

MCE HOLDINGS BERHAD

Registration No. 201501033021 (1158341-K)

(Incorporated In Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED DURING THE 5TH ANNUAL GENERAL MEETING (“ÄGM”) OF MCE HOLDINGS BERHAD DULY CONVENED AND CONDUCTED ENTIRELY THROUGH LIVE STREAMING FROM THE BROADCAST VENUE AT PT 119984 (LOT 68745) CANANG EMAS 7, OFF JALAN TELOK GONG, 42000 PELABUHAN KLANG, SELANGOR ON TUESDAY, THE 22ND DAY OF DECEMBER, 2020 AT 9.30 AM

During the AGM, the Chairman informed the shareholders present that the Company had received a letter dated 16 December 2020 from the Minority Shareholder Watch Group (“MSWG”) and a shareholder.

The Chairman requested the Group Executive Director cum Chief Financial Officer to present the questions/queries raised by MSWG and the shareholder together with the Board and management’s response for the benefit of shareholders present at the AGM as follows:

A. Minority Shareholder Watch Group

Operational & Financial Matters

1. In FY2019, the Group had acquired a portion of the leasehold land comprising mixed industrial, commercial industry and residential development knowing as “UMW HVM Park Serendah”, located at Serendah Negeri Selangor. The acquisition will enable the Group to have sufficient land and space to expand its existing manufacturing facilities/ plant, if deemed necessary to cater for anticipated growth in customer demand and new products in future (page 43 of Annual Report 2020 (“AR2020”).

a) There has been no development progress for the Bukit Raja land acquired in FY2014 and earmarked for a healthcare facility, Are there any concrete plans for the “UMW HVM Park Serendah” land?

Reply:

The Group is currently expanding both vertically and horizontally and it is anticipated that the Group will require more space for its expansion. The Management intends to build another manufacturing plant at UMW HVM Park Serendah to cater for the additional products and processes at an appropriate time.

The UMW HVM land is an investment for the long term and to ensure the Group’s sustainability by acquiring the land at current market value compared to what it may cost in future.

b) What is the Group’s current status/ progress in terms of expansion of its manufacturing facilities/ plant on the “UMW HVM Park Serendah”?

Reply:

The Developer is in the midst of applying and providing the subtitle of the purchased land to the Group before Management proceed to the next phase of the planning.

c) How has Covid-19 pandemic impacted the said plans?

Reply:

The automotive industry has steadily recovered during the Covid-19 pandemic with the assistance of stimulus measures introduced by the Government to spur and aid the economic recovery. However, the success of these stimulus measures to sustain consumers' confidence and purchasing power cannot be determined with any certainty at this stage. Hence, Management will pursue any expansion plans with extreme caution after proper diligence and strategic considerations have been undertaken. The Board will only initiate and commence any concrete plans after it has undertaken the necessary risk assessment and is confident of the positive outcome of any plans.

2. The Group's sales and production volume are mainly driven by the car maker's demand (page 38 of AR2020).

Given that the Group is highly dependent on its 3 major customers (Note 34.3, page 110 of AR2020), what are the plans, in the next 18-24 months, to expand the Group's customer base?

Reply:

The Management have been continuously and actively seeking opportunities and building network for the purposes of penetrating into other car makers over the years.

The automotive industry has a high entry barrier and any potential new customer will need to assess the Group's abilities especially its product specification, production process and quality control. Thereafter, they would need to seek their holding company or Head Quarters approval (which normally is based overseas). This process can take from few months up to few years before any business can be awarded to the Group.

3. The Group operates predominantly in Malaysia and accordingly, the information by geographical segments is not presented (page 43 of AR2020).

What are the Group's plans in terms of securing new projects and exporting Original Equipment Manufacturer ('OEM') products to overseas?

Reply:

Management is continuously and actively working with overseas business partner to seek opportunities to secure any business overseas. So far, the Group are exporting OEM products to Indonesia and Saudi Arabia for Toyota and Daihatsu models.

Besides this, the Group through one of its' major customer is exporting electronic products to Japan,

As the export sales volume is considered immaterial compared to total sales, this is not reflected and presented in AR2020.

