

# WELLCALL HOLDINGS BERHAD (“the Company”)

[Registration No. 200501025213 (707346-W)]

(Incorporated in Malaysia)

**SUMMARY OF KEY MATTERS DISCUSSED AT THE FIFTEENTH ANNUAL GENERAL MEETING (“15<sup>th</sup> AGM”) OF THE COMPANY HELD AS A FULLY VIRTUAL MEETING THROUGH LIVE STREAMING AND ONLINE REMOTE VOTING AT THE BROADCAST VENUE AT iSPACE, LEVEL 21, PLAZA VADS, NO.1, JALAN TUN MOHD FUAD, TAMAN TUN DR ISMAIL, 60000 KUALA LUMPUR, WILAYAH PERSEKUTUAN KUALA LUMPUR (“BROADCAST VENUE”) ON MONDAY, 22 FEBRUARY 2021 AT 10:00 A.M.**

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## **SUMMARY OF KEY MATTERS DISCUSSED AT THE MEETING**

The following questions were raised during the 15th AGM of the Company which were duly responded by the Financial Controller of the Company: -

### ISSUES RAISED BY MINORITY SHAREHOLDER WATCHDOG GROUP (“MSWG”): -

#### **Question 1:**

Despite a slight decrease in revenue for FYE 2020, the Group managed to achieve a higher gross profit margin at 38% compared to 36% for FYE 2019. The impact of higher gross profit margin was due to operational efficiency arising from effective costs management and productivity. (Page 9 of Annual Report - AR).

- (a) Considering that the Group is exposed to raw materials cost fluctuations how does it manage its cost optimally and what are the major components cost saved?
- (b) What are the respective percentages of its revenue and costs denominated in US dollars?

#### **Reply for Question 1:**

- (a) *We monitor our major raw material prices closely and purchase when prices are consider low at the right timing in order to achieve a reasonable overall inventory costs.*
- (b) *An approximately of 87% in revenue and 31% in costs denominated in US dollars respectively.*

#### **Question 2:**

In order to maintain customer retention, the Group’s Marketing team plays a vital role as they have to maintain regular contact with customers to ensure that all issues are addressed and followed up on a timely basis. Nevertheless, its Production team also plays an important role in customer retention by providing the right products as per customers’ requirements on a timely basis. (Page 10 of AR).

What is the probability of customers moving to other competitors and what has been the Group’s experience or record (percentage) in retaining its customers?

#### **Reply for Question 2:**

*The probability of customers moving to other competitors are very low. Almost 98% retention rate for existing customers remain with us and mostly are satisfied customers.*

#### **Question 3:**

On 10th January, 2020 the subsidiary company entered into a Sales and Purchase Agreement to purchase a property with a factory building for a total purchase consideration of RM3,420,000 and the purchase was completed on 22nd January, 2020. (Page 119 of AR).

- (a) Was the property purchase intended for increasing its capacity and if so, what is the percentage increase and effective when?

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(b) What is the current capacity utilisation rate?

**Reply for Question 3:**

- (a) *The purchase of the property is mainly for investment and currently rented out to Trelleborg Wellcall Sdn. Bhd. ("TWSB", the Joint Venture Company) on arm's length value.*
- (b) *Not applicable as the property is used for rental purpose.*

**Question 4:**

For the year ahead, the Group will continue its effort in widening the customer base through geographical expansion. It will continue to expand into existing markets, namely Europe, USA, Canada, Middle East, Asia, Australia/New Zealand, South America and Africa. (Page 13 of AR).

Which new markets has the Group penetrated since FYE 2019 and has the additional revenue generated been significant?

**Reply for Question 4:**

*The Group widens its market through geographical expansion via distributors. Hence, the Group remains resilient and able to maintain existing markets despite during the challenging Covid-19 pandemic period.*

**Question 5:**

On 22nd October, 2019, the Company had subscribed additional 1,077,951 new ordinary shares of RM4.10 each in the share capital of Trelleborg Wellcall Sdn. Bhd. ("TWSB") for a total cash consideration amount of RM4,419,599.10 equivalent to USD1,077,951. The subscription of the additional shares did not result in any change of the Company's equity interest in TWSB. (Page 119 of AR).

- (a) What is the Company's equity interest in TWSB and how was it that the additional subscription did not result in any change in equity interest?
- (b) What business is TWSB in and what is the reason for the Company's acquisition of TWSB?

