

# MANAGEMENT DISCUSSION & ANALYSIS

## INTRODUCTION

Genetec Technology Berhad ('Genetec' or 'the Group') is a public company listed on the ACE Market of Bursa Malaysia Securities Berhad since 2005 and is principally involved in the provision of high-quality, responsive and cost-effective design, as well as responsible for manufacturing automated industrial systems, equipment and value-added services for our global customers in the Automotive-Electric Vehicle and Internal Combustion Engine, Hard Disk Drive (HDD), Electronics, Pharmaceutical, Semiconductor and Home Appliance industries.

## OBJECTIVES AND STRATEGIES

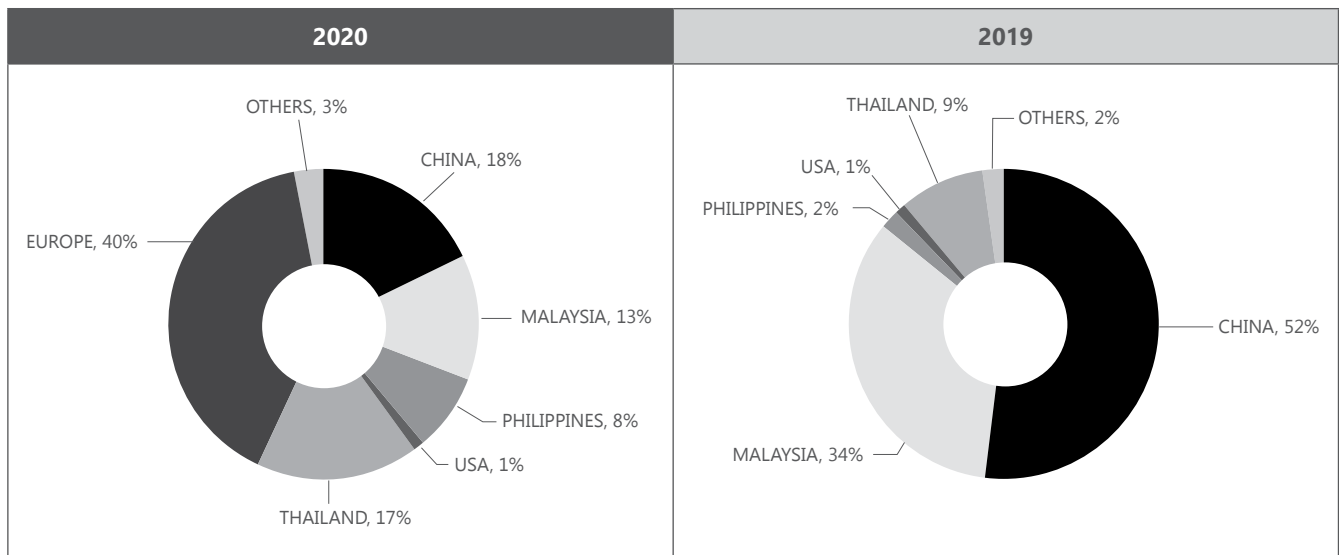
The Group aspires to be a leading supplier of customized full turnkey factory automation and stand-alone prototype equipment for mass volume production use worldwide. We are a focused supplier of customized equipment that allows our customers to increase the value and capability of their products. We set ourselves aggressive targets to support our customers with well-integrated software and technical equipment to maintain and maximize their production processes.

## BUSINESS AND OPERATIONS OVERVIEW

Currently, Genetec's business and operations consist primarily of two core sectors, namely Automotive and HDD. Our Group currently has two (2) manufacturing operations in Selangor which are located at Bandar Baru Bangi and Subang Jaya respectively.

For the year under review, 87% (2019: 66%) of our products were exported to overseas markets. In terms of geographical market segments, Europe is our major revenue contributor, followed by the People's Republic of China, Thailand, Philippines and USA respectively. Our Group recorded a revenue of RM80.3 million for the financial year ended 31 March 2020, representing a decrease of 17.4% from the preceding year's revenue of RM97.2 million mainly due to lower orders from the HDD sector.

