

WELLCALL HOLDINGS BERHAD

[Registration No. 200501025213 (707346-W)]
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE SIXTEENTH ANNUAL GENERAL MEETING (“16th AGM”) OF WELLCALL HOLDINGS BERHAD (“THE COMPANY”) HELD VIRTUALLY THROUGH THE LIVE STREAMING FROM THE BROADCAST VENUE AT LEVEL 18, PLAZA VADS, NO. 1, JALAN TUN MOHD FUAD, TAMAN TUN DR ISMAIL, 60000 KUALA LUMPUR, WILAYAH PERSEKUTUAN KUALA LUMPUR (“BROADCAST VENUE”) ON MONDAY, 21 FEBRUARY 2022 AT 10.00 A.M..

SUMMARY OF KEY MATTERS DISCUSSED AT THE MEETING

The following questions were raised during the 16th AGM of the Company which were duly responded by the Financial Controller of the Company:-

ISSUES RAISED BY MINORITY SHAREHOLDERS WATCH GROUP (“MSWG”):-

Question 1:

The Group is exposed to raw materials cost fluctuation which may adversely affect the cost of sales and gross profit of the Group. (page 10 of AR 2021)

- (a) What is the trend of raw materials going forward?
- (b) To what extent is Wellcall able to pass the increase in raw materials cost to customers?

Reply for Question 1:

- (a) *The Group foresees that the prices of raw materials will continue to rise in view of the volatility of demand and supply of raw materials mechanism.*
- (b) *We are able to pass part of the cost to our customers in the following orders or after the two (2) to three (3) months of periodic price review.*

Question 2:

The Group is currently facing shortages of foreign workers which is mainly due to the end of their contracts during the period coupled with the freeze in foreign worker recruitment by the Malaysian Government. Despite that, it has managed to source local workers to support the production lines to fulfil and meet delivery orders. (page 11 of AR 2021)

- (a) Would the recruitment of local workers be able to fully fill up the vacuum resulting from the shortage of foreign workers? Has production been affected and what would be the situation going forward?
- (b) What is the current state of automation and the future plans?

Reply for Question 2:

- (a) *The recruitment of local workers is unable to fully filled up the shortages of foreign workers. Nevertheless, we still managed to maneuver our resources to ensure our production is not significantly being affected. We have recruited part timers to carry out end process tasks while experienced workers to expediate vital roles in the production lines. We will continue to source for local workers and hopefully with the recent reopening of foreign workers recruitment would be able to close the gap soonest possible.*
- (b) *We continue to automate our processes especially our third plant is equipped with automated production lines and machines of higher technology specifications. These initiatives have improved the productivity, efficiency and overall product quality. We continue to explore and source for technological advancement via research and development.*

Question 3:

Barring any unforeseen circumstances due to the prolonged Covid-19 crisis, the Board believes that the momentum heading into the forthcoming FYE 2022 will be commendable especially with the

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(Summary of Key Matters Discussed at the 15th AGM held on 22 February 2021 – Cont'd)

continuous demand from its customers and in line with the industrial rubber hose market forecasts. (page 11 of AR 2021)

What is the growth forecast for the industrial rubber hose market and the growth drivers?

Reply for Question 3:

In view of the gradual recovery of global industrial rubber hose industry, we are visualizing a double-digit growth, which is mainly from the demanding environment segment such as from the air, water, oil and gas application market sectors.

Question 4:

The US Dollar exchange rate is also expected to be volatile and this impacts the Group's profitability. (page 11 of AR 2021)

What percentage of the Group revenue and cost of sales is denominated in US Dollar respectively?

Reply for Question 4:

The percentages of the Group's Revenue and Cost of Sales denominated in US Dollar are 88% and 36% respectively.

Question 5:

What is the Group's current production utilization rate? Are there any plans to increase production capacity in the future?

Reply for Question 5:

Overall, our plants are operating at 80% to full utilization. Our current facilities are able to meet any sudden surge in global demand for industrial rubber hose and we always seize for growth opportunities to increase production capacity for new product diversity.

Question 6:

The total fees incurred in maintaining the outsourced internal audit function for the financial year ended 30th September 2021 amounted to RM21,000. (page 47 of AR 2021)

Given that the fee is rather small (RM1,750 per month), how does the audit committee assure itself that there would be adequate coverage and an effective audit function?

Reply for Question 6:

The total fees incurred were for two (2) internal audit visits being carried out during the financial year in preference to four (4) visits due to MCO 2.0 imposed by our government. Internal audit reviews are based on process cycles, which eventually cover the overall spectrum activities of the Group. The internal auditors report directly to the Audit Committee, which governs by the Term of Reference of the Audit Committee.

Question 7:

It was recently reported in the press that Wellcall has adopted a high mix, low volume (HMLV) strategy which gives the company a significant competitive edge in producing customized merchandise for its clients.

What percentage of the Group revenue is generated from HMLV strategy? Is the profit margin from HMLV strategy significantly higher than revenue from standardised products?

Reply for Question 7:

HMLV is part of our marketing niche to support our customers' inventory holding costs. HMLV applies to all orders and products, which profit margin depends on the product mix specifications.

Question 8:

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Employee turnover rates are an indication of employee satisfaction. The Group continuously strives to ensure that it remains an attractive company to current and future employees. Total number of new employees at the factory of Wellcall Hose (M) Sdn. Bhd. is 103 but the employee turnover rate is 15.8% (page 67 of AR 2021)

- (a) What are the reasons for the high turnover rate? What measures have been taken to address the problem?

Reply for Question 8:

The high turnover rate mainly due to foreign workers contracts ended during the financial year under review. Please refer to Question 2(a) reply for immediate measures executed.

QUESTIONS DEPOSITED BY THE SHAREHOLDERS AND THE REPLIES BY THE COMPANY:-

Question 1:

The Group pursues a high-mix, low-volume strategy. How does the global shipping disruptions affect customer ordering pattern of frequent small orders? How is the latest situation?

Reply for Question 1:

Orders are picking up coupled with some customers have committed with higher volume mix orders. The visibility of order books seems promising despite the global shipping disruption conditions. We will continue with our prompt delivery lead time despite global cargo constraint is a challenge.

Question 2:

The Management Discussion and Analysis section of Annual Report does not touch upon the JV with Trelleborg. Can the management provides an update on the latest status on sales and production? What are the plan and target forward?

Reply for Question 2:

The JV company had commenced its production lines capturing sales from few customers during the financial year under review. However, the revenue contributed is insignificant at this stage.

Question 3:

Refer to Note 8, page 114 of Annual Report. Can management explain the losses at associate company Trelleborg Wellcall Sdn. Bhd. ?

Reply for Question 3:

The losses are mainly arising from operation costs to operate the JV.