MCE HOLDINGS BERHAD

Registration No. 201501033021 (1158341-K)
(Incorporated In Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED DURING THE 4TH ANNUAL GENERAL MEETING ("ÄGM") OF MCE HOLDINGS BERHAD DULY CONVENED AND HELD AT THE HOP SING II HALL, PONDEROSA GOLF & COUNTRY CLUB, NO. 3, JALAN PONDEROSA 1, TAMAN PONDEROSA, 81100 JOHOR BAHRU, JOHOR MALAYSIA ON 20 DECEMBER 2019 AT 9.30 A.M.

AGENDA 1 - AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 JULY 2019

During the AGM, the Chairman informed the shareholders present that the Company had received a letter dated 12 December 2019 from the Minority Shareholder Watch Group ("MSWG").

The Chairman requested the Group Managing Director, the Deputy Chairman and the Secretary to present the questions/queries raised by MSWG and the Board and management's response for the benefit of shareholders present at the AGM as follows:

1. The Group recorded a loss after tax (LAT) of RM 6.81 million in FY 2019 compare to a LAT of RM 1.9 million in FY 2018 mainly due to higher operation costs, lower margins and reversal of deferred tax assets recognised by a subsidiary

   (a) What are the measures taken to turn around the Group's performance?

   Reply

   One of the main factors for the increase in loss after tax recorded in FY 2019 compared to FY 2018 as stated in our Report was due to higher operations costs.

   The higher operation costs for the FY 2019 is attributed mainly due to the following:

   (i) Higher depreciation for property, plant & machinery as the Group invested in the following:
   - New toolings for new projects secured during the financial year;
   - Facilities and machineries into upstream products (vertical integration); and
   - New testing equipment to enhance in-house testing capability to improve design and quality.

   (ii) Higher staff cost incurred as the Group recruited additional manpower for both direct and indirect (2018: 320 Head Count; 2019: 428 Head Count) in order to cope with new projects and products secured e.g. design engineers for exterior and interior lightings.

   (iii) Higher utilities incurred for newly invested facilities and machineries.

   (iv) Higher travelling cost incurred as the operational teams are required to frequently meet up with customers to understand their requirement and resolve issues which occurred for new projects secured.

   (v) Additional transport cost incurred for X70's parts exported to China for CBU assembly.

   The higher operation costs incurred reflects the strategies and measures that has been taken by the Board and Management to mitigate its business risks and ensure the business sustainability of the Group's automotive parts business.

   The Group has increased its investments in critical areas of its operations to ensure its business model is sustainable, remains relevant and enhance the confidence levels of its main customers in the Group's ability to meet their needs and requirements.

The Group has invested in new plant & machineries and additional manpower in preparation for new projects and products secured by the Group including potential new projects/products still in the planning stages.

The Group had also vertically integrated into upstream products in order to reduce the cost of production for its products.

At the same time the Group has strengthened its internal processes to reduce wastage and improve efficiency.

(b) How will these measures bring the Company back to profitability?

Reply

Barring unforeseen circumstances, the Group is optimistic that the above said investments and measures are sufficient for the Group to cope with the new and existing businesses secured by MCE in FY 2020 and provides the foundations for the Group to grow stronger and secure further new projects from its customers.

2. MCE Group has entered into a Sale and Purchase Agreement with UMW Development Sdn Bhd to acquire a portion of the leasehold commercial land located at Serendah in Selangor, for RM 14.37 million to expand its existing manufacturing facilities/ plant for anticipated growth in customer demand and new products in future (page 39 of the Annual Report 2019).

What is the capacity utilization of MCE’s existing plant in Johor Bahru? What is the expected growth in customer demand and new products in the future?

Reply

This question on MCE’s capacity utilization was also raised in prior years by shareholders.

(i) The details of capacity utilization if disclosed will not be in the interest of the Company when weighed against the benefit of disclosure to shareholders in the interest of transparency.

