PNE PCB BERHAD
Registration No: 198801000741 (168098-V)
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE THIRTY-SECOND ANNUAL GENERAL MEETING OF PNE PCB BERHAD HELD ON WEDNESDAY, 23 SEPTEMBER 2020

REPLY TO QUESTIONS FROM THE MINORITY SHAREHOLDERS WATCH GROUP

Mr. Kua Khai Loon presented to the Shareholders, the questions received from Minority Shareholders Watch Group ("MSWG") and the response to MSWG as follow:-

Q1. The Group has been registering declining revenue over the last 3 financial years and losses over two years.

How does the Group plan to increase its revenue? When is the Group expected to be profitable?

A1. The Group has achieved slight improvement in the 3rd Quarter (October – December 2019), but unfortunately, due to the Covid-19 from February – May 2020, the Group has not been able to maintain the Improvement Upward Trend for the 4th Quarter (January – March 2020), mainly due to the decreasing orders during the Chinese New Year holiday in China followed by the Covid-19 effect. PNE China Plant is not able to operate smoothly for almost 2-months starting from Chinese New Year long holiday and the limited return of employees due to the Covid-19 restriction which have affected PNE's output and revenue. Customers' Orders had also reduced during this period. Malaysia plant also need to be shut down for almost 6-weeks (from 17 March 2020 to 24 April 2020) due to the Movement Control Order (MCO) Restriction from Malaysia Government.

The Group has been working on few potential new Business Modules since mid-2019. Firstly, the Group had secured a full Box-Build Assy. Project for a US customer on Solar Phone Charger. Production facilities are ready and samples already submitted to the customers for evaluation. However, due to Covid-19 pandemic, customers have delayed the launching of the product in the market. Secondly, the Group had also invested in a complete Photo Imaging Printed Circuits Boards ("PCB") Manufacturing line which will increase the product range available for the customers. The Machines have already been received in August-September 2020, and currently waiting for the machines vendors to setup and activate. However, due to Covid-19 and MCO, some of the appointed vendors are in the overseas and temporary not able to enter freely into Malaysia to perform the installation. We estimate to get the machines running by March 2021.
Based on the current worldwide market situation due to Covid-19, the Group is conservatively aiming for profit in financial year 2022. As for the financial year 2021, the Group will be aiming to breakeven.

Q2. The growth of the electronics industry has a direct correlation to the demand for PCB's electronic components. (Page 39 of Annual Report – AR).

What is the outlook and expected growth of the electronics industry for the rest of 2020 and the year 2021?

A2. The current worldwide Covid-19 situation have caused a considerable impact to all industries, including Electronic Industry. The reducing demand and delay of new Models launching from consumers electronics manufacturer due to the unknown impact of Covid-19 in the long run will be the main reason for the expected decline in the electronics industry. However, with the long term business relationship of the Group with the existing customers, the Group is confident to maintain the existing share of business that will at least prevent further decline of the Group's revenue. As for the development and growth of 5G, iOT, etc in the current and future electronics market, the Group will not be able to participate as the product manufactured are not leveled with the technology required.

Q3. Technological advancements within the electronics industry have led to new product advancements in the market. Consumers are highly receptive to these new product introductions, resulting in relatively shorter product life cycles for most electronic products, especially consumer electronics such as computers and smartphones. (Page 39 of AR).

(a) To what extent has such advancements impacted the performance of the Group?

(b) How has the Group's R & D unit been able to deal with such issues and has the Unit been further strengthened?

A3. (a) The Group have been manufacturing and supplying product (Single Layer PCB) to mostly Home & Consumer Electronics Products and these category of products will survive for many more years before they will be replaced. The advancement of electronics technology with more sophisticated design are usually paired with 2-Layers or more layers PCB products, which is currently not manufacturable by the Group Production Capability. The impact to the Group will be that the current product selling unit price are transparent in the market and the competition from the similar group of competitors are very high. Performance of the Group is highly dependent on the volume (quantity) of orders secured & operating cost effectiveness internally.

(b) As the restriction of capability comes from the machineries, the Group R&D unit is very much limited in dealing with the growing demand from the technology advancement of the Electronic Market. Unless huge investment is implemented to setup more advance Production capability, the R&D team will be restricted to focus only on the reduce of production cost, reduce rejection, and increase efficiencies.

Q4*.* Group gearing ratio has increased significantly from 3.4% in FY2019 to 15.6% times in FY2020. The gearing ratio increased due to the increase in borrowings during FYE 31 March 2020, in order to finance the acquisition of assets and its operations. (Page 36 of AR).

Going forward, as a result of the higher gearing ratio, the Group will incur significantly higher finance costs which would adversely impact its financial performance. What is the Group's optimal gearing ratio and how does the Group plan to achieve the optimal gearing ratio?

A4. The increase in gearing ratio during the year mainly due to adoption of MFRS 16, increase in borrowing to finance the acquisition of assets and operation as well as decrease in retained earnings from RM63.83 million to RM57.16 million due to loss after taxation during the financial year. The adoption of MFRS 16 has increased the finance lease payables to RM5.5million.

