APPENDIX I

RESINTECH BERHAD ("Resintech" or "the Company")
[Registration No. 199501012460 (341662-X)]
(Incorporated in Malaysia)

RESPONSE TO THE LETTER RECEIVED BY THE COMPANY ON 17 AUGUST 2023 FROM THE MINORITY SHAREHOLDERS WATCH GROUP ("MSWG")

<u>OPERATIONAL & FINANCIAL MATTERS</u>

1) Despite recording historic high revenue of RM89.98 million in FY2023 (FY2022: RM80.59 million), Resintech's net profit declined sharply by 80.4% year-on-year to RM1 million compared to RM5.11 million in the year before.

    a) The decline in profit was mainly due to a significantly higher cost of sales at RM77.27 million (FY2022: RM63.7 million), arising from increased manufacturing and operational costs, e.g., utilities, materials and finance costs.

       Has the cost pressure moderated in FY2024? Does Resintech expect to experience similar margin compression in FY2024?

    b) To what extent has the Group transferred the cost increase to customers? Will the Group resort to more drastic cost-cutting measures to preserve its profit margin?

    <u>Resintech's Response</u>

    a) *The cost pressure was on a downward trend in the current financial year and Management anticipated that the Company's performance in the financial year ending 31 March 2024 ("FYE 2024") would be better. The Unaudited Quarterly Report on consolidated results for the first quarter ended 30 June 2023 ("First Quarterly Report"), which targeted to be released by tomorrow, shows that the gross profit ("GP") margin had improved by approximately 5%. Thus, Management do not see last year's cost compression would continue.*

       Resintech faces stiff competition in the plastics industry, including backyard industries and neighboring countries. With China pipes makers in the country, cost transfer to customers is minimal. Management aims to expand customer bases and increase sales to achieve economies of scale and improve financial performance. Cost-cutting measures would continue as a continuous effort to improve the Group's financial performance.

2) As of 31 March 2023, Resintech's total borrowings increased marginally to RM50 million from RM46.34 million in the year before. However, cash on hand (fixed deposits, cash and bank balances) dwindled by 64.78% year-on-year to RM12.5 million compared to RM20.59 million in the previous year. Meanwhile, the Company recorded negative operating cash flow amounting to RM4.75 million as of the end

of FY2023 compared to positive operating cash flow of RM6.68 million in the previous corresponding period.

Please elaborate on Resintech's current liquidity condition, liquidity management and the availability of sufficient funds to support day-to-day operations.

<u>Resintech's Response</u>

The dwindled cash balances in FYE 2023 were primarily due to the acquisition of plants and equipment, costing approximately RM 5 million, and a deposit payment of RM800,000 for additional machineries, which aimed to improve production capacity and assist Resintech capture more markets.

Based on the Audited Financial Statement ("AFS") for the financial year ended 31 March 2023 ("AFS 2023"), the Company's current ratio and quick ratio were recorded at 2.18 and 1.32, respectively. As of June 2023, the Company's current ratio and quick ratio had improved to 2.32 and 1.50 respectively. The ratios were healthy.

As at 30 June 2023, the Group has an unutilised banking facility of approximately RM23 million consisting of trade finance of RM16 million, term loans of RM4.7 million and overdrafts of RM2.5 million. In addition, the other receivables collectible stood at RM7 million. Based on the above-mentioned, the total liquidity available would be approximately RM30 million.

3) With the recent conclusion of the state election in six states, does it provide more certainty to the demand for Resintech's pipes, water tanks and fittings, which cater mainly to infrastructure, construction and industrial sectors?

<u>Resintech's Response</u>

Resintech is a manufacturer of High-Density Polyethylene ("HDPE") water supply pipes and tanks in the plastics industry and the manufacturing facilities were located at Perindustrian Telok Panglima Garang, Kota Kinabalu Industrial Park and Demak Laut Industrial Park in Kuching respectively.

The recent state elections saw no change in state government, hence it would give stability to the previously planned projects to be implemented, such as the Prime Minister has pledged a commitment of RM800 million to address water supply difficulties in Kelantan and Sabah. Resintech previously supplied HDPE water supply pipes for the 2020 replacement of old pipes project in Kelantan.

As of to-date, Resintech had successfully tendered the project for supply of HDPE water supply pipes to Pengurusan Asset Air Berhad ("PAAB") with an estimated *value of RM13 million, as well as supply of algae cultivation tanks for approximately RM5 million, and both of which would be completed by end of year 2023.*

Resintech plans to undertake larger projects to enhance financial performance in FYE 2024 and the upcoming years.

4) Resintech signed an MOU with Sarawak Economic Development Corporation in June 2023 to establish a joint venture that provides sustainable energy solutions particularly exploring the world's first sustainable jet fuel derived from algae (page 8 of AR2023).

What are Resintech's roles and responsibilities in this JV? How will Resintech's expertise in designing, manufacturing, trading and marketing of plastics pipes, water tanks and fillings complement the MOU?