Everyone knows that all parts Vendors for Proton and Perodua are highly dependent on the two car manufacturers. But the exact contribution from each car manufacturer is not publicly known and at best is a mere guess estimation. For the Company to disclose this information will be to confirm and allow the car manufacturer and our competitors to have such information which is not in our Group’s interest.

(ii) Our Johor Bahru Main Plant will remained focused on electronic/ mechatronic products such as switches, parking sensors, etc while our Telok Gong Plant will focus on bulky and/ or heavy parts such as window regulators, car lightings, etc and served as the logistic hub for the Group to our customers. Our Telok Gong Plant has also been currently expanded to include upstream processes such as plastic injection moulding, spraying and vacuum metalizing.

In view of the above, the space at both locations are already taken up for the existing products/ projects and there will not be sufficient space for the Group to further expand into other products should the need arise.

In addition to this, the land is logistically well located and connected to our major customers. This will allow the Group to sustain its operation in the long term and deliver its products to customers efficiently as well as supporting overseas business and export activities via the major air and sea ports in Malaysia in the future.

3. The other operating expenses has increase by 61% amounting to RM 7.75 million in FY 2019 compared to RM 4.81 million in FY 2018.

   (a) Please provide the breakdown of the expenses.

   Reply

   As in the case with request for disclosure of the details of capacity utilization, the requested breakdown of the other operating expenses if disclosed, will not be in the interest of the Company when weighed against the benefit of disclosure to shareholders in the interest of transparency.

   Such disclosure will open ourselves up to scrutiny on our cost components to both our competitors and main customers.

   (b) Why there was a substantial increase for the expenses?

   Reply

   There was a substantial increase in other operating expenses arising mainly from:

   (i) Higher upkeep of factory & stores, plant & machineries, jig & fixtures and moulds to get ready for new projects.

   (ii) Higher utilities incurred for newly invested facilities and machineries.

   (iii) Higher travelling cost incurred as the operational teams are required to frequently meet up with customers to understand their requirement and resolve issues which occurred for new projects secured.

   (iv) Additional transport cost incurred for X70’s parts exported to China for CBU assembly.

4. As stated in the Chairman’s Statement, the management remained focus on implementing strategies to strengthen and improve efficiency, upgrading facilities and equipment to ensure better quality control and other measures deemed necessary to improve the Group’s competitive edge (page38 of the annual report).

   How much cost has the Company incurred for upgrading of facilities and equipment expenditure for FY 2019?

   Reply

   The Group had spent and capitalized approximately RM 1.4 mil in upgrading of plant & machineries and testing equipment.

   In addition, RM 2.7 mil for upgrading of facilities and equipment are still work-in-progress in FY 2019 and targeted to be completed by Q1 and Q2 of FY 2020.

5. The MCE Group acquired a parcel of freehold commercial land at Mukim Bukit Raja, Daerah Petaling, Selangor to build a healthcare facility (page 39 of the Annual Report 2019).

   (a) What is the Group's progress on the development of this exercise?

   (b) How much money has been spent to build the facility?

   Reply

   At the point of time when the Group acquired the land, the land was a commercial land and earmarked for development of healthcare facility by the Vendor. However, various type of approval is required from relevant authorities prior to the construction of a medical centre which includes approval from Ministry of Health ("MOH") on zoning and set up of medical centre.

   After the proposal on land acquisition was approved by shareholders in year 2014, Management has proceeded with the application of necessary approvals from relevant authorities. To date, Management had secured the approval for zoning, Borang 2, Development Order and Building Plan from MOH and Local Council.

   In view of the challenging business environment particularly with the emergence of a few newly set up private hospitals, the prospects and outlook of the proposed hospital / medical centre business has changed. Management is pursuing the medical centre project with extreme caution. To date, the Group has yet to incur any major investment to commence the construction of the medical centre.