4. **In order to maintain the competitiveness in the local and global automotive market, the Group will continue its existing push to enhance its product technology by upgrading its existing production facilities and also mitigate increasing costs through its various cost reduction initiatives which includes improvement of production processes and productivity together with realignment of its supply chain (page 47 of AR2020).**

- a) **What is the level of automation on the Group's production facilities?**

Reply:

For production line catering for high volume products which normally at upper stream, Management had upgraded the facilities to fully/ semi auto in respect of certain processes in order to reduce human interference and to reduce the labour cost as well as to maintain consistency of the product's quality.

For product line with low volume, mostly at downstream, primarily assembly lines, Management had conduct an internal study and it was found that the Return on Investment does not justify the investment. Hence, these product will remain labour intensive.

- b) **To-date, how effective are the Group's various cost reduction initiatives? What are the results achieved to-date in terms of cost saving?**

Reply:

Generally, the quality and production cycle time have improved. This is in line with the improvement in the financial result of Quarter 4, FY 2020.

5. **Share of losses of any equity accounted associate, Fortech Technologies (Malaysia) Sdn. Bhd. Is RM 390,220 (FYE2019: Nil) (page 61 of AR2020).**

What were the reasons for the loss and is the associate expected to turn around in FY2021?

Reply:

Fortech Technologies (Malaysia) Sdn. Bhd. is newly incorporated company undertaking the Group's joint venture with 2 Taiwanese companies with the intention to penetrate into a new product i.e. camera for Malaysia and ASEAN market. Unfortunately, upon completion and commencement of the setup, the world is facing Covid-19 pandemic which had resulted in the delay in concluding the potential contract.

As the current and future trend of car's design and function requires various types of camera products, the Management will continue pursuing this business with the assistance of technical expertise from its 2 business partners.

Corporate Governance Matters

1. **The Group continued to be loss-making and recorded a loss after tax (“LAT”) of RM 5.79 million (FYE2019: LAT of RM 6.81 million) (page 45 of AR2020). The Group MD’s remuneration was RM 1,220,977.10 (RM1,337,685) (Corporate Governance Report).**

a) **The remuneration in FYE2020 appears to be on the high side. Does the Board plan to review the Group MD’s remuneration for FYE 2021?**

Reply:

Your Board would like to assure all shareholders that it is keenly aware of the criticism and issues relating to director’s remuneration afflicting some listed issuers over the past few years.

MCE has a remuneration policy which is available on our website which serves as a guide for the Nomination & Remuneration Committee and Board to ensure that the remuneration and compensation package of the Board and Senior Management are reflective of the Group’s business complexities and interest as well as skill and experience required which is aligned to the strategic objective of the Group and that they are aligned with shareholders’ interest with an appropriate balance between short term and long term goals.

The NRC had reviewed the remuneration package for the Group Managing Director on an annual basis, and during the recent review undertaken was of the opinion that the Group’s Managing Director remuneration was fair, reasonable and commensurate with the contribution and level of responsibilities undertaken. The Board had also concurred with the NRC’s findings and recommendations.

For shareholders information, the Group Managing Director did not receive any increments or bonus for the financial year 2020.

The NRC and Board concluded its opinion taking into consideration the following:

- *MCE has a small Board and there are only two Executive Directors. The Group Managing Director is responsible for the overall day-to-day business of the Group. Dr Goh, our Group MD is fully focused and devoted to his role and is not engaged in any other significant material business apart from MCE.*
- *The Group’s results is reflective of the downturn in performance of the automotive industry over the past 2 years and are due to circumstances beyond the Group MD’s control.*

b) **Given the losses in the year, and the challenging operating environment caused by the COVID-19 pandemic, will the Group MD be taking the lead with a reduction in remuneration?**

Reply:

The NRC and Board will consider all options in accordance with its Remuneration Policy and take whatever appropriate actions necessary.

For shareholders information, during the period from March 2020 to June 2020 when the Group’s operations was affected by the Covid-19 pandemic and up to this date, the Group did not introduce any salary deductions for any employees of the Group.

This was in view of the recovery in demand for the Group's products arising from improvements in the outlook for the automotive industry. To ensure that the Group is able to capitalise on the various strategies put in place together with the recovery of the automotive sector, the Board was of the view that the Group's Human Resource including its Executive Directors needs to be properly incentivised and motivated.

To consider salary reductions at this stage of recovery will negatively impact on the moral and motivation of its Human Resource function.

