

# AYS Ventures Berhad (“AYS”)

8th Annual General Meeting on 23 July 2019

AYS received a letter dated 2 July 2019 from the Minority Shareholders Watch Group raising questions in relation to the Strategy/Financials and Corporate Governance of the Group

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*Strategy / Financial Matters*

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1. “AYS recorded PBT of RM21.127 million in the FYE 2019 which was RM11.527 million lower than FYE 2018 of RM32.654 million despite the higher revenue recorded. This was due to the pressured margins with higher cost of goods sold brought on by the increase in purchase prices of steel products and higher finance costs as additional trade facilities were used for working requirements for the purchases of trading stock” (page 14 of the Annual Report 2019).

How will the Board address the higher cost of goods sold and higher finance costs amid the challenging operational environment?

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1. Answer:

In our trade as stockist of mainly heavy sectional steel use by the construction and engineering sectors, it is an industry norm to pass on the cost to the end users. However, during the financial year under review and in particular in the period subsequent to GE14, due to weak demand and keen competition leading to weakened selling price, we were unable to pass on the increased cost fully to the customers. With the recent announcement on revival of some of the major infrastructure projects in the coming financial year, we anticipate that some of the increased cost can be passed on as demand and selling prices is expected to improve.

Finance costs typically reflect our working capital levels in sustaining our inventories and receivables in our trade. We have in place measures for inventory management in order to reduce the finance cost.

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2. “AYS operates its three factories and four warehouses in four locations in Klang, Selangor, covering a combined factory and warehousing area of approximately 27 acres with total of about 578,000 sq.ft. of covered warehouse. The PFKZ warehouse operation that commenced operations in the last quarter of the FYE 2018 has proven to be effective in achieving our initial objective on warehouse rationalisation to improve efficiency and turnaround time. The Group expects to see better results from the warehousing operations as the rationalisation program is still on going” (page 15 of the Annual Report 2019).

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2. a) What is the current utilisation rate for the Group’s factories as well as space utilisation for the warehouse?

2. a) Answer:

The Group’s factories and warehouses occupies 20% and 80% respectively of the total 27 acres.

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2. b) How can the Group’s warehouse operation be improved and what is the target to achieve in FY 2020?

2. b) Answer:

The space for warehouse is fully occupied with about 50% of the storage space being in the open yard. Having more covered warehouse will enable the Group to increase the storage capacity and improve operational efficiency. The Group targets to increase the storage capacity by approximately 20% in financial year 2020.

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2. c) When will the rationalisation program be expected to be completed?

2. c) Answer:

AYS plans for first phase of the rationalisation programme to be completed within the next financial year. The second phase will commence when the cashflow of the Group allows for the additional capital expenditure.

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3. With the positive outlook in the construction sector, the Group expects better book orders for the manufacture of purlins and sectional water tanks. (Page 16 of the Annual Report 2019).

What is the Group’s targeted book orders for the manufacture of purlins and sectional water tanks for the next three years?

3. Answer:

We wish to clarify that the specified business of purlin and sectional water tanks are mainly based on purchase orders placed by customers as and when required by them. However, with the positive outlook in the construction sector we expect to receive better orders from customers as we enhance our marketing efforts to secure these orders.

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4. “With the increased borrowings, the Group’s gross gearing and net gearing ratio has increased to 1.14 times and 1.08 times respectively as at the end of FYE 2019 as compared to 0.84 times and 0.73 times respectively as at the end of FYE 2018” (Page 15 of the Annual Report 2019).

Can the gearing level of the Group be improved in the near term? What is the optimal gearing ratio that AYS aspires to achieve in the long run?

4. Answer:

With positive development in the construction sector, especially the revival of major infrastructure projects, we hope to lower the gearing level in the near term as these short term borrowings are deployed to finance the working capital requirement and not the capital expenditure of the Group. We aim for an optimal gearing of 1 time in the long run. However, this may be impacted by changes in the market situations whereby higher gearing is unavoidable such as during down times where the Group would be faced with longer trade receivables and inventory days.

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*Corporate Governance Matters*

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1. We note a discrepancy in the age of directors as disclosed in the Annual Report 2019 (“AR2019”) and on the Company’s website.

For example, on page 6 of the AR2019, it is reported that the Chairman’s age is 80 years old. However, on the Company’s website, the Chairman’s age is 78 years old.

Please check.

1. Answer:

We apologize for the oversight in the update of the website information and express our sincere gratitude for highlighting the matter for which we had rectified immediately.

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2. Paragraph 9.21 (2)(b) of the MMLR requires a public listed company to publish a summary of the key matters discussed at the AGM.

As at 1 July 2019, the key matters discussed at the last AGM were not published on the Company’s website.

2. Answer:

There were no questions raised at the last Annual General Meeting.

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*The End. Thank you.*