   (c) Why does it take the Company more than five years to complete the said facility?

   (d) What are the prospects and challenges that the Company is expected to face in the healthcare business?

   Reply

   The healthcare business have high capex requirement and also longer gestation period. In view of the Group's current focus on opportunities in the automotive parts business, Management will slow down the diversification into healthcare business.

6. Item No.10(vii) of the Summary of Key Matters discussed during the 3rd Annual General Meeting held on 27 December 2018 states that: -

   "The Chairman of NRC explained that the Group had review and assess the performance of GMD who playing an important role in the Group such as production, marketing, management and etc. and was of the opinion that the remuneration recommended was aligned with his performance. The Chairman of the meeting added that throughout the year automotive industry had facing serious problem and the resignation of senior management had increased and broadened the responsibilities of GMD. Hence, the remuneration was paid in order to reward and retain management even though the Company is making losses".

   (a) How did the GMD help the Company through the "serious problem face by the Automotive Industry" as mentioned in the Key Matters Discussed?

Reply

The above statement made by our Chairman during the 3rd Annual General Meeting held on 27 December 2018 was made against the backdrop of the conditions prevailing during the FY 2018.

As stated on page 36 and 37 of the Management Discussion and Analysis of the 2018 Annual Report,

"In term of the vehicle sales, Perodua maintained its position as the market leader followed by Honda while Proton maintained its' ranking at 3rd but decrease in market shares by 3.4% for period from July 2017 to June 2018.

The financial year ended 31 July 2018 as anticipated proved to be another difficult and a challenging year for the Group. The significant reduction in revenue of RM 17.63 million were mainly due to the combination of the following:

- Reduction in orders from our key customer Proton in view of the decline in their sales volume; and
- Cost down exercise carried out by all our customers.

The reduction in the revenue had an overall negative effect on the efficient scale of production. This was further exacerbated with RM 0.73 million of cost incurred on account of inventory written off, write down of inventory value and trade financing interest resulting in MCE Group registering an unfavorable performance of RM 2.1 million during financial year 2018."

Proton Holdings Bhd ('Proton') which is a key customer, saw ownership and management changes during the financial year 2018 following the entry of Zhejiang Geely Holding Group Co. Ltd ('Geely') as a major shareholder with 49.9% equity in Proton.

Arising from these changes, the Management especially the Group Managing Director spent considerable and significant time in networking, nurturing and building up relationship with the new Key Management of Proton including visits to Geely's headquarters in Zhejiang, China to understand the culture, philosophy, work ethics and plans that Geely has for Proton.

MCE believes that the participation of Geely in Proton is positive and that the strategic turnaround plan implemented by Geely for Proton will in the long term strengthen and improve the fortunes and performance of Proton and ultimately benefit the MCE Group.

The strong commitment towards improving Proton's performance includes the widely known upcoming launch of Proton X70 sport utility vehicle and two yet to be launched new models, including a multipurpose vehicle to replace Proton Exora.

Accordingly, during the financial year 2018, the Group has concentrated on cost cutting measures and prepared for the expected increase in the Government's minimum wage requirement by taking the following measures:

- improvements on efficiency;
- reduction in development lead time;
- considered options to revamp our supply chain;
- upgraded our facilities and equipment to ensure better quality control; and
- semi-automated various processes to reduce the number of workers, cut out human error and improve precision.

All these measures taken and implemented are to ensure the MCE Group builds up its competency, capabilities and efficiency to capitalize on the expected improvements and opportunities that will arise when Proton's strategic turnaround plans crystalises and hopefully translates to improved sales and demand for the Group's products.

All these actions and measures were spearheaded by our Group Managing Director ('GMD') following detailed strategic planning and taking into consideration all material and significant risks affecting the Group's automotive parts business.

The GMD was actively involved in all operational and business processes in particular the business development division to ensure better understanding and relationship networking with its major customers, on their views on Malaysia automotive market and their future plans to expand to ASEAN. This allowed the Group to identify and capitalize on any available opportunity to expand and grow together with its customers in terms of market and products.

