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The World-Class Toner Manufacturer

The details of the queries raised by MSWG and the corresponding reply by the company are as follows:

Operational & Financial Matters

1. For FY2022, the Group's revenue declined 4.5% to RM43.1 million. This was partly due to the lower sales in China, which was impacted by the international logistics jams, the global chip shortages and lockdown in China which slowed down the demand of compatible cartridges. (page 4 of Annual Report (AR) 2022)

   (a) How much was the revenue contribution by China in FY2022 vs FY2021?

   Response :

   Contribution by China is FY2022 is RM29m, 19% drop as compared to FY2021 at RM35m.

   (b) What is the outlook for the China market over the next 12 months?

   Response:

   The management remain pessimistic and are of the view that outlook for China market remains grim. The Covid situation will likely remain challenging over the next 12 months and the Covid restrictions remains unease. Essentially, the constant lock down and Zero-Covid Policy disrupted investor confidence and overall China market. The management expect the outlook weakness to persist in the near term.

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(c) Besides China, which are your top export markets? What are your plans for these markets?

Response:

Our top export markets include Vietnam, Thailand, Korea and Poland. Our team will engage customers in these markets on a regular basis to increase our presence in the market, participating in trade show will be in the plan as well, however, we remain cautious due to the negative global economic outlook.

(d) Which countries would be your focus going forward and why?

Response:

Despite the recent slow growth and market decline in China, the Group's revenue is still largely contributed by our export to China. China market will continue to maintain its dominant position in our top line in the near term. Whilst we are exploring alternatives constantly, we will continue to deploy substantial resources and attention on pursuing opportunities in our top export countries including China, which still has significant cartridges manufacturing activities. Overall, the management are positive about the long term outlook of China and will continue to focus on this market and invest appropriately.

2. The Group recorded a loss before taxation (LBT) of RM7.89 million in FY2022 as compared to a LBT of RM1.7 million in FY2021. In FY2022, the Group registered total inventories written-off of RM5.6 million as compared to RM1.4 million in FY2021. (page 4 of AR 2022)

   What were the reasons for the significantly higher inventories being written off in FY2022?

   Response:

   Management has written off inventories aged over 1 year, to ensure inventories are properly stated in reporting.

3. Moving forward, the Group will continue to develop its market share particularly in the high value product segment by capitalising on its technological know-how as well as expanded production capacity in Chemically Produced Toner (CPT). The Group will strive to expand the sales of its e-commerce business by introducing more specially curated high-quality products. (page 5 of AR 2022)

(a) Please explain more on the high value product segment. How much was the revenue contribution from this segment in FY2022?

Response:

We are still trailing and testing the Chemically Produced Toner (CPT), at the stage of gaining customer feedback and insights on strengths and weaknesses prior to a full product launch. According to our projection, the CPT GP margin is 75% higher than MPT. However, the current contribution of CPT is insignificant as it is on trial run basis

(b) How much was the increase in the CPT production capacity? What is the total capex for this capacity expansion?

Response:

Our optimal CPT production capacity is 30 Tonnes per month, no significant capex is required as we are optimizing our productivity by leveraging on our current existing capacity and production capabilities to further expand into CPT product segment.

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(c) What is the current production capacity and utilisation rate for CPT? What is the potential annual revenue and operating profit at optimal capacity?

Response:

We are still trailing and testing the Chemically Produced Toner (CPT), at the stage of gaining customer feedback and insights on strengths and weaknesses prior to a full product launch. According to our projection, the production capacity for CPT is 30 tonnes per month. Volume remain insignificant at the moment as productions are still in trial run. We expect volume to grow over the next 12 months depending on the progress of market transition from MPT to CPT

(d) How much was the contribution of e-commerce business to your revenue in FY2022? What is the potential revenue contribution over the long term?

Response:

e-Commerce contributed RM2.2m in FY2022 vs RM1.9m in FY2021, management is deploying more resources and attention on e-commerce development. We have yet to conclude a forecast figure at this moment but we maintain optimistic on the growth of its contribution as the rise of e-commerce trend is inevitable.

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Corporate Governance Matters

4. The Group's Executive Director (ED), Mr. Ong Gim Hai is also an Executive Director of Key Alliance Group Berhad (KAG).

   Please explain how Mr. Ong manages his time commitment to the Company visà-vis his position as an ED of KAG given that both are executive positions that require full time commitment.

   Response:

   Mr Ong is an engineer by training and no stranger to manufacturing industry. His role as an ED is essentially to manage operations of the Group and deal with the implementation of the business and strategic plans of the Group. Mr Ong is fully supported by capable assistants in the Group in such operations and implementation.