

CONCRETE ENGINEERING PRODUCTS BERHAD
(Registration No.: 198201008420 (88143-P))
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE THIRTY-NINTH ANNUAL GENERAL MEETING (“39TH AGM”) OF THE COMPANY HELD AT BILIK PERDANA, DEWAN PERDANA FELDA, JALAN MAKTAB, OFF JALAN SEMARAK, 50400 KUALA LUMPUR, MALAYSIA ON WEDNESDAY, 18 JANUARY 2024 AT 10.00 A.M.

The following questions were raised during the 39th AGM of the Company, which were duly responded by the Managing Director of the Company:

A. Question from Minority Shareholders Watch Group via letter.

Operational & Financial Matters

1. Financial Performance

FINANCIAL YEAR (FY)	2023 (RM'000)	2022 Restated (RM'000)
Revenue	132,680	148,276
Operating Profit	3,768	634

(Source: Page 17 of the Annual Report 2023/AR2023)

As reported above, despite recording a year-on-year lower revenue, CEPCO achieved an operating profit of RM3,768,000 in FYE2023 compared to RM634,000 in FYE2022. This represents an increase of 494.32% or RM3,134,000.

(a) What has caused CEPCO to record such a remarkable increase in operating profit?

The increase in operating profit is mainly due to the decrease in distribution costs. Most of the overseas sales are in Free on Board (FOB) agreements, this have lowered our manpower and operation cost on shipment handling.

Further, we have consolidated our transporter by bringing in new vendors as well as retaining those existing with better rates and service to bring down our carriage outward charges. Our logistic team have improved their performance with zero demurrage charge during the financial year.

Is this good performance from operations sustainable? Does the Board expect operating profit to grow further in FYE2024?

Given the improvement of the construction industry, we expected the growth to be sustained.

(b) What is the outlook for the Group revenue from both local and export markets in FYE2024?

The target revenue for FYE2024 is RM180 million. 60% for local and 40% for export market.

2. *There was a provision for the decrease in the fair value of quoted investment through profit and loss amounting to RM2,614,000 (FYE2022: An increase of RM290,000) (Page 17 of AR2023) which relates to investment in quoted shares of Inch Kenneth Kajang Rubber Public Limited Company (IKKR), a corporate shareholder (Page 102 of AR2023).*

a) *Based on the monitoring done by the Group, does the Group expect a further decrease in the fair value in FYE2024, or is the market value of this quoted investment expected to recover in FYE2024?*

CEPCO acquired this quoted investment many years ago and treated it as a long-term investment. Market sentiment will affect the share price movement. Therefore, the Group did not issue any profit forecast or profit guarantee on the mentioned quoted investment.

b) *What is the Group's policy about investing in quoted/other investments?*

So far, CEPCO did not have any group's policy on quoted/other investment. As we mentioned earlier, the investment in the IKKR share is a long-term investment and the Board will try to ensure there will not incur any actual loss or minimise the loss (if any) during the disposal period.

3. *The gross profit margin (GPM) has a slight decrease to 19.73% in FYE2023 from 20.99% in FYE2022. This is mainly due to the cost of raw materials and labour having increased significantly and offset by part of cost increase able to transfer to customers with new revised contract and quotations (Page 17 of AR2023).*

a) *To what extent will the abovementioned factors adversely impact the Group's GPM level in FYE2024? Can the Group transfer more of its costs to the customers?*

As at to-date, there is still a small percentage of delivery which will affect our GPM, but CEPCO continuing effort to negotiate with customer to pass on the price increase to end user and as a compensation, CEPCO ensure provided more value, benefits, and quality products to our customer.

(b) *What is the outlook for the Group's GPM level in the next two financial years?*

The outlook for the Group's GPM for the next two financial years is in the range of 22%-25%.

4. *To sustain and improve the Company's profit margin and operational efficiency, CEPCO, as far as it is commercially viable and financially possible, invests and upgrades its plants and machineries in order to reduce the dependency of foreign workers, machines' downtime, and implements various systems and processes to increase productivity, efficiency and cost saving (Page 16 of AR2023).*

(a) *What is the budget requirement to invest in and upgrade the Company's plants and machinery in the next two financial years?*

CEPCO budget for Capex requirement is around RM11.25 million for the upgrades.

(b) *What is the targeted improvement in the profit margin post-investment and upgrading of the Company's plants and machinery?*

After the upgrade, CEPCO targets the GPM can improve to a range of 25-30%.

B. Further questions from MSWG's representative:

1. Which export market brings the highest gross profit margin (GPM)?

To determine the GPM, is dependent on the negotiation with the customer, completion of the project on time and the foreign currency exchange rate of the export country.

2. Did CEPCO intend to export to advanced countries like Taiwan?

Whether to export to which countries is dependent on the Country's standard requirements on the building materials. Most of the Commonwealth countries like Singapore and Indonesia having the same standard with us. Taiwan followed the US Standard and others followed Euro Standard.

Furthermore, due to the logistics costs, our piles will not be competitive against piles produced in Vietnam.

C. Question from Shareholders:

1. When to pay the dividend?

CEPCO just recovered from the Covid pandemic. The last 2-3 years have been tough as the Bank tighten their borrowing to the construction industry, and our product is related to the construction industry. When the Company returns to profitability and also the need for Capex, the board will decide on a dividend declaration.

2. How much does a physical Annual General Meeting cost compare to virtual?

The virtual meeting cost is higher than the physical with a difference of around RM10,000.00.

3. How many percentages of company products are used locally and how many are exported?

Our sales consist of 60% locally and 40% for overseas markets.

4. Company products are exported to which country?

Our overseas markets cover Asia, Africa, Oceania, and the Gulf region.

5. How many local companies are producing the same product?

CEPCO has two major competitors which are Industrial Concrete Products Sdn Bhd (ICP) and Sunway Spun Pile (M) Sdn Bhd (Sunway Pile).

6. This year made a profit or loss and how much?

It is hard to quantified right now, our products delivery depend on the festive season as the site will close for long festive holidays like Chinese New Year and Hari Raya. It also depends on the offtake by the customer.

7. There are so many development opportunities in Johor, did CEPCO eyes on it?

CEPCO has a factory in Pasir Gudang to cover Johor's market.

Conclusion

There being no further question from the shareholders, the Meeting concluded at 11.15 a.m. with a vote of thanks to the Chairman.