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 designs, as well as the manufacturing of automated industrial systems, equipment and value-added services for our global customers in the fields of Electric Vehicle (EV) & Energy Storage, Automotive, Hard Disk Drive (HDD), Consumer Goods and Healthcare.

OBJECTIVES AND STRATEGIES

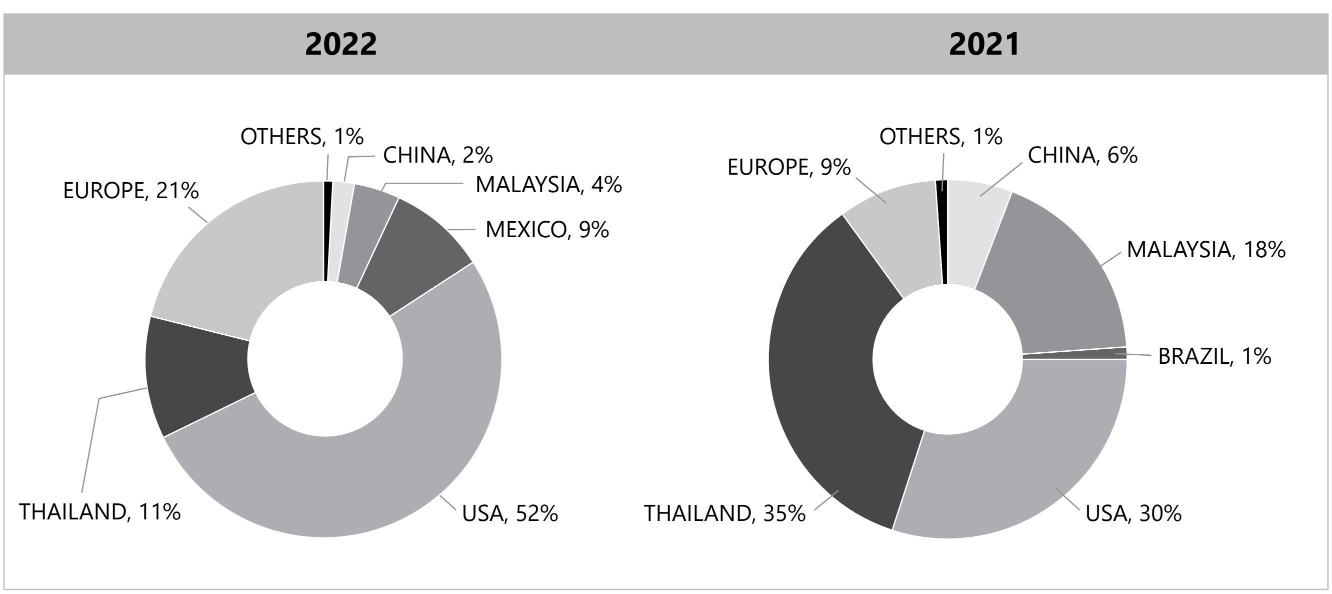
The Group aspires to be a leading supplier of customized full turnkey factory automation and stand-alone prototype equipment for mass volume production use worldwide. We are a focused supplier of customized equipment that allows our customers to increase the value and capability of their products. We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

BUSINESS AND OPERATIONS OVERVIEW

Genetec's business and operations consist primarily of three core sectors, namely EV & Energy Storage, Automotive and HDD. Our Group currently has four (4) manufacturing operations in Selangor totaling approximately 300,000 square feet which are located in Bandar Baru Bangi, Subang Jaya and Bandar Sungai Long.

For the year under review, 96% (2021: 82%) of our products were exported to overseas markets. In terms of geographical market segments, the USA and Europe are our major revenue contributors, followed by Thailand and the Mexico respectively. Notably, the USA achieved a remarkable revenue growth which contributed 52% (2021:30%) of total revenue for the year. The Group delivered a total revenue of RM223.6 million, an increase of 130.3% as compared to the previous financial year of RM97.1 million.