The optimal gearing ratio for the industry is below 25% whereby the Group current gearing ratio is 15.6%. In order to ensure the gearing ratio is in an optimal position, the management will manage the cash flow of the Group, as well as to keep track of the financial ratio of the Group. The finance cost of the Group will increase due to increase in gearing ratio, however, it will not give significant impact to the financial of the Group since the finance lease payable mainly consists of long term finance lease over 1 to 5 years and the finance lease is being utilized to increase the efficiency of the operation and directly contribute to better earning in the future.

Q5. Gross profit margin dropped significantly from 10.8% in FY 2019 to 6.3% in FY 2020. (Page 48 of AR).

What were the major reasons for the decline? How does the Group plan to address the drop in gross profit margin?

A5. The decrease in gross profit margin is mainly due to decrease in sales during the year especially due to Covid-19 impact. Since manufacturing industry involve a lot of direct fixed cost such as labor cost, rental, and depreciation cost, decrease in sales has affected our gross profit margin during the year since we cannot fully utilize on the economics of scales for our production.

Secondly, the drop of sales is also due to the on-going US-China Trade War which have affected some end customers order for the Group in China Plant.

The Group have in the 1st and 2nd Quarters of the Financial Year 2021 invested few automation machineries in replacing man power. This steps is to reduce the reliance on human while maintaining consistency in production cycle time and output 24/7. In the long run, the investment in automation will increase productivity, reduce production cost, and improve stability in operation. This will certainly bring improvement to the gross profit margin.

Q6. In May 2020, the Company announced that it will be developing air ventilators in collaboration with Sanichi Technology Berhad, Arzon Solar LLC and AT Systematization Berhad through a joint venture with the abovementioned parties. The development of the air ventilators is expected to generate a new revenue stream for the Group following the surge in demand for air ventilators due to the Covid-19 pandemic.

(a) Does the Group intend to turn this business into a significant segment of its business operations?

(b) What is the latest development in relation to the joint venture? Which among the abovementioned JV partners has the know-how or technology for this business?

A6. (a) At the present stage, the Group will still focus on PCB Manufacturing as the main business segments.

(b) Currently, we are in the prototyping stage of the ventilator. It will be expected for the 1st trial within the next 3 months. The collaboration is working together with Design & Engineering Partner to develop the Prototype. Of course each of the Joint Venture Partners possess partial of the technology and know-how required to develop and manufacture this product.

Q7. The total fee incurred for the internal audit function of the Group during the financial year ended 31 March 2020 was RM18,575.00. (Page 27 of AR).

Given that the fee is rather small (approximately RM1,500 per month), how does the audit committee assure itself that there would be adequate coverage and an effective audit function?

A7. The Group has reviewed the previous 10-years Internal Audit expenses and the annual fees are maintained in a consistent level. PNE is an established organization for about 30 Years and are involve in the same business for the same period. The Group are also certified with ISO certification for many years. Major areas are identified from the Risk Audit and these areas are then covered in the Internal Audit work performed. Based on the periodic Risk Audit and the yearly Internal Audit, the minor number of findings does not trigger the Board to consider increasing the Internal Audit activities. However, the Board shall review this matter again.

Corporate Governance Matters

Q1. On Page 8 of the Annual Report, it is stated that the Independent Non-Executive Director (INED), Mr. Wong Kok Seong (appointed on 10 October 2014) has an Alternate Director, Mr. Thu Soon Shien (appointed on 10 October 2014). He is the Chairman of the Audit and Remuneration Committees and a member of the Nomination Committee of the Company. (Page 11 of AR).

Mr. Wong is currently Managing Partner of an audit firm Messrs. Hasnan THL Wong & Partners. He was also made a partner in another audit firm in Malaysia.

Currently, he is the INED of M N C Wireless Berhad. Although Mr. Wong attended all the Board and Committee meetings, the appointment of an alternative director may be indicative of an inability for the principal director to devote time to attend board meetings. Given that directors can now attend virtually, alternate directors should not be appointed. Fiduciary duty accountability becomes unclear when alternate directors are involved. The Board should re-examine its policy in relation to the appointment of alternate directors with a view to prohibiting such appointments.

A1. The appointment of Alternate Director for Mr. Wong Kok Seong ("Mr. Wong"), the Independent Non-Executive Director of the Company is solely for the benefit of the Group and the Board. However, since the appointment on 10 October 2014, Mr. Thu Soon Shien ("Mr. Thu"), the Alternate Director to Mr. Wong has not attended any Board Meeting or related Group Official Meeting. Mr. Wong has also never been absent from any of these Meetings since his appointment on 10 October 2014. Therefore, the Group did not see any problem with this appointment. Nevertheless, the Group do not object to the suggestion if there is a necessity to remove Mr. Thu as the alternate Director for the Board. This matter shall be reviewed further if required.