading

After two years of surging fertilizer prices, 2023 began to witness a price normalisation, with prices moving closer to pre-pandemic levels. This normalisation can be attributed to several factors, including the alleviation of supply chain issues that emerged during the pandemic, facilitating easier access and shipment for producers across the global market. Additionally, the softening of natural gas prices in Europe, essential for fertilizer production, contributed to the downward pressure on prices.

The improved supply of potash globally also put downward pressure on potash prices in 2023. In response to increasing demand for fertilizers, producers such as Canada, and new entrant like Laos had increased their production capacity, further easing supply constraints and reducing fertilizer prices.

#### General Trading

Malaysia recorded a GDP growth of 3.7% in 2023 (2022: 8.7%) supported by resilient domestic demand, in particular private expenditure led by the services sector.

Malaysia's construction sector saw a growth of 6.3% in 2023 (2022: 5.0%), largely driven by ongoing public infrastructure and civil engineering projects.

### MANAGEMENT STRATEGIES

#### Fertilizers Trading

Fertilizers trading operates in a price-volatile environment, driven by international demand for fertilizers and CPO prices, and in recent years geopolitical tensions. The division will strive to maintain its market-leading position while managing its exposure to price volatilities by matching supply with demand.

#### General Trading

The general trading operations, being one of the major building materials suppliers in Malaysia, will focus on streamlining its various business segments as well as leveraging on the strength of the Group's synergies.





## MANAGEMENT DISCUSSION AND ANALYSIS

### OPERATIONAL PERFORMANCE

#### Fertilizers Trading

The fertilizers trading operations recorded a reduction in revenue and operating profit on account of lower fertilizer prices. Revenue reduced by 23.2% to RM2.09 billion (2022: RM2.72 billion) while operating profit reduced by 27.7% to RM206.2 million (2022: RM285.1 million). However, sales volume increased by 4.7% to 1,390,000 tonnes (2022: 1,327,000 tonnes) in line with the increased fertilizer supply to Indonesia.



#### Operations in Malaysia

HSF remains a major fertilizer trader in Malaysia, maintaining its leading position in East Malaysia and remaining a major player in Peninsular Malaysia.

Revenue decreased by 33.5% to RM1.57 billion (2022: RM2.36 billion) due primarily to lower fertilizer prices. Operating profit reduced by 23.4% in line with the reduction in turnover to RM185.0 million (2022: RM241.5 million), mitigated by improved margins. Sales volume reduced by 7.0% to 1,000,000 tonnes (2022: 1,076,000 tonnes) on account of reduced demand.

#### Operations in Indonesia

PTSI's revenue increased by 43.8% to RM520.6 million (2022: RM362.1 million) as a result of higher sales volume. Sales volume increased by 55.4% to 390,000 tonnes (2022: 251,000 tonnes) with the normalisation of fertilizer supplies. However, operating profit decreased by 51.4% to RM21.2 million (2022: RM43.6 million) due to compressed margins.

#### General Trading

The general trading operations recorded a 4.8% decrease in revenue to RM711.0 million (2022: RM747.1 million), mainly due to business migration of the ceramic tile operations to Hafary Holdings Limited. Consequently, operating profit decreased by 6.7% to RM11.1 million (2022: RM11.9 million).



### SHORT & LONG-TERM GOALS

#### Fertilizers Trading

In this dynamic operating environment, the fertilizers trading operation remains steadfast in its focus on cost containment and resource optimisation. It prioritises vigilant management of inventory and trade receivables to ensure efficiency and effectiveness in its operations. The fertilizers trading operations is committed to preserving its market leadership in Malaysia while pursuing long-term growth opportunities in Indonesia. Its market development strategy involves forging strategic partnerships with key customers and principal suppliers through ongoing engagements.

Looking ahead, the operation anticipates an increase in demand for NPK fertilizer and aims to enhance its market presence by expanding NPK production, adding value to our product range.

#### General Trading

In the short-term, the general trading operations aim to maintain its position as a major building materials supplier while exercising stringent control on credit exposure, and leverage on the strength of the Group's synergy.

