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

SUMMARY OF KEY MATTERS DISCUSSED AT THE THIRTY-FOURTH ANNUAL GENERAL MEETING OF PNE PCB BERHAD HELD FULLY VIRTUAL AND ENTIRELY VIA REMOTE PARTICIPATION AND ELECTRONIC VOTING VIA ONLINE MEETING PLATFORM AT https://rebrand.ly/PNE-AGM PROVIDED BY MLABS RESEARCH SDN. BHD. FROM THE MAIN VENUE AT LEVEL 10, MENARA LIEN HOE, NO. 8, PERSIARAN TROPICANA, 47410 PETALING JAYA, SELANGOR DARUL EHSAN ON THURSDAY, 25 AUGUST 2022 AT 1:00 P.M.

Questions received from the Minority Shareholders Watch Group prior to the Meeting

Operational and Financial Matters

Q1. ***The Group has been registering losses in the last four financial years, with the biggest loss before tax (LBT) of RM20.6 million recorded in FY2022 compared to LBT of RM4.8 million in FY2021. (Page 8 of AR 2022)***

What were the main reasons for the increasing losses? When does the Board expect the Group to turn profitable and how?

A1. The LBT of RM20.6 mil recorded in FY2022 is inclusive of impairment of RM12,594,444.00, depreciation of RM4,216,214.00, allowance for slow moving stock of RM293,812.00, and unrealised exchange losses of RM106,557.00, that amounting to an actual Operation Loss of RM3,415,528.00, which is about 4% of total revenue for the same period. The average cost increase of Copper Clad Laminate (CCL) for the same period is more than 10%, which takes away the Group's calculated profit and resulted in losses.

With the gradually stabilising cost of CCL, and the gradually approval of customers in accepting revision of selling prices, the Group is expecting an improvement in the result for the current financial year 2023. However, turning profitable will also depend on the general market situation domestically and globally. However, the Group has been working hard to establish more potential customers, and continue to invest and improve our production capabilities and efficiencies to reduce further on the manufacturing cost.

Q2. ***The Company had on 26 January 2021 announced and raised total proceeds of RM15.711 million from a 20% Private Placement. On 23 March 2021, the Company announced and completed another 30% Private Placement raising total proceeds of RM10.93 million. (Page 29 of AR 2022)***

As at 31 March 2022, of the total proceeds from the 20% Private Placement, RM5.165 million was still unutilised, while total proceeds from the 30% Private Placement was not utilised. Please explain the reasons for the non-utilisation.

A2. The unutilsed proceeds of RM5.165 mil from the 20% Private Placement on 26 January 2021 are intended for investment to upgrade the production facility in the Malaysia operation. However, the COVID-19 situation that leads to several MCOs within the country had slowed down the activities of the related industry, which caused a reduction in the order quantity from the Group's customers. Furthermore, the difficulties in recruiting, especially general workers during the pandemic had limited the potential of upgrading and expanding the production capacity. Hence, the Group is holding back the intended investment and is waiting for the golden timing to proceed with the utilisation of the said fund.

With regards to 30% Private Placement, the intended utilisation is for investment in the glove dipping line production system. In view of the current glove demand and oversupply in the market, the board has decided to defer the said investment and is closely monitoring the glove market situation before the next course of action. For information, the Group has up to 1 November 2022 to fully utilise the funds raised from 30% Private Placement.

Q3. ***The Group has been on a constant lookout for other business opportunities to expand its revenue stream to reduce dependence on any single revenue source. In view of this, it has been developing other markets such as manufacturing, sales and distribution of surgical face masks in April 2021 in response to the COVID-19 pandemic, to reduce its dependence on PCBs. (Page 34 of AR 2022)***

Please explain the segment's financial performance including its geographical markets and outlook.

A3. The Group had taken the opportunity to proceed with a small investment into the manufacturing and sales of Surgical Face Masks in April 2021 in response to the COVID-19 pandemic. However, the domestic market had gradually oversupplied with Face Masks which had gradually caused a reduction in the Average Selling Price in the domestic market. This affected and changed the initial budget estimation of the Profitability of the said product. Besides, the Group also faced a shortage of production workers during this period which limited the expansion of some manufacturing activities. Hence, by around the 3rd quarter of the financial year 2022, the Group had started to reduce the activity in the manufacturing of the Surgical Face Mask and to focus our work force more on our main manufacturing activity, that is the PCB manufacturing.

Q4. ***In view of the current reduced demand and lower average selling price of gloves, the Group is closely monitoring the demand and supply conditions (including the average selling price) for gloves prior to making any decision concerning the business. (Page 34 of AR 2022)***

What is the Board's view of the gloves market outlook and when does it expect to commence the business?

A4. Currently, the gloves market is no longer favorable as compared to a year ago. It was an oversupply in the glove market, and this might continue for the next six to nine months or might be longer. Nevertheless, Malaysia is expected to have a 65% share of the global rubber glove market, followed by China (20%), Thailand (10%) and Indonesia (3%). For the year 2023, expects global annual glove demand to grow between 12% and 15% based on the Malaysian Rubber Glove Manufacturers Association (MARGMA).