The GMD besides being in constant and active communication with its customers on their needs and requirements, was the driving force leading the Management in meeting the challenges to continue securing projects for the Group.

The efforts and endeavour of our GMD and Management has led to its wholly owned subsidiary, Multi-Code Electronics Industries (M) Bhd ('MCEIB') being awarded 'Best Corporation Award' by Proton.

(b) What is the reason for the increase in senior management staff turnover?

<u>Reply</u>

MCE wishes to clarify that there is no increase in senior management staff turnover.

As Chairman, I merely emphasized that the responsibilities of our GMD had increased arising from the resignation of a senior management personnel.

7. Information provided in the Annual Report under Profile of Directors' contradicts the Corporate Governance report (Practise 4.2) regarding the tenure of an Independent Director who exceeded a cumulative term limit of nine years.

   The Annual Report stated that both Encik Shamsuddin @ Samad bin Kassim and Mr Tai Lam Shin were appointed to the Board on 10th June 2016 while the Corporate Governance Report states that both of them need to seek shareholders' approval to be retained as an independent director.

   Please explain.

   <u>Reply</u>

   Both En. Shamsudin @ Samad Bin Kassim and Mr Tai Lam Shin were appointed to the Board of MCE Holdings Berhad on 10 June 2016.

   MCE Holdings Berhad was listed on 1st July 2016 pursuant to an Internal Reorganisation by way of a Members' scheme of Arrangement under Section 176 of the Companies Act 2016 undertaken by Multi-Code Electronics Industries (M) Berhad ("MCEIB") culminating in the transfer of the listing status of MCEIB to MCE Holdings Berhad.

   En. Shamsudin @ Samad Bin Kassim was first appointed as a Director of MCEIB on 26 February 2009 while Mr Tai was appointed as a Director of MCEIB on 29 January 2008.

   Although both En. Shamsudin @ Samad Bin Kassim and Mr Tai's tenure as Independent Directors based on their appointment date of 10 June 2016 in MCE does not exceed 9 years, their tenure as independent Directors based on their appointment dates in MCEIB, exceeds the 9 years tenure prescribed under MCCG.

Prior consultation with Bursa Malaysia Securities Berhad at the point of time of transfer of listing status had concluded that the determination of the term of tenure of the Independent Director's should take into consideration their term of tenure in MCEIB as well.

Further matters raised

The representative from MSWG, Encik Norhisam Bin Sidek further enquired on the following :

a. Is there any the relationship between Dr Goh Kar Chun, the Group Managing Director and Ms Goh Anne, the Group Executive Director and Chief Financial Officer.

   Reply

   Dr Goh Kar Chun disclosed that he had been asked this question by various parties before and disclosed that there was no family relationship between him and Ms Goh Anne.

b. The appointment of Ms Goh Anne as a Group Executive Director has resulted in the remuneration of Directors increasing. How will the appointment of Ms Goh Anne as Group Executive Director benefit the Group?

   Reply

   Dr Goh Kar Chun explained that although Ms Goh Anne's experience and background has been in finance and accounting, the Group Managing Director disclosed that having worked with her over the last 4 years since she joined the Group, he was of the opinion that Ms Goh Anne had demonstrated her versatility and talent in assisting and contributing to the operational efficiency and performance of the Group. Apart from the accounting and finance and administration, and human resource functions, she had contributed to the operational effectiveness and functioning of the Group's operations. As Group Managing Director he had then discussed the possibility for her to take up the challenge to assume the role of Group Executive Director and she had accepted the challenge and thus far, the Board had been pleased and satisfied with her performance as Group Executive Director.

   The appointment of Ms Goh Anne may not have resulted in improved profits of the Company but her contributions had improved in strengthening the Management, the operational processes and systems in the Group.