SOUTHERN CABLE GROUP BERHAD

201901011439 (1320767-M)
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE FOURTH ANNUAL GENERAL MEETING ("4TH AGM") OF SOUTHERN CABLE GROUP BERHAD ("SOUTHERN CABLE" OR "THE COMPANY") HELD ON A FULLY VIRTUAL BASIS AND ENTIRELY VIA REMOTE PARTICIPATION AND ELECTRONIC VOTING VIA AN ONLINE MEETING PLATFORM AT HTTPS://MEETING.BOARDROOMLIMITED.MY (DOMAIN REGISTRATION NO. WITH MYNIC - D6A357657) ON MONDAY, 26 JUNE 2023 AT 2:00 P.M.

Q1. How much capital expenditure is required to expand the production capabilities on Lot 38 and PT 4845? What is the plan of the Group to fund the new production capabilities? What is the extent of the Group's financial capacity that can be utilised for financing purposes?

The Group has allocated a total of RM11.5 million for its expansion plans until 2024, with the primary funding sources being initial public offering proceeds, internally generated funds, and some borrowings.

A portion of RM6.6 million will be allocated in 2023 for the implementation of a new production line, as well as the construction of Lot 38 and PT4845. The remaining balance of RM4.9 million will be utilised in 2024 for the construction of both facilities.

The Group can accommodate a maximum gearing ratio of 2.5 times. The Group remains focused on maintaining a healthy balance sheet and strong cash flow rather than pursuing high levels of borrowing. The Management aims to prioritise financial stability and avoid excessive reliance on borrowed funds.

Q2. Note 9 of the Audited Financial Statements for the financial year ended 31 December 2022 ("AFS 2022") – Inventories

What factors contributed to the nearly RM20 million increase in both work-in-progress and finished goods? Are there any concerns regarding slow-moving inventory associated with holding such a significant amount of inventory?

Why is there a discrepancy between the cost of inventories recognised as expenses amounted to RM770 million, and the reported cost of sales of RM824 million? Furthermore, what are the components within the remaining RM54 million recognised as cost of sales that are unrelated to inventories?

The Group confirms that there are no concerns regarding slow-moving inventories. The increase in finished goods is a direct result of securing the new contract and we anticipate delivering these increased inventories to customers according to the scheduled timelines.

Furthermore, the Group has maintained its commitment to timely delivery and achieved significant revenue growth, surpassing RM870 million in the previous year.

In relation to the cost of sales breakdown, RM770 million out of the total RM824 million is attributed to raw material expenses, including copper, aluminum, and plastic.

The remaining balance of RM54 million mainly comprises operating costs, such as employee salaries, utility expenses, depreciation, upkeep of plant and machinery, and miscellaneous expenses.

Q3. Does the Group have any plans to decrease the percentage of foreign labor in the manufacturing division and increase the recruitment of local workers?

The Group acknowledges the importance of prioritising the employment of local workers. However, it is also necessary to strike a balance between local and foreign labor in order to effectively meet the production requirements.

Q4. <u>Note 28 of the AFS 2022 – Commitments</u>

Please provide the breakdown of capital commitments disclosed in Note 28 of the AFS 2022 based on the respective categories of plant and machineries, construction of buildings, and the Enterprise Resource Planning Information Technology ("ERP IT") system.

Out of the total allocation, RM5.3 million was utilised for plants and machineries, RM1.2 million was accounted for as work-in-progress for the construction of Lot 38, and RM0.1 million was allocated for the initial installation of the ERP IT system.

Q5. Please provide information on the sales recognised in the United States ("US") market during financial year ended 31 December 2022 ("FY 2022")? What strategies does the Group employ to penetrate and expand its presence in the US market?

What was the total sales revenue generated from the US market in the FY 2022? Additionally, what strategies have the Group implemented in penetrating the US market?

In FY 2022, the Group recorded sales of approximately RM3.0 million to the US market consisting of trial orders for a customer. The Group received positive feedback from the customer regarding the quality of the products and timely delivery.

During the first quarter of 2023, sales to the US market experienced significant growth, reaching RM11.0 million.

Looking ahead, the Group's long-term strategy involves targeting additional distributors in the US market. To support this objective, the Group will prioritise obtaining more UL certificates for new products. This strategic effort aims to enhance acceptance and build credibility among potential customers, ultimately driving further expansion and sales growth in the US market.

Q6. <u>Note 7 of the AFS 2022 – Investment Properties</u>

What factors contributed to the reduction in the fair value of the investment property from RM0.864 million in the financial year ended 31 December 2021 ("FY 2021") to RM0.582 million in FY 2022?

The decrease in the fair value of the investment property from RM0.864 million in FY 2021 to RM0.582 million in FY 2022 does not impact the accounting balance. The fair value estimation was based on the average price of similar properties, which resulted in the decrease.