For the longer term, the general trading operations aim to expand its market coverage by targeting new projects and distribution channels.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OUTLOOK FOR 2024

### Fertilizers Trading

Fertilizer prices are expected to remain consistent at lower levels in 2024. Accordingly, this will contribute to better affordability and higher demand for fertilizers.

CPO price is a major factor affecting fertilizers use in Malaysia and Indonesia. One of the key drivers that will influence the price of CPO for 2024 is the implementation of B35 biodiesel mandate in Indonesia. This is expected to limit palm oil supply for the global market which in turn is envisaged to keep CPO prices at a favourable level.

Whilst labour shortage is still a major problem affecting the oil palm plantation industry in Malaysia, its impact has become less palpable and less of an impediment to fertilizers application. This should augment well for fertilizers demand.

### General Trading

The construction sector in Malaysia is expected to further increase in 2024 with a forecast growth of 6.8%, bolstered by strategic infrastructure and utilities projects which include ongoing projects and acceleration of projects under Twelfth Malaysia Plan, 2021-2025. Ongoing projects such as the Pan Borneo highway and Sepanggar Bay Port project are expected to generate positive results for General Trading.





# BUILDING MATERIALS



The Building Materials division comprises two main operations namely the quarry and brick operations, and Hafary Holdings Limited (Hafary).



Revenue

**RM952.0**  
million



Operating Profit

**RM203.0**  
million










QUALITY. GUARANTEED.



HAFARY

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUILDING MATERIALS DIVISION'S OPERATION NETWORK

-  Quarry & Brick Operations Head Office
-  Quarry
-  Asphalt Plant
-  Brick Factory
-  Hafary



#### Quarry and Brick

This operation engages in quarrying activities in both Peninsular Malaysia and Sabah with an approximate total capacity of 6.8 million tonnes per annum. The quarry products are distributed mainly to the local infrastructure and construction industry.

The clay brick manufacturing operates from one factory in Sabah with a monthly production capacity of approximately 3.5 million common clay bricks. The bricks are distributed to building materials traders and contractors in the local market.

#### Hafary

The Singapore operations are carried out by its listed subsidiary in Singapore, Hafary. Hafary, the leading building materials supplier in Singapore, supplies a comprehensive range of products, including tiles, stones, mosaics, wood flooring, marbles and interior fittings. It operates from approximately 800,000 square feet of showrooms and warehouses, including the main gallery from its corporate headquarters.

Hafary's businesses are divided into three segments: general, project and manufacturing. The general segment caters to homeowners, architecture, interior design and renovation firms. The project segment serves architectural firms, property developers, and construction companies. The manufacturing segment, which began operations in July 2023, operates via International Ceramics

Manufacturing Hub Sdn Bhd (ICMHSB), a joint-venture company with CNA Pte. Ltd. ICMHSB manufactures ceramic tiles for customers with large orders and with specific requirements and specifications. These customers include property developers, wholesalers and distributors.

#### MARKET CONDITION

In 2023, the Malaysian economy grew by 3.7% (2022: 8.7%) with the construction sector continuing its recovery which grew by 6.1% in 2023 (2022: 5.0%).

In Singapore, the economy grew by 1.1% in 2023, moderating from the 3.6% growth in 2022.

Growth in the Singaporean construction sector picked up to 5.2%, as both public and private sector construction output increased (2022: 6.7%).



## MANAGEMENT DISCUSSION AND ANALYSIS

### MANAGEMENT STRATEGY

#### Quarry and Brick

The operation continues to focus on strategies to improve productivity and efficiency, while implementing various cost containment initiatives, strategic product pricing, and leveraging on the strength of the Group's synergies.

#### Hafary

Hafary aims to increase market penetration and strengthen both its customer service and exclusive product offerings.

Hafary continues to offer an expanding product range via the Hafary Gallery located at 105 Eunus Avenue 3. Spanning a total of 43,000 square feet, The Hafary Gallery provides an immersive experience to its visitors, with dedicated floor showcasing mainly its latest product offering – the large format porcelain slab. With dimensions of up to 3.2 metres by 1.6 metres, the large-format porcelain slab opens up new application of size, scale and grandeur.