B. By a Shareholder

- 1. Please give us a perspective of the Company's Plans, Actions and Timeline to reput sustainable profitability and dividend payments to share holders going forward. What are its prospects and challenges confronting our Company?**

Reply

The Board has already given you a summary of the Company's plan, actions taken together with the challenges and the prospects under the Business Outlook and Prospects section of the Management Discussion and Analysis statement on page 47 and 48 of the Annual Report.

In light of the current ongoing uncertainties arising from the Global Covid 19 Pandemic, the Board will be continuously reviewing its existing strategies and action plan. The Board will continuously review its strategic plan taking into consideration the current challenges faced by the automotive industry together with the unfolding challenges arising from the Covid-19 pandemic which is unprecedented

To add onto what has already been disclosed and set out on pages 47 and 48 of the Annual Report, the Board intends to position itself to be a major regional supplier of automotive electronics and components.

To achieve this, the Group intends to :

- relentlessly acquire advanced technologies and position ourselves to develop state-of-art products. Some of these plans such as the MOU with Juoku Technology CO., LTD. of Taiwan, the MOU with Malaysia Automotive Robotics And IoT Institute forms part of our strategies to move forward.
- penetrate markets in the Asean region and the Middle East.
- Follow and accompany its major customer expansion into new markets.
- Continues investments into facilities for research and development and human resource development

The Board is confident that with the current strategies and plans together with future plans to be mapped out and taken going forward, the prospects for the Group should be brighter in the longer term and enable the Group to return to profitability and resumption of dividend payments to shareholders.

Further matters raised

The following questions was raised by the shareholders via Question and Answer Panel during the AGM:

- a. **How much has the Company raised from the recent private placement? How was the fund raised being utilised as at todote?**

Reply

The Group Executive Director cum Chief Financial Officer pointed out to shareholders that the disclosure had been made under Additional Compliance Information on Page 24 of the Annual Report, that the Company had raised approximately RM2.22 million and partially utilised as working capital for new projects.

- b. **The Company has been aggressively expanding its capacity and equipment to prepare itself for more orders in the future from both Proton & Perodua. In this regard, will there be more substantial capex to be spent?**

Reply from Group Managing Director

The Company had made announcements in regards to the new projects secured, mainly focusing on the Proton and Perodua's new projects.

Over the years, the Company had progressively invested on the facilities and equipment and expansion of capacity hence the Company can comfortably cope with the new demand.

The Board believes that the Company is in a strong position and hopefully will be invited to tender for more new projects to supply on mechanical and mechatronic parts. If an opportunity arise, the Company will plan to invest further on the capital expenditure.

There are always possibilities for the Company to spend for substantial capital expenditure in future however there was no detail planning at this juncture.

- c. **The Company turn around with a quarter profit of RM710k in the Q4FY2020. Will the Board foresee that such performance can be continued in FY2021? What's the prospects of the Company in FY2021?**

Reply from Group Managing Director

The Company had been impacted by the various Movement Control Orders imposed by the Malaysian Government. However the sales volume had been boosted due to the promotion provided by the customer and sales tax exemption on locally assembled cars (100%) and imported cars (50%) from 15 June 2020 to 31 December 2020.

Going forward, the performance of the Company will depend on the general economic conditions in Malaysia and response of the customers to the economic stimulus packages introduced in the form of more promotion and new launches.

- d. **How's the progress made thus far for the various strategic MoU entered as highlighted in page 48 of the annual report?**

Reply from Group Managing Director

The Company Entered into a Memorandum of Understanding (“MOU”) with Juoku Technology Co., Ltd. (“JUOKU”) to penetrate into lamp product as it fits in to Company’s strategies and the production line which is similar to the existing mechatronic form for plastic, electronics and assembly.

The Company had supplied interior and exterior lamps for Proton X70, Proton X50 and other projects and to supply exterior lamps for Perodua projects too

With the technical assistance from Juoku, it may shorten the learning process for the company venture into design, develop and supply exterior lamp ie. head lamp and rear combination lamp and provide more confidence to customer on the lamp products.

The MOU with Malaysia Automotive Robotics And IoT Institute (“MARii”) is focusing on the application of camera function ie. Front camera, back camera and around view camera (360 degree camera) as well as developing an autonomous driving system.

The Government always intended to develop auto electronic eco system which the automotive industry is moving onto in future.

The Company is one of the largest electronic auto parts supplier in Malaysia and would want to be involved in the development of auto electronic eco system with the Government.