**Reply for Question 5:**

- (a) *Wellcall Holdings Bhd. ("WHB") holds 49% equity interest in TWSB. The additional subscription did not result any change in equity interest as both WHB & Trelleborg Holding AB continue to hold 49% and 51% in TWSB respectively as signed endorsed in the Shareholders Agreement.*
- (b) *The Company is principally engaged in manufacturing, marketing and sale of composite hose and fittings. This strategic move on joint venture for the Group is to enhance its product range coupled with sharing of new technological know-how from our joint venture partner.*

**Question 6:**

On 24th February, 2020, the Company ventured into additional business to carry on business of trading, importing, exporting, marketing, supplying and dealing in direct marketing, multi-level marketing, networking of all kinds of hoses and articles in connection herewith. (Page 119 of AR)

How different is this additional business compared to its existing business which also deals with hoses? What significant values add can it accrue to the Group?

**Reply for Question 6:**

*It is an ongoing exercise to include related goods and services. It widens business scope and it enriches revenue.*

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**Question 7:**

Although the Company's Board of Directors comprises 50% independent non-executive directors (INEDs) out of a total of 10 members, 4 of the INEDs are long serving with tenure ranging from 9 years or more to as long as almost 15 years. These INEDs include Chairman who was first appointed to the Board on 17 April, 2006 and would have served almost 15 years when the AGM convenes on 22nd February, 2021.

In view of the above situation, the Board should view with concern and expedite the succession plan in regard to the long serving INEDs.

**Reply for Question 7:**

*The Board acknowledged the importance of Corporate Governance and will take note on the suggestion raised accordingly in due course.*

**PRE-MEETING QUESTIONS DEPOSITED BY THE SHAREHOLDERS AND THE REPLIES BY THE COMPANY:-**

**Question 1:**

Compare to FY2018, Trade and Other Receivables have declined from RM13.4m in FY2018 to RM8.7m in FY2019 (down 35%) and RM5.7m in FY2020 (down 58%).

The Receivables decline is much larger than the revenue decline?

What are the reasons?

**Reply for Question 1:**

*The revenue had declined mainly due to economic slow down resulted from Covid-19 pandemic. The decrease in trade and other receivables were mainly due to prompt collections by the Company and payments from customers.*

**Question 2:**

Refer to Note 16 (page 108 of Annual Report).

Other Payables and Accruals made up 42% and 17% of the total payables.

Can you explain the nature of these non-trade payables?

**Reply for Question 2:**

*It consists of mainly purchases of operational consumables, tools, services and assets with credit terms.*

**Question 3:**

Refer Note 28 (page 118 of Annual Report).

In FY2020, the revenue to US/Canada region fell by 36%. The fall was much greater than 21% revenue fall in total.

(a) Why are the reasons for the larger fall?

(b) What is the outlook for FY2021?

**Reply for Question 3:**

(a) *The larger fall was mainly due to Covid-19 pandemic coupled with the extended lockdown period imposed.*

(b) *Barring unforeseen circumstances due to Covid-19 crisis, we believe the demand for our industrial rubber hoses would remain positive yet challenging. Nevertheless, we trust we are*

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*able to sustain and being vibrant especially having our strong fundamental platform and cohesive team.*

**Question 4:**

- (a) What is the current status of Trelleborg Wellcall Sdn. Bhd.?
- (b) When will production begin?
- (c) Typically how much better is the margin for composite hose products as compared to the existing product range?

**Reply for Question 4:**

- (a) *Currently, it is in the product testing.*
- (b) *Foreseeable that the commercial production will commence in quarter three.*
- (c) *In view of the confidentiality and sensitivity of this information, we would not be able to disclose.*

**Question 5:**

Five years ago Wellcall established its third plant. It started a new venture with Trelleborg since 2019.

- (a) How much revenue can these facilities generate when they operate at 100% capacity (assuming product price remains constant)?
- (b) How does the future capacity expansion plan look like?

**Reply for Question 5:**

- (a) *In view of the confidentiality and sensitivity of this information, we would not be able to disclose.*
- (b) *It depends on market sentiment and demand of composite hoses.*

**Question 6:**

How does the port congestion affect customer order and delivery?

**Reply for Question 6:**

*We are still able to secure all orders with short lead time from placing orders to delivery of goods.*

**Question 7:**

The directors' remuneration (Note 18) as a percentage of the group's net profit has increased over the years. Now the ratio has reached 21.5%.

Can the Remuneration Committee look into alternative options to better align directors' and shareholders' interests?

**Reply for Question 7:**

*We have established a formal remuneration policy which fairly supports the Directors' responsibilities and fiduciary duties to achieve long-term goals and enhance shareholders' value.*