Q5. ***Copper clad laminate cost represents more than 70% of the Group's cost of sales. As such, the higher copper clad laminate cost has consequently led to an increase in its cost of production and affected its GP margin. In this respect, it has entered into agreements with its customers to adjust the selling price based on the prevailing market price. (Page 36 of AR 2022)***

To what extent, can the Group pass the increased cost and if it can, when does it expect to do so?

A5. The Group had managed to gradually receive customers' consent / agreement to adjust the selling prices of the products in accordance with the current market prices of the CCL. As per the closing of March 2021, almost 60% of the existing customers had agreed with the price up. The Group is targeting to get a 100% price adjustment from all existing customers by 1st quarter of the new financial year 2023, and for those customers, if refuse to agree to the price adjustment shall be gradually reduced in taking new orders by 2nd quarter of the financial year 2023.

Q6. ***General and administrative expenses have increased significantly to RM23.314 million in FY2022 from RM10.838 million in FY2021. (Page 48 of AR 2022)***

What were the main reasons for the significant increase? Are such expenses expected to increase further?

A6. The Revenue in the financial year 2021 is RM79,980,786.00 with the general expenses of RM10,838,273, which equals to 14%. The general expenses recorded for the financial year 2022 are RM23,313,938.00, which is also included the impairment amount of RM12,594,444.00. Therefore, if we minus the impairment amount, the actual general expenses are RM10,719,494.00. With the revenue recorded in the financial year 2022 of RM85,460,434.00, the general expenses are amounting to about 13%, which is 1% lesser compared to the financial year 2021. The Group is implementing continuous improvement to reduce the cost of manufacturing and improve overall efficiencies by increasing production output with lesser working hours and headcount.

Q7. ***Allowance for impairment loss on trade receivables rose sharply to RM3.594 million in FY2022 from RM428,407 in FY2021. There was an allowance for impairment of other receivable RM9.0 million in FY2022 (FY2021: Nil). (Page 81 of AR 2022)***

(a) Why was there such a huge increase in allowance for impairment loss on trade receivables? What is the probability of recovery?

(b) What is the nature of the other receivables and what are the reasons for the allowance for impairment? What is the probability of recovery?

A7. (a) There is a quality issue with the products delivered, causing our customers to have difficulty collecting the payment from their end customers. We are closely monitoring and following up on the collection.

(b) Progress payments for setting up glove dipping line at Klang area, including construction, construction materials, M&E, IT hardware and software. During the commencement of the construction work and soil testing, it was found that the intended land is not suitable to setup the glove dipping line and it requires substantial cost for pilling works for glove dipping lines to be able to build on the said land. In view of this, the boards have decided to look for an alternative location. Subsequently, in the later stage, we experience the demand for gloves has slowed down compared to the earlier period causing the construction project to be further postponed. As a result, allowance for impairment was made in this financial year. With regards to the probability of recovery, there is no issue at the moment because the Group shall able to utilise all payments made to be part of the future progress payments to setup the coming glove dipping line at the new site once identified.

Corporate Governance Matters

Q1. Practice 5.9 of the Malaysian Code on Corporate Governance ("MCCG") states that the board comprises at least 30% women directors.

The Company departed from the Practice as the Board comprises five (5) Directors, and none of them are women.

MSWG's comment: As there is not even a single woman director on the Board, the Board should seriously make a concerted effort to apply the Practice and set a timeline.

A1. The Board takes note of Practice 5.9 of MCCG. The Group is currently sourcing for a suitable female candidate who can contribute her expertise to provide proper guidance to the Company. The Company is targeting to appoint such a candidate as an additional board member by 1 June 2023 pursuant to the amended Main Market Listing Requirements of Bursa Securities.

Q2. The total fee incurred for the internal audit function of the Group during the financial year ended 31 March 2022 was RM16,834. (Page 25 of AR 2022)

Considering that the amount is rather small (approximately RM1,400 per month), and which was also commented on in the previous financial year, what were the areas covered during the year? Is the audit committee of the opinion that the internal audit fees are sufficient to result in meaningful internal audits?

A2. As stated previously, the Group has reviewed the previous 10-year Internal Audit costs and the annual fees are maintained at a consistent level. PNE is an established organisation for about 30 years and is involved in the same business for the same period. The Group is 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 reviews and the yearly Internal Audit reviews, the minor number of audit findings does not trigger the Audit Committee to consider increasing the Internal Audit activities. However, the Audit Committee reviews and considers the internal audit cycle of the Group yearly with the outsourced Internal Auditors to ensure all material business processes and risk areas are appropriately covered in their audit plan.

There were several questions raised by the Shareholders of the Company during the live streaming which were duly responded to by the Chairman. The Q&A provided, where relevant are summarised below:

Q1. What is the reason for the increase in the net losses of the Group from RM4 million to RM21 million? What is the strategy of the Group to convert to a profitable level?

Q2. What is the reason for incurring losses for the past four (4) years? What has the Management done to improve?

The Board trusts that the presentation made by the Executive Director of the Company earlier on the Board's feedback to the questions posed by MSWG was sufficient to address the above questions.