

**Uchi Technologies Berhad**  
(Company No. 457890)

**Fourteenth Annual General Meeting Held On May 24, 2012**  
**Question & Answer (Refer to questions raised by Minority Shareholder**  
**Watchdog Group (MSWG) letter dated 18<sup>th</sup> May 2012)**

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**Operations and Financial Performance**

Q1. The Chairman's Statement reported that the Group would expect lower revenue for the current financial year ending 31 December 2012 resulting in reduced bottom-line amidst rising operating costs, sluggish European markets and weakening US dollars coupled with volatile economic condition in Europe.

What would be the Board's strategic measures to address these challenges besides the need to further enhance productivity, efficiency and effectiveness of operations, product quality/delivery and control on R & D costs comprising 7% of the Group's revenue?

*A1. The Board's measures are innovations, cost improvement measures and foreign currency management.*

*(a) We still believe R&D is our reason of existence and shall remain focus on our R&D's innovation to provide customers with:*

*(i) fit solutions that will enable our customers to be the first to launch new products with new features; and*

*(ii) better cost efficient and equal performance/better performance solutions. This is crucial because we believe during economic downturn, companies will actively look for cost efficient solutions in a way to moderate the increasing operating cost.*

*We believe these are the 2 main factors to retain existing customers and attract new customers or new project from existing customers. As such, the Board of Directors introduced UCHIitecture.*

*UCHIitecture is designed with faster prototyping facility and necessary facility to enabled customers to set up their design team right at our office, if needed. The intention is to shorten design cycle and at the same time escalate our customers' dependency on Uchi in providing fit and fast solution.*

*The Company has been participating in the electronic exhibition every year to promote our R&D capabilities. We managed to attract potential customers and there are some new projects already in the R&D pipeline but still in the technical discussion level. We shall announce thru Bursa website should these R&D projects and customers' orders are finalised.*

*(b) In an effort to further improve cost efficiency, the following actions have been in placed:*

*(i) UCHItecture is equipped amongst others, with the followings in order to enhance operational efficiency and quality improvement:*

- QA reliability test room to enhance the quality of our products;*
- Super-market style Logistic flow to improve capital management efficiency*
- customizable production line arrangement to provide flexibility in handling various customer request in production*
- state-of-the art facilities i.e. vertical machine center, testing jigs, high resolution scopes, customised electrical and mechanical laboratory to enhance efficiency in meeting customers' demands.*

*ii) our R&D team are actively involved in product re-engineering where we endeavour to apply common components in our design. This will reduce the storage and logistic cost of components.*

*iii) New Logistic Concept is executed in order to improve production efficiency. Under the New Logistic Concept, small orders are combined for manufacturing.*

*iv) Vendor Management Inventory system where some vendors agree to keep material at their premises. In return, we assure them of long term purchase.*

*v) Safety Buffer Stocks system where we shall keep safety stocks for long lead time component in order to secure smooth operations.*

*c) we recognized the impact of weakening US Dollar against the bottom line. Therefore, we endeavour to enter into forward contract to sell forward US Dollar at a rate not less than the exchange rate we use for product costing. Other than this, there are natural hedge of around 30% of the revenue against purchases in US Dollar.*

*As of May 21, 2012, around 77% of the firm orders on hand are hedged at RM3.1329 per US Dollar.*

Q2. The upcoming Phase III building extension project, which the Board expects its completion by the year end, would reinforce the Company's R & D capabilities and its efforts to develop the Group's innovative product offerings.

- (a) What would be the new products and component products which the Board has planned to launch for diversifying the Group earnings base whilst at the same time, solidly positioning itself as a niche market player and key manufacturer of high end automated coffee modules currently affected by adverse weakening consumer sentiment and on-going crises in Europe?
- (b) In a recent stockbroker research report, it was mentioned that the Board's launch of two new products was inadvertently delayed as a result of supply disruption of microprocessors from its supplier, Renesas. How would the Board rectify and avoid the recurrence of this situation?

A2. (a) *There are about 30 over projects in the R&D pipeline, which inclusive of:*

- (i) *models with TFT-LCD feature. This is the latest feature in existing product group which receive good demand / respond; and*
- (ii) *Component products namely infrared module (IRM) and encoder*

*These are new product groups where Uchitec develops standard component products, which is more cost efficient and better performance to replace the existing solutions available in the market.*

*Both IRM and encoder is currently in the development stage. We target to launch encoder by end of this year while IRM in 2013. We shall announce thru Bursa upon received firm orders.*

- (b) *We are not aware of any such recent stockbroker research report and are confused about its statement.*

*In fact, the delay in the launch of the two new projects was due to Renesas supply disruption as a consequence of Japan earthquake occurred in second half of 2011. This issue has been resolved in the even year. Apart from this, we are not aware of any recent case of supply disruption from Renesas.*

*The microprocessor supplied by Renesas is a custom made part. Uchi developed the software and provide Rom Code to Renesas for manufacturing. In order to ensure ownership and to protect the intellectual property of Uchi, Uchi entered into Confidentiality Agreement with Renesas. As the engagement of manufacturer*

*for microprocessor involved sharing of intellectual property, Renesas remains our sole supplier.*

*However, we recognized the risk of supply disruption due to sole supplier. Therefore, it is our practice to request our customers to keep certain level of buffer stocks at our premises in order to secure the delivery of their order. The customers shall pay us in advance to secure the buffer stocks at our premises.*

Q3. The segment information in Note 30, page 84 reported that major customers (Customer A and Customer B) accounted for 82.6% of the Group's revenue 2011: 84.5%. The segment information disclosed that the Group's revenue from continuing operations from its major products and services in mixed signal microprocessor-based application and system integration products amounted to RM103.13 million (2011:RM100.39 million).

Going forward, how would the Board plan to mitigate this high concentration of credit risk in the geographical segment/location upon completion of the Phase III building extension project in the future? Are there any plans to broaden the Group's customer base through innovations in its business model, operations, product offering, services/delivery and markets.

A3. *Uchi is an Original Design Manufacturer who design and manufacture only electronic modules. We deliver the electronic modules to our technical partner (Direct Customer), Customer A for them to assemble our electronic modules into our End Customer's end products. Although our accounts show high concentration of one Direct Customer, the decision to appoint Uchi to supply the electronic modules lies with the End Customers and not the Direct Customer.*

*We have been actively involved in international exhibition every year to introduce Uchi and our products and services. There are projects from new customer currently in the research and development pipeline.*

*Our account shows high concentration of one direct customer. In fact, Uchi is actively involved in project discussion with the direct customer and end customers, frequent customer meeting and customer visit to the direct and end customers. These, to certain extent, enable Uchitec to gain insight into the credibility of our direct and end customers.*

*The Group's average number of days receivable for the past 5 years, from 2007 to 2011 was 38 days. The Group has never write-off any bad debts since listed in 2000.*

## **Corporate Governance**

Q4. MSWG is promoting standards of Corporate Governance best practices in PLCs. In this regard, we hope the Board would give due consideration to address the following issues:-

A) Malaysian Code on Corporate Governance (MCCG) 2012 – Principle 3: Reinforce Independence.

(a) The Board must comprise a majority of independent directors where the Chairman of the Board is not an independent director in accordance with recommendation 3.5 of MCCG 2012.

(b) Formalise a policy on succession planning, evaluating the directors credentials and ability to serve effectively in the interest of shareholders including the tenure limits for independent directors to be in line with Principle 3 of MCCG 2012 which stipulates that the tenure of an independent director should not exceed a cumulative period of nine (9) years.

B) Encourage the Board to make public