



岩石汽车工业集团

SOLID AUTOMOTIVE BERHAD (1016725-P)

24 September 2020

Minority Shareholders Watch Group
Tingkat 11, Bangunan KWSP,
No. 3, Changkat Raja Chulan,
Off Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia

Attention: Mr Devanesan Evanson

Dear Sirs/Madams,

**RE: 8th Annual General Meeting ("AGM") of Solid Automotive Berhad ("Solid" or the "Company")
to be held on Tuesday, 29 September 2020**

We refer to your letter dated 21 September 2020 and thank you for your questions. Set out below is our response.

Strategy and Financial Matters

1. In compliance with the Movement Control Order ("MCO"), Solid had experienced a temporary disruption to its business for a period of six weeks spanning end-March to early May 2020, which led to a decrease in revenue in the fourth quarter of the financial year 2020.

The Malaysia border remaining closed to other countries from the Conditional Movement Control Order ("CMCO") period to Recovery Movement Control Order ("RMCO") has low impact to our domestic market and may affect our international market.

The revenue for the first quarter of the financial year 2021 increased as compared to the corresponding quarter in the preceding year. For our domestic market, the demand of spare parts increased due to breakdown of motor vehicles and commercial vehicles when businesses resume during the CMCO.

The revenue from our international market also increased in the first quarter of the financial year 2021 as compared to the corresponding quarter in the preceding year. Although the closing of border to other countries prevents us to have the site visit with our customers, but we are still able to transact our business using tele or video conferencing.

2. The Group's revenue had been increasing for the past 5 years continuously but the profit after taxation had been declining for the past 5 years. The group expanded the business via opening new branches and taking part in trade exhibition aggressively in the past 5 years. As a result, the revenue increased continuously. Likewise, the operating expenses and selling and distribution expenses also increased.



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Meanwhile, while there remains uncertainties and risks associated with Covid-19, the Group would continue to enhance the existing business continuity and safety measures, to mitigate the potential impact. As the end of the Covid-19 pandemic has yet to be seen, the management has decided to cut down the operating expenses to overcome the unexpected event in the future. The Group had closed 3 branches in the one of its subsidiaries (i.e. Solid Corporation Sdn. Bhd.) in June 2020. And the group merged the business for 2 of its subsidiaries (i.e. Win Soon Auto Suppliers Sdn. Bhd. and Win Soon Auto Suppliers (KL) Sdn. Bhd) for cost efficiency. The management also decided to pay direct visit to our oversea customers when the border opens instead of attending the trade exhibitions overseas to reduce the selling and distribution expenses.

The temporary closure of business during MCO period is the main cause for the Group to record a loss after tax in the fourth quarter of the financial year 2020. The Group's revenue has decreased whilst the operating expenses continued to be incurred with impairment on inventories, trade receivables, goodwill written off and provision for warranty amounting in total of RM6.591 million which was mentioned in Note B1 of the interim financial statement as at 30 April 2020.

Furthermore, the management puts greater effort in getting the payment from the customers resulting in the reduction of trade receivables turnover days for the first quarter of financial year 2021 of 7 days as compared to the last financial year. In addition, the management has reduced the order quantity and thus reducing the inventories turnover days for the first quarter of financial year 2021 to 42 days as compared last financial year. Consequently, the strategies placed to achieve cost efficiency will create sufficient cashflow for the settlement debts and borrowing and business operation.

3. The significant increase in the other operating expenses is mainly due the non-recurring expenses on impairment losses of the goodwill due to the poor performance of a subsidiary (i.e. Win Soon Auto Suppliers Sdn. Bhd.), and impairment losses on the investment properties which is further explained below under point 4.

The management has planned to cut down the operating expenses as mentioned above.

4. The investment property is a vacant warehouse, factory cum office at No. 17, Jalan Kukuh, Off Jalan Tampoi, Kawasan Perusahaan Tampoi, Larkin, 80350 Johor Bahru (i.e. items 3 of the Listed of Properties on page 120 of the Annual Report 2020). The condition of the vacant building is not fit for occupancy because it has been dismantled by unauthorised person. The building has to be rebuilt before it could be let out. Therefore, the external auditor proposed to write off the net book value of the building.



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5. The inventories written down amounting to RM2.641 million is calculated based on the policy adopted for writing down slow-moving inventories which is as stated in Note 4.1(d) on page 61 of the Annual Report 2020. The inventories written down are saleable at a discounted price.

Previously, the suppliers have their own policy for Minimal Order Quantity ("MOQ") for the purposes of getting a rebate. Due to the Covid-19 pandemic, the suppliers revised the MOQ and the management has decided to reduce the order quantity based on the suppliers' revised MOQ to overcome the slow-moving inventories issue.

6. In respect of the impairment losses on trade receivable amounting RM3.647 million, the management will freeze the account of the trade receivables over the credit terms and will issue the Letter of Demands for all the outstanding amount over 60 days of the credit terms. And also, the sales commission will be reduced for the collection of the overdue-trade receivables.

The management has recovered the RM0.223 million of the impairment losses on the trade receivable in the first quarter of the financial year 2021.

Corporate Governance Matters

1. Mr. Ker Meng Oi, the Executive Director of the Company only attended 3 out of 5 Board Meetings during the financial year 2020. Mr. Ker Meng Oi is based in Kuala Lumpur to oversee the branch at Batu Cave. He was unable to attend one of the Board meetings because he was sick on the day before the Board meeting and thus unable to travel to Head Quarter in Pasir Gudang, Johor. Another time was that he encountered problem with the internet on the day the Board meeting was held via video conferencing, which was on 28 April 2020 during the MCO period.

We thank you for your questions and hope that this letter has provided the clarification and better understanding of the operation and business of Solid's group.

Yours Sincerely,

Ker Min Choo
Managing Director