Hafary is currently expanding its retail business and plans to establish a new 10,000 square feet flagship store at 161 Lavender Street. By doing so, Hafary aims to showcase a broader range of its products in a central and easily accessible location, which will enable it to better serve the needs of its retail customers in Singapore.

The establishment of ICMHSB has enabled Hafary to move upstream and accordingly mitigate supply chain constraints. It is also able to leverage on the Group's MML and Element brands and distribution networks to grow sales in Malaysia and the global export market.

### OPERATIONAL PERFORMANCE

In 2023, the division recorded a revenue of RM952.0 million (2022: RM706.0 million) and operating profit of RM203.0 million (2022: RM131.8 million).

The quarry and brick operation recorded a revenue of RM180.9 million (2022: RM165.0 million) and an operating profit of RM14.4 million (2022: RM7.9 million) on the back of higher quarry sales volume and improved margin.

In 2023, the Hafary registered a record revenue of RM771.1 million (2022: RM541.0 million). The increase in revenue is mainly attributable to both general and project segments.

Hafary recorded a 52.2% growth in operating profit to RM188.6 million (2022: RM123.9 million) despite a RM9.8 million loss in the manufacturing segment.

Revenue from the general segment increased by 35.7% to RM476.2 million in 2023 (2022: RM350.8 million). This increase was driven by an active resale market and heightened demand from home buyers opting for resale flats to avoid construction delays in Build-To-Order projects due to labour shortages and supply chain disruptions. Additionally, revenue growth was attributed to business expansion into the general segment in Malaysia.

Revenue from project segment increased by 45.2% to RM276.1 million in 2023 (2022: RM190.1 million). This increase was mainly due contributed by the business expansion into the project segment in Malaysia.

Hafary's manufacturing segment began production in June 2023 with average production capacity of approximately 20,000 meter square per day. Revenue from this segment totalled RM18.8 million for the year, mainly from the Malaysian market.

### SHORT AND LONG-TERM GOALS

#### Quarry and Brick

The operation's short-term goals are to optimise the utilisation of its assets, mitigate the impact of cost inflation through stringent cost containment, right sizing and strategic product pricing, and leveraging on the strength of the Group synergy. In Sabah, the operation's goal is to maintain its position as the market leader of aggregate production.

#### Hafary

Hafary's short-term goals are to grow sales volume, improve operating profits and enhance market leadership. It will further utilize online marketing initiatives, such as virtual showroom tours, online product videos via YouTube, Facebook and Instagram platforms. In addition, it will continue to focus on digitalisation initiatives to improve operational efficiencies.

In the longer term, Hafary will continue to build up on its current product competencies, strengthen its supply chain and explore overseas opportunities. Hafary's diversification into the manufacturing segment is aimed at minimising disruption and support its supply chain.

### OUTLOOK FOR 2024

The Malaysian construction sector is projected to maintain its recovery with a growth of 6.8%, lending support to the demand for the division's products. In the national budget 2024, the government intends to implement several significant projects like Pan Borneo Sabah Phase 1B, flood mitigation packages, Sepanggar Bay Port and Sabah-Sarawak Link Road. These projects are expected to support the quarry and brick operation.

The Singapore's Ministry of Trade and Industry (MTI), estimates that the GDP growth forecast for 2024 will maintain at 1.0% to 3.0%, citing Singapore's external demand outlook for 2024 has remained largely unchanged. Growth in the advanced economies is expected to moderate in the first half of the year, mainly due to continued tight financial conditions, before recovering gradually in line with an expected easing of monetary policy as inflationary pressures recede.

In the HDB resale market, prices and transaction volume in the 1<sup>st</sup> quarter of 2024 recorded a growth of 1.7% and 5.5% respectively over the previous quarter, mainly driven by first-time homebuyers and property owners looking to downgrade to resale flats. The volume of resale flats is also expected to rise in 2024. This may lead to an increase in renovation activities for these resold flats and drive demand for Hafary's products.