Q7. How is the Group effectively managing its cash flows despite recording a profit before tax of RM19.5 million while experiencing operating cash outflows of RM41.3 million? What strategies does the Group employ to address the higher balances in inventories and receivables compared to payables? Why did the credit term granted to customers increase from 120 days in FY 2021 to 150 days in FY 2022, even though the payable credit term is only up to 90 days?

The Group has implemented the following measures to effectively manage its cash flows:-

1. Precautionary raw material intake: given the unstable supply chain conditions in early 2022, the Group proactively increased its intake of raw materials. This decision aimed to ensure uninterrupted delivery to customers and mitigate potential disruptions.

2. Temporary extension of credit terms: considering that several customers were still recovering from the impact of the COVID-19 pandemic, the Group temporarily extended credit terms to support their recovery efforts.

In the first quarter of 2023, the Group achieved an improvement in cash flow generation from operating activities, recording RM18.7 million in net cash generated. This demonstrated positive progress compared to the previous quarter where operating activities resulted in a cash outflow of RM11.8 million.

Furthermore, the Group granted extended credit terms of up to 150 days to one (1) customer as part of the recovery support. It is important to note that this customer has maintained a good payment record with the Group for many years. Although the impact of this extended credit term is minimal, the Group maintains a diligent approach by ensuring customers have good payment histories and strong credit scores before engaging in business with them.

Q8. <u>Note 10 of the AFS 2022 – Trade and other receivables</u>

What steps were taken to recover the RM1.6 million impaired debtors during the year?

<u>Note 27 of the AFS 2022 – Financial instruments</u>

How much of the trade receivables balance that was past due for more than 120 days, which increased from RM11 million to RM22 million according to Note 27 of the AFS 2022, was collected after the year-end?

Considering that only RM1.6 million was impaired during the year, which is significantly lower than the total past due balances, can it be concluded that the remaining past due balances are all considered good and recoverable?

Regarding the recovery of the RM1.6 million impairment from the debtor, the Group is still in the process of pursuing the necessary actions to recover the outstanding amount.

Out of the total RM22 million trade receivables that were past due, approximately 60% or RM13 million have been collected in the first quarter of 2023. It is worth noting that around RM6 million represents retention sums from project-based customers, which are expected to be released to the Group within the current year.

Furthermore, the Group has experienced an improvement in average trade receivable days. In 2022, the average trade receivable days decreased from 99 days to 88 days. This improvement is attributed to enhanced payment practices by customers as more projects commenced or resumed, resulting in quicker payment cycles.

Q9. What is the expected amount of revenue to be recognised from the RM748 million orders in hand for the current year?

The Group is confident of maintaining its revenue for the current year. The timing and quantity of deliveries are contingent upon customer requirements. Typically, the Group's revenue composition consists of approximately 30% from long-term contracts and 70% from short-term orders.

As the nation's economic activities continue to ramp up, the Group anticipates an increase in new orders and tenders, providing opportunities for the Group to secure additional business.

Q10. How is the Group being impacted by the recent rise in interest rates?

The Group is currently primarily reliant on loans with floating interest rates. These loans are essential for supporting the Group's working capital requirements. With the recent average loan rate standing at 4.2%, the Group has been effectively managing its loan repayment obligations. The Group aims to gradually reduce its loan balance.

Q11. What strategies does the Group employ to facilitate the expansion of its overseas sales?

The Group has established partnerships with distributor agents in Cambodia, Myanmar, Indonesia, and East Malaysia.

The Group recognises the importance of obtaining international product quality certifications. By securing these certifications, the Group aims to enhance its credibility and competitiveness in new industries and markets, including Southeast Asia, the United States, and other countries.

Q12. Is the Company considering providing door gifts, the Company's products or e-vouchers to the Shareholders as a token of appreciation for their continued support of the Company?

The Group does not have a policy of providing gifts to shareholders. Instead, the focus is on enhancing operational and financial performance to benefit shareholders through dividends and potential capital appreciation.

As a gesture of appreciation for the shareholders' support, the Group has proposed declaring 0.28 sen per share as dividends for the FY 2022. This aligns with the Group's policy of distributing at least 15% of annual net profit as dividends to shareholders.

Q13. Considering the growing presence of multinational companies (MNCs) establishing data centers in Malaysia, does the Company anticipate demand for its power cable products from these data centers?

The Company has already commenced supplying power cables to certain data centre projects and plans to actively pursue opportunities to fulfil the future requirements of upcoming data centres.

Q14. Does the Company have a pricing formula in place that enables adjustments to be made in response to significant fluctuations in the price of copper?

The Company has provisions in place to adjust the selling prices of its long-term contracts to accommodate fluctuations in the pricing of aluminum and copper. Whereas, for short-term contracts, the cost of key raw materials is primarily based on spot pricing without specific provisions for price adjustments.

Q15. What is the anticipated timeline for the Company to establish and grow its business presence in the US market?

The Company has already begun exporting power cables to its US customer, and it is actively working towards expanding its product range, customer base, and overall sales in the US market.