



AMTEL HOLDINGS BERHAD

199601037096 (409449-A)

Annual General Meeting

15 July 2020

MSWG

QUESTIONS & ANSWERS

STRATEGY & FINANCIAL MATTERS

Question 1

In FYE 2019, the Group continued to focus on its core ICT business, especially in the supply of Telematics and automotive related accessories and services but with greater emphasis in products design and enhancement (Chairman's Statement and MD&A – page 14).

(a) What competitive advantages does the Group have in Telematics and automotive related accessories and services compared to its peers?

We are a qualified Tier 1 supplier. Our subsidiary, Amtel Cellular Sdn Bhd, has been awarded with IATF 16949:2016 certification (a globally recognised Quality Management System for the automotive industry) by Lloyd's Register Quality Assurance Limited since 2011. We have our own in-house research and development team that develops new solutions and services specifically tailored to meet our customers' requirements.

STRATEGY & FINANCIAL MATTERS

Question 1

In FYE 2019, the Group continued to focus on its core ICT business, especially in the supply of Telematics and automotive related accessories and services but with greater emphasis in products design and enhancement (Chairman's Statement and MD&A – page 14).

(b) What progress or achievement has the Group made in products design and enhancement and any new products introduced?

Product design and engineering is our expertise and we have been very successful to date. We plan to launch one new product in the first quarter of next year. Another new product is currently under development.

STRATEGY & FINANCIAL MATTERS

Question 2

In FYE 2019, the Group incurred capital expenditure amounting to RM1.49 million for the purchase of investment properties and had paid a deposit of RM1.89 million to purchase the Glenmarie's office/factory building (page 15).

(a) What is the current capacity utilisation rate?

We are currently operating close to full capacity at our rented premises.

(b) Are there any increases (or plans to increase) production capacity?

Yes, we plan to increase our production capacity to cater for the launch of our new product by first quarter of next year and also for the export market of our existing products.

STRATEGY & FINANCIAL MATTERS

Question 3

The TIS segment continued to deliver positive results to the Group although segment revenue has retreated to RM9.2 million from RM10.93 million last financial year. Despite reporting less revenue, this segment saw an increase in profit after tax in FYE 2019 due to better cost management and the implementation of various cost reduction initiatives (page 15).

- (a) What are the major cost management and cost reduction initiatives?
What are the achievements to date (please quantify where, possible)?**

We did a method study and work flow analysis during the year.

The main achievements on the cost reduction initiatives are:

- (i) Better workflow;
- (ii) Optimize the use of resources through sharing with our subcontractors; and
- (iii) Increased operational and staff efficiency via multitasking among project personnel. For example, while waiting for the next splicing works, the splicing team personnel is deployed to assist in supervising projects sites and/or cable pulling works.

STRATEGY & FINANCIAL MATTERS

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(b) Going forward, are these achievements sustainable? Can they be improved further?

Yes, we believe these achievements are sustainable as the cost reduction initiatives are an ongoing process. Our operation processes are reviewed regularly with the view to improve further.

STRATEGY & FINANCIAL MATTERS

Question 4

The success of the ICT products and services is highly dependent on the local Automotive industry where pricing, quality and the type of products and services offered are vital factors. The Group plans to continue to enhance its competitive strengths through various localisation efforts and at the same time, improve its products range and services while broadening its customers base (page 15).

Please update shareholders on the:

- (a) Localisation efforts (including addressing foreign currency risk due to exchange rate fluctuation as some component purchases and services are transacted primarily in USD and Renminbi - see page 16)**

Our priority is to make our products locally or source supplies locally whenever possible to help boost the local economy and local employments. As we step up production from our new premise, we expect our local production and transactions with local suppliers to increase accordingly.

STRATEGY & FINANCIAL MATTERS

Question 4

In our ICT business, all products have one or more imported components. We normally buy raw materials two months ahead of production. To mitigate the risk of foreign currency fluctuation, we would normally buy forward the foreign currency when the rate hovers within certain thresholds (a range of rates that will give us the required margin) set earlier at the time when we quoted our selling price. If the fluctuation in currency rates is so sudden and significant that it would likely pose a threat to our performance, we will talk to our suppliers and customers to share out the risk in an equitable manner.

So far, we consider this risk manageable and we have a designated finance team monitoring the exchange rates movements on a daily basis.