## TURNOVER BY GEOGRAPHICAL LOCATIONS



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Revenue derived from our key Automotive sector decreased by 10.1% to RM48.1 million (2019: RM53.5 million), accounting for 60% of the Group's total revenue (2019: 55%). The revenue derived from HDD sector decreased by 41.4% to RM23.8 million (2019: RM40.6 million), accounting for 29.6% of the group's revenue as compared to 42% for the preceding year. The decrease of 12.4% was mainly due to a lower global demand. The remaining 10.4% (2019: 3%) which is equivalent to RM8.4 million is mainly derived from Electronics sector with a growth in contribution to the Group's revenue of 7.4%.

During the year, the Group was able to secure a significant growth of 40% and 8% in sales to Europe and Thailand. On the contrary, sales to China has reduced to 18% (2019: 52%) mainly due to the outbreak of Novel Coronavirus (COVID-19) pandemic which has disrupted our operations. Despite the external challenges and difficulties facing by the Group, we have been able to realign our focus to other key sectors and implemented various production flexibility measures which have enabled the Group to achieve an EBITDA of RM2.1 million (2019: RM7.7 million) for the current year. Considering the current global economy condition, we continue to devote our efforts in broadening our customer base by developing more in-depth relationships with our existing and target customers, which includes strategic diversification to expand our product portfolio, particularly in the Electric Vehicle (EV) area. The Group has also sought to increase its sales to other regions, notably in the USA which involves developing new technologies in battery technology related products with vast potential for growth.

We believe that the demand for EV and Autonomous Driving will remain strong and new sustainable energy related business to continue its upward growth momentum. Business performance in the New Sustainable Vehicle Solutions segment i.e. EV Battery will outperform the market in general and this will provide continual business growth for the Group. We expect business to improve in the second half of 2020 and given the current market condition, we are continuing to develop our key technologies in the EV market segment that has proven to be growing exponentially.

With our leading position in the development of factory automation solutions, strong product design, advanced technologies and expertise, the Group is optimistic about its business opportunities and future market development especially in the EV segment.

Research and Development (R & D) is always our long-term strategy to continuously maintain our market share in the Automotive and HDD sectors. Ongoing tailor-made training and development programs to develop our talented and highly skilled professionals had always been our top priority. This ensures continuity in our workforce and retains the required knowledge, skills, and competencies of our staff force to meet the requirements from our customers. The Group maintains its commitment in reinforcing the technological strength in production lines' automation with an aim to enhance production capacity and quality. The Group has been able to stabilise its strong foothold in the current fast-growing emerging markets.

### Profit Before Tax

Our gross profit margin slightly decreased to 19% (2019: 20%) for the year ended 31 March 2020. The Group recorded a Loss Before Tax of RM1.3 million for the current year under review as compared to a Profit Before Tax of RM4.2 million in the previous financial year. Apart from lower revenue derived from Automotive and HDD sectors, the recognition of impairment loss on goodwill of RM5.5 million (2019: RM5.0 million) had also impacted the performance of the current year.

### Administrative Expenses

For the current year under review, administrative expenses were comparable with that in the previous corresponding year with a slight increase of 4.2% to RM7.5 million (2019: RM7.2 million).

### Finance Cost

Finance costs decreased RM0.1 million or 9.1% from RM1.1 million for the previous financial year to RM1.0 million in the current year as the Group has reduced its short-term bank borrowings.

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### Statement of Financial Position

Property, plant and equipment decreased by RM1.3 million or 3.7% from RM35.4 million in previous financial year to RM34.1 million in the current year. The decrease is mainly resulted from the depreciation charge of RM2.3 million during the financial year.

The RM5.4 million other investment (2019: RM1.5 million) comprises short-term investment in a Unit Trust Investment Fund. It offers the Group the opportunity to achieve regular income stream and high level of liquidity to meet cash flow requirements while maintaining capital preservation. The Group managed to maintain stable liquidity and is able to meet its ongoing operation requirements. The Group's cash and bank balances and other investment increased by RM5.6 million from RM15.5 million as at 31 March 2019 to RM21.1 million as at 31 March 2020. The increase in cash and bank balances and other investment was mainly due to the repayment from trade debtors.