TURNOVER BY GEOGRAPHICAL LOCATIONS



MANAGEMENT DISCUSSION & ANALYSIS

The group delivered a solid financial performance for the year with both revenue and profit growth achieved at the highest level in history. Revenue derived from our key EV and Energy Storage sectors increased significantly by 481.2% to RM163.9 million (2021: RM28.2 million), accounting for 73.3% of the Group's total revenue (2021: 29.0%). The revenue derived from the Automotive sector increased by 42.3% to RM26.9 million (2021: RM18.9 million), accounting for 12.0% as compared to 19.5% for the preceding year. The revenue derived from the HDD sector decreased by 16.8% to RM29.7 million (2021: RM35.7 million), accounting for 13.3% of the group's revenue as compared to 36.8% for the preceding year. The remaining 1.4% (2021: 14.7%) is derived mainly from the Consumer Goods & Healthcare sectors which has decreased 78.3% to RM3.1 million (2021: RM14.3 million).

Our strong growth during the year was aided by notable trends that are impacting the world at an unprecedented pace i.e. electrification and renewable energy transition. The radical shift towards electrification in the e-mobility landscape are generating great market opportunities. Genetec's businesses are well-positioned to take advantage of secular growth trends related to the electrification transition.

The Group achieved record high growth in our EV and Energy Storage segments primarily driven by the strong book order from our existing key customer from the USA. Following long term in-depth co-operations with said customer in developing advance technologies within EV and Energy Storage which have established a firm trusting relationship, the Group begun to receive larger replenishment of orders during the year. This has created a solid platform for the Group to capitalise on its core business segments, further enhancing its technology developments in order to meet the evolving global market's needs and remain at the forefront of industry standards within EV and Energy Storage segments, hence, strengthening its global presence to maintain its world-class competitiveness.

The Group has also gradually increased the number of employees within the assembly lines in light of the level of market demand. Consistent investment in technology and innovation has enabled the Group to build Research and Development (R & D) key talents equipped with development capabilities and expertise in unique ways. This has been fundamental in supporting our customers' technology road maps, and this in turn has expanded the Group's served market opportunities. The Group will continue to explore more collaboration opportunities with worldwide business partners as well as continuing its portfolio optimization to focus on its core competency in EV & Energy Storage.

Currently, the utilisation of our production capacity is high and the expansion programme of our factory facilities has been in progress in order to cope with the massive orders from our existing key customers particularly from the EV and Energy Storage segments. In line with this objective, Genetec entered into a conditional sale and purchase agreement on 26 May 2022 for the acquisition of a piece of 99-year leasehold land in Bandar Baru Bangi measuring approximately 6.348 hectares together with erected buildings. The acquisition will not only increase our production capacity to achieve economies of scale and production efficiencies, but further strengthen the Group's leading position in the EV market.

Worldwide restrictive measures aimed at preventing and controlling the outbreak of COVID-19 has led to disruption in the supply chain. With the help of our key long-term suppliers, the Group strategically navigated through extensive supply chain management and kept serving customers effectively. We made plans to ensure additional buffers for delayed arrival times and increased the stockholding capacity for high-demand items in order to keep production lines running smoothly as well as insulating the business from raw material cost increases. Our team has done a great job in managing the evolving supply chain landscape, and a high level of business growth is sustained despite all the constrains and limitations.

Profit Before Tax

The Group recorded a Profit Before Tax of RM62.3 million as compared to a Loss Before Tax of RM4.8 million in the previous financial year mainly due to the increase in sales volume, operational efficiency and margin improvement in product mix coupled with the absence of one-off expense of RM2.8 million incurred in the preceding corresponding year in respect of share-based payment arising from the granting of share options to eligible Directors and employees.

Administrative Expenses

During the year under review, administrative expenses have increased by 24.5% to RM11.7 million (2021: RM9.4 million) as compared to the previous financial year. This is mainly due to an increase in staff costs and welfares.

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Finance Cost

Finance costs increased RM1.0 million or 111.1% from RM0.9 million for the previous financial year to RM1.9 million in the current year as the Group's short-term bank borrowings has increased by 925% to RM86.1 million (2021: RM8.4 million).

Statement of Financial Position

Property, plant and equipment costs increased by RM5.1 million or 14.3% from RM35.7 million in the previous financial year to RM40.8 million in the current year. The increase mainly resulted from the capital expenditure of RM8.1 million and a depreciation charge of RM3.0 million during the financial year.

The RM0.7 million other investments (2021: RM11.6 million) is a short-term investment in a Unit Trust Investment Fund. It offers the Group the opportunity to achieve a regular income stream and high level of liquidity to meet cash flow requirements while maintaining capital preservation. The Group's cash and bank balances as well as other investments decreased by RM11.4 million from RM43.4 million as at 31 March 2021 to RM32.0 million as at 31 March 2022. The decrease in cash and bank balances and other investments was mainly due to channeling of funds for working capital.