Resintech's Response

Resintech had signed a Memorandum of Understanding ("MOU") with Sarawak Economic Development Corporation Energy ("SEDCE") in June 2023, leveraging its 50-year experience in plastic industrial products to lead the venture's business, commercial, financial, and technical aspects. Resintech would also select, appoint, and collaborate with SEDCE's advisors, consultants, service providers, contractors, and counterparties for the plastic business.

Resintech plans to expand its plastic industrial product offerings and utilise their expertise at the Bintulu, Sarawak algae nursery, aiming to enhance SEDCE's renewal energy cultivation and strengthen its presence in the plastics industry.

5) External auditors Crowe Malaysia PLT highlighted the impairment of other receivables as one of the key audit matters in its audit of Resintech's financial statement FY2023 (page 77 of AR2023).

As of 31 March 2023, the carrying amount of other receivables amounted to RM11.65 million. The other receivables comprise (page 129 of AR2023):

- RM1.95 million of advances to an investee company classified under other investments in which the Group can convert the advances into additional equity interest subsequently.

- RM9.7 million owed by third parties, and there was no indication that the amounts owing are not recoverable. However, the Group had provided impairment losses amounting to RM469,000 during FY2023 for the outstanding amount.

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a) Referring to the other investments of RM1.95 million, what was the yield from this investment for FY2023? How has the investee company performed in FY2023 and what are its prospect for FY2024? When does the Group plan to convert the advances into equity interest in the investee company?

b) It was mentioned in Resintech's reply to MSWG dated 9 September 2022 that the majority of the other receivables are receivables related to the disposal of assets to a local and a foreign company previously. Resintech said the collection of these receivables was expected to be completed by the second quarter of FY2024.

How much of these receivables have been collected to-date? Does the Group expect further provision for the outstanding amount?

Resintech's Response

(a) Based on the latest unaudited financial report for a period of nine (9) which made up to March 2023 for the Investee Company ("CI"), it had made RM6.95 million of profit after tax at the back of progress billings of RM13.46 million. The project has a gross development value of RM258 million, with the targeted gross development cost of RM97 million, and hence a profit of RM161 million. Based on CI's record as of June 2023, it had 215 lots available for sales after the launched of two (2) phases, worth approximately RM186 million.

The advances of RM1.95 million for its other investment in which Resintech had an option to convert into additional equity interests to which, however, as of to- date, Resintech had not done so. Resintech would pursue to convert the advances into investees' shares in near future. In addition, no dividend payment was received by Resintech from CI during FYE 2023.

(b) Resintech had collected approximately 28% of the other receivables and Management do not foresee further impairment for the outstanding amount.

Sustainability Matters

1) The Company provided informative sustainability disclosure in its AR2023 with key metrics such as materiality matrix, employees' ethnicity, gender and age, electricity consumption, water consumption and paper usage disclosed.

However, Resintech has not provided greenhouse gas (GHG) emissions data by Scope 1, 2 and 3. Is the Group prepared to make such disclosure? If yes, when will it make such disclosure?

Resintech's Response

Resintech in the midst of discussions with external consultants to assist with greenhouse gas emission measurement, which was not included in their short-term budget, and plans to disclose the findings accordingly.

2) The Group also recorded significantly higher electricity (↑ 24.24% y-o-y) and water (↑ 17.9% y-o-y) consumption in FY2023 (pages 26 – 27 of AR2023).

   What were the reasons for the significant increases in consumption?

   Resintech's Response

   The increase in electricity and water were mostly due to the recovery of the sector from the Convid-19 as a result of the increase in production which directly influenced the utility expenses. Except that the electricity expenses had also been impacted by the increase in Imbalance Cost Pass-Through (ICPT) abolishment on industry players. Resintech would priorities cutting wasta and shall continue to monitor such usages.

Corporate Governance Matters

1) IN FY 2023, four executive directors of Resintech collectively received salary, bonus and incentives totalled RM1.57 million (page 53 of AR2023).

   a) What is the breakdown of salary, bonus and incentive for each individual director?

   b) Resintech recorded a sharp decline of 80% in net profit to RM1 million in FY2023.

      To what extent is the bottomline performance relevant to the evaluation of directors' remuneration by the Remuneration Committee?

   Resintech's Response

   The breakdown of salary, bonus and incentive for each executive director as detailed hereunder:-

Name of Executive Director	*Salary (RM)*	*Other Allowances (RM)*	*Incentive (RM)*
Dato' Dr. Teh Kim Poo	*540,000*	*-*	*-*
Datin Gan Jew	*240,000*	*-*	*-*
Teh Leng Kang	*384,000*	*66,000*	*-*
Wei Hwei Hong	*360,000*	*-*	*-*

If made a comparison to the directors' remunerations of FYE 2023 with the previous financial years, there was a reduction of approximately 19% of the remuneration. In fact, the Executive Directors had not received any salary increments for the past five (5) financial years. In addition, during the implementation of Malaysia Government Movement Control Order ("MCO"), the Executive Directors had voluntary took a pay cut even though the Company financial performance had recovered and performed well.

From time to time, the Executive Directors take on extra roles and face various challenges without any extra remunerations, except that the risks they expose are extremely diverse.