STRATEGY & FINANCIAL MATTERS

Question 4

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Please update shareholders on the:

(b) Product range and services; and

We are planning to launch two new products next year. One product is slated to be launched in the first quarter of next year and the second product at the end of next year.

STRATEGY & FINANCIAL MATTERS

Question 4

The success of the ICT products and services is highly dependent on the local Automotive industry where pricing, quality and the type of products and services offered are vital factors. The Group plans to continue to enhance its competitive strengths through various localisation efforts and at the same time, improve its products range and services while broadening its customers base (page 15).

Please update shareholders on the:

- (c) Broadening of its customers base (including addressing the customer concentration risk as stated on page 137 where 3 major customers contributed substantially to the Group's revenue).**

We are mindful of the customer concentration risk and has been pro-actively seeking out new customers. We started our automotive business with just a single customer and have to-date expanded to 5.

We already have a plan in place to export our products and services to our neighbouring countries, only to be held back temporarily due to COVID-19 pandemic.

STRATEGY & FINANCIAL MATTERS

Question 5

The recent launch of the National Automotive Policy (“NAP”) 2020 saw three new advanced technology elements incorporated, namely Next Generation Vehicle, Mobility as a Service and Industrial Revolution 4.0. The launch of the third national car project provides a great opportunity for participation by domestic companies in the local and global supply chain, engineering activities and enhancement of exports (page 16).

(a) Please elaborate on the specific opportunities available to the Group?

Our products augur well when the third national car project comes on stream. We are closely monitoring the development of this opportunity to register ourselves as one of their suppliers for certain ICT and automotive accessories products.

(b) What are the Group’s plan to expand overseas?

We have plans to export our telematic products to our neighbouring countries but the plans are now put on hold temporarily due to the COVID-19 pandemic.

STRATEGY & FINANCIAL MATTERS

Question 6

Despite challenges in pricing strategies and keen competition, the TIS segment will continue to actively bid for more contracts coming from the infrastructure development and fiberisation initiatives. With adequate manpower and resources at its disposal and its management team's vast experience in this field over the years, the Group is well positioned to take on additional civil infrastructure contracts works (page 17).

(a) What is the current contract value?

We currently have close to RM16 million worth of contracts in hand.

(b) When are they expected to expire?

70% of the current projects are expected to be completed within financial year ending 2020. The remaining 30% is expected to complete in year 2021 and 2022.

(c) What is the current tendered amount, if any?

Approximately RM26 million.

STRATEGY & FINANCIAL MATTERS

Question 7

Based on our calculation, for FYE 2019, gross profit margin was 23.5%, while it was only 16.8% for FY 2018 (page 57).

(a) What were the main reasons for such an improved gross profit margin in FY 2019?

The improved gross profit margin is contributed mainly by the ICT segment. The main reasons are as follows:

- (i) Some of our ICT products managed to achieve economies of scale which led to better margins and
- (ii) In FYE 2018, the remaining intangible assets amounting to RM581,355 were fully amortized which accounted for around 1.5% of the GP margin. There was no amortization of intangible assets in FYE 2019.

(b) Is the good gross profit margin sustainable?

We are still assessing the financial impact due to the recent COVID-19 outbreak & Movement Control Order (MCO). Otherwise, we are confident that the gross profit margin is not significantly affected.

STRATEGY & FINANCIAL MATTERS

Question 8

Given the COVID-19 pandemic, how will you ensure that your supply-chain will not be affected in terms of timeliness, sufficiency and cost?

Based on our customers' forecast sales, we will normally stock up certain vital materials and components ahead of production.

For local materials and components, we usually keep a buffer stock of 2 weeks to 1 month of supplies.

For imported materials and components, our suppliers would normally keep stock to meet 1 to 2 months' production and they are required to report the status of our inventories from time to time.

CORPORATE GOVERNANCE MATTERS

Question 9

How do you plan to address the downward pressure on operating performance especially the bottom-line performance and prepare yourself to face the new business landscape?

We reckon the COVID-19 outbreak, coupled with its prolonged MCO, will have an adverse impact on the Group's operations.

While the various risks and financial impact associated with COVID-19 pandemic are currently being assessed, we have already begun exploring various options with the view to develop relevant strategies to combat and cushion the potential impact that may arise therefrom.

Nevertheless, the Group shall remain vigilant in monitoring the Group's performance moving forward. We shall endeavour to navigate through this challenging period by exercising prudence in our business dealings, implementing strict costs control and appropriate austerity measures to safeguard the Group's financial and operational performance.

Thank You

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