The Group generally financed its operations and investing activities by internally generated financial resources and borrowings from banks. The Group's borrowings increased by 436.6% from RM18.3 million at the end of the previous financial year to RM98.2 million as at 31 March 2022. The increase was mainly due to drawdown (net) of short-term borrowings amounting to RM77.7 million. With an aim to better align with the development pace and timely replenishment of its working capital, the Group continues to optimise its capital structure by securing additional facility support from financial institutions. Our term loans position on 31 March 2022 was RM7.4 million, down 5.1% from RM7.8 million in the previous financial year.

SHARE PERFORMANCE

HIGHEST SHARE PRICE WITHIN FYE2022	**RM3.822***	▲
LOWEST SHARE PRICE WITHIN FYE2022	**RM0.283***	▼

TOTAL VOLUME TRADED: 1 BILLION 801 MILLION SHARES*

* ***Has been adjusted pursuant to the bonus issue on the basis of twelve (12) new ordinary share for every one (1) existing ordinary share***

TOTAL MARKET CAPITALISATION: RM 1 BILLION 718 MILLION

DIVIDEND

There was no dividend declared or paid for the financial year ended 31 March 2022 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

The Group is ready to compete in the market for the best skills available and provide competitive remuneration to attract and retain talents. As quality and committed employees are fundamental to customer satisfaction and ultimately the success of the Group, our remuneration policy is performance linked which is designed to share the fruit of its success with employees. 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.

Ongoing surveys and communications are carried out to understand what our employees need and want so we could realign on a timely basis. Employees' 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 of the Group.

FORWARD-LOOKING STATEMENT

Given that the current global landscape is focusing on energy savings, reduced emissions and low-carbon footprints, renewable energy vehicles such as EV will continue to become a key player within the ecosystem. All around the world, the electric vehicle movement is gaining momentum. With an increasing number of countries including the USA committed to achieve net-zero carbon emissions, industry players generally expect the pace of electrification to intensify in the coming years and may achieve higher growth rates than those in the previous years.

As published by The New York Times on 2 May 2022, the Biden administration plans to begin a United States Dollar 3.1 billion effort to spur the domestic production of advanced batteries, which are essential to its plan to speed up the adoption of EV and renewable energy. President Biden has prodded automakers to churn out EV, as well as for utilities to switch to solar, wind and other clean energy, stating that transitions are critical to eliminating the pollution that is dangerously heating the planet. The Biden administration wants half of all new vehicles sold in the U.S. to be electric by 2030; it has also issued procurement guidelines to transform the 600,000-vehicle federal fleet where all new cars and trucks purchased by the federal government are zero-emission by 2035.

According to articles published by the United States Energy Information Administration in February 2022, electric vehicles and hybrids surpass 10% of United States' light-duty vehicle sale. Hybrid, plug-in hybrid, and electric vehicle sales in the United States have increased in recent months as sales of non-hybrid internal combustion engine vehicles fueled by gasoline or diesel has decreased.

Looking ahead, leveraging on favorable policies in various countries and seizing the opportunities of post-pandemic economic recovery, the group believes that there is enormous room for growth in the EV and Energy Storage segments. The EV & Energy Storage market is expected to be a key growth driver for the Group as an increasing wave of electrification boosts demand for EV & Energy Storage and related products. The Group will therefore continue to progressively deepen its strategic co-operation with existing key customers from EV and Energy Storage segments.

On top of that, the Group will explore business opportunities and cooperate with existing key customers every so often to pursue new business developments with the view to expand the business of the Group beyond its existing dimension, which is in line with the Group's business strategies of sustainable development and optimising business growth.

The Group maintains its commitment in reinforcing the technological strength and expertise in automation solutions with our aim to be the industry's top choice for automation solution providers. We will continue to focus on and heavily invest in R & D activities to continuously enhance our product quality.

Meanwhile, more cost control measures and a stringent budgetary planning will be implemented to manage our resources effectively. We will continue to realign our production strategies with market changes by making use of our extensive supply chain capabilities and masterful inventory management.

Moving forward, with the gradual recovery of global economic activities, we expect that there will be more order replenishments from our existing key customers. Backed by a strong order book in hand, our relentless focus on innovation coupled with current business momentum in the EV and Energy Storage segments, the Group is confident that 2023 will be another outstanding year with exciting opportunities ahead.