

SUMMARY OF THE KEY MATTERS DISCUSSED 17TH ANNUAL GENERAL MEETING ON 17 JUNE 2019

The following comments and questions were raised at the Annual General Meeting and answered by either the Chairman of the meeting or the Management :-

1. (i) Whether all the Group's factories were running on full capacity;
- (ii) The reasons for the increase in inventories and trade receivables and ways to reduce them;
- (iii) Reasons for not disclosing the aging report for trade debtors in the Financial Statements;
- (iv) How much was allocated to Research & Development ("R&D") expenditure compare with the Group's turnover; and
- (v) Absence of the aging report for trade debtors in the Financial Statements and the credit terms given to customers as well as impact of trade receivables on the Group's financial performance.

Response

- (i) The earlier two maltodextrin production lines are running at almost full capacity and the Group had started to embark on expanding its production lines to cater for future needs;
- (ii) The increase in inventories and trade receivables was due to the increase in turnover coupled with the volatile raw material prices, which resulted in more raw materials being purchased and stored to meet committed sales orders as well as to meet the increasing customers' demands. The Group's External Auditors ("the EA") had reviewed and audited the financial statements of the Group, including the trade receivables and the provision for doubtful debts, and concluded that no impairment on trade receivables was necessary for the current audited financial year;
- (iii) The reason is the Board and EA view the disclosures made in the Audited Financial Statements ("AFS") already provided a fair and sufficient presentation of the state of affairs of the Group's trade receivables as at the end of the reporting financial year. The Board had taken note of the suggestion and shall discuss with EA on more meaningful disclosures for users of the AFS in the future;
- (iv) The Group had always placed importance in research and development to improve the quality of products to meet the ever-changing customers' requirements and would continue to invest in R&D to gain competitive advantage over competitors; and
- (v) The credit terms given varied from customer to customer and averaged at 90 days, which is common and in line with the industry business practice.

The External Auditors, explained that under the newly introduced MFRS 9 which was first adopted by the Group for its financial statements for the financial year ended 31 December 2018, the impairment methodology for financial assets (which includes trade receivables) had changed from 'incurred losses model' to "expected credit losses model". The Group's impairment policy was disclosed under Note 10 of the Notes to Financial Statements on page 82 of the Group's 2018 Annual Report. The Board added that the EA had reviewed the assessments made by the Management on the trade receivables accounts and concluded that no adjustment was required to be made to the impairment allowance of RM956,000 for trade receivables which was brought forward from the preceding financial year as the impact of expected credit loss was insignificant. The EA took note of shareholders' comments to incorporate disclosure of aging report for trade receivables in the Group's future financial statements and would discuss the same with the Group.

2. (i) Competition in the food and beverage industry and who are the large players in the industry;
(ii) How long it will take before the Group can benefit from the lower material prices as compared with the preceding financial year; and
(iii) The utilisation rate of the Group's factories.

Response

- (i) The Group is always mindful about the growing threat of competition in the industry and would continue to build on the Group's core competency to develop new and unique products to serve the ever-changing customers' requirements. At the same time, the Group will balance its goal to maintain or increase its market share and also make reasonable returns. The Board is of the view that it is not appropriate to disclose the names of the large players in the industry as the Board could not speak on their behalf;
- (ii) The main raw material required by the Group is tapioca starch. The management clarified that the main raw material price was still high albeit stable at an elevated level due mainly to lower harvest as a result of weather, pest infection and competition for raw materials, amongst other reasons. In order to cushion the impact of the rising raw material prices, the Group continues carrying out aggressive adjustments to its product selling prices and continued with its business strategies to develop good quality products and services to meet customers' needs and serve customers better; and
- (iii) The Group currently have three production lines of maltodextrin products. The earlier two maltodextrin lines are running at almost full capacity while the third maltodextrin production line has a production capacity of 2,200 tonnes per month.
3. A shareholder of the Company suggested that the Company conduct a business and operations presentation during every Annual General Meeting to help the shareholders understand the Group's performance and business plans. He then enquired on the following matters:-
- (i) Why the Management was not able to foresee the increase in material prices and whether there was any hedging policy adopted by the Group on raw materials and what are the Group's plans to mitigate the increase in the main raw material prices; and
- (ii) Given that the Group's total cash holding was lower at RM9 million as at 31 December 2018 as a result of higher inventories and trade receivables compared with the preceding financial year of RM20 million, how much capital expense was expected to be spent on expanding its plants.

Response

- (i) The sudden unanticipated surge in the main raw material prices started from the last quarter of the financial year 2017 and the drastic increase in the raw material prices, which remained firm at those levels in the financial year 2018, was rarely seen in the past five years. The main raw material prices had now stabilised, albeit at an elevated level. The main raw material, tapioca starch and its prices are subject to changes depending on the forces of demand and supply, among others. The Group would continue to monitor the raw material prices closely and stock up raw materials at comfortable levels to meet customers' needs.

To mitigate the impact of the rising main raw material prices, besides adjusting the products' selling prices, the Group's Research and Development unit would also continue to develop alternative raw material in order to reduce reliance on the latter. The Group maintains a stock holding policy with the objective to meet continuous supply of products to customers.

- (ii) The Group was expected to spend up to RM35 million over a three-year period to expand its plants, warehouse facilities and a new office building. These capital expenditures would be financed through internally generated funds and credit facilities already made available to the Group.

4. Given that the current utilisation rate of the third Maltodextrin production line is low at 30%, what would be the expected utilisation rate and the timeline and strategy to achieve the target.

Response

The first two Maltodextrin production lines are running at almost full capacity. The third Maltodextrin production line is designed to cater for incremental increase in orders. The management is working very hard to close more orders but before orders could be closed, prospective customers, who are mostly from overseas, would need to carry out audit on the factory to ensure that the Group's factory meets their requirements. The audit and approval process could take months to complete and varies from one customer to another.

5. A shareholder of the Company, made reference to the five-year Group financial highlights in the 2018 Annual Report and sought clarification on the reasons for the decline in profit after tax and return in equity even though revenue had grown from year to year.

Response

The third Maltodextrin production line is still in a gestation period and subject to customers' audit. As explained earlier, the management is working very hard to increase the utilisation rate of the third factory by securing more orders. Adding to this, it was clarified that return on equity had reduced as a result of lower profit after tax. As explained earlier, steps were being taken to reduce the impact of the rising raw materials costs, such as adjusting the products selling prices and developing alternative raw material in order to reduce reliance on the latter.

6. A shareholder of the Company, enquired on the Group's competitive edge and the impacts of the soon to be implemented Sugar Tax on the Group.

Response

In order to stay ahead of competition, producing quality products is important and the Group would continue to build on its core competency to develop new and unique products to meet the ever-changing customers' requirements. The Sugar Tax is not expected to have material impact on the Group as the Group is a food and beverage ingredient manufacturer.