The Group generally financed its operations and investing activities by internally generated financial resources and borrowings from bank. The Group's borrowings decreased by 10% from RM17.0 million at the end of the previous financial year to RM15.3 million as at 31 March 2020. The decrease was mainly due to repayment of bank borrowings amounting to RM2.5 million offset by drawdown of bank borrowings i.e. new finance lease of RM0.8 million for capital expenditure. Our term loans position on 31 March 2020 was RM9.0 million, down 10% from RM10.0 million at the end of the previous financial year. Debt-to-equity ratio has reduced from 0.04 at the end of the previous financial year to net cash position in 2020.

Lease liabilities (current and non-current) as at 31 March 2020 was RM0.3 million (2019: Nil) due to the adoption of the new MFRS 16 Leases.

### SHARE PERFORMANCE

<b>HIGHEST SHARE PRICE WITHIN FYE2020</b>	<b>RM1.77 ▲</b>
<b>LOWEST SHARE PRICE WITHIN FYE2020</b>	<b>RM1.03 ▼</b>
<b>TOTAL VOLUME TRADED: 19,414,000 shares</b>	
<b>TOTAL MARKET CAPITALISATION: RM49.6 Million</b>	

### DIVIDEND

There was no dividend declared or paid for the financial year ended 31 March 2020 as we remain prudent in our efforts to preserve capital and enhance the liquidity position of the Group.

### RISK FACTORS

#### Foreign Currency Fluctuations

The Group is exposed to fluctuations in foreign exchange rates as most of the Group's revenue is denominated in US dollars. To mitigate the impact of the currency fluctuation towards our financial results, the Group hedges these exchange risks with forward exchange contracts for receivables and payables denominated in foreign currencies.

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### Reliance on Key Personnel

Our continuing success depends on the retention and recruitment of skilled personnel, including technical, marketing and management personnel. There can be no assurance that we will be able to successfully retain and recruit the key personnel that we require for our operations.

We monitor the organisational health of the Group and have various programs and perks in place to retain key employees. Ongoing survey and communication are carried out in understanding what our employees need and want so we could realign on a timely basis. Employee Share Option Scheme is part of our incentive policy, both for the Directors as well as for our employees. They are intended to attract and retain key talent to the Group.

### FORWARD-LOOKING STATEMENT

The Movement Control Order (MCO) which was imposed by the Government due to the outbreak of COVID-19 had a negative impact on the business operations of the Group in particularly the supply chain as well as the delivery and buy-off process of our production lines. The Group's major business contracted with production timelines range between six-month to one year and the MCO had caused deferment in our delivery of orders. The Group has increased its workforce and is currently in full production capacity to recover from the operational halt during MCO in order to meet project deliveries. The current projects which were accumulated due to MCO will be gradually completed and delivered in second half of 2020.

Although the COVID-19 pandemic is subsiding in Malaysia, we will continue to work diligently to ensure that the health and wellbeing of our staff and business partners are safeguarded. We have taken various measures to minimise the impact of the COVID-19 outbreak on our operations.

According to recent Moody's Report (June 2020), the coronavirus compounds the challenges already confronting the global auto industry and estimated that global light vehicle sales will fall by at least 20% this year, and by more in North America, Europe, the Middle East and Africa.

With the slowdown in the COVID-19 pandemic, the global Automotive sector is expected to gradually recover. In the aftermath of the coronavirus outbreak, it is also very likely to see a sharp rebound in business as the Group's customers are established global leading players in the Automotive industry. We remain confident in the longer-term outlook for the Group. Our core market opportunities in Industry 4.0 are securely attractive in the mid and long term.

The Group will continue to exercise due care in the pursuance of its existing core sectors and to explore other business opportunities. The Group strives to keep abreast of global industry trends and manufacture production lines that cater to customers' evolving needs and satisfy their high-quality requirements. We will seek growth and higher returns by leveraging on sharpening our competitive edge and stringent budgetary planning to manage our resources effectively.

The Group has a long history of maintaining resilience across market cycles. With the Group's core value and persistency in upholding its philosophy of overcoming obstacles in unity, we remain optimistic of achieving sustainable performance over the long term in the face of challenges ahead. Given its years of industry experience, leading core technologies and solid relationships with its customers, the Group is confident to continually expand its market share, drive business growth and generate satisfactory results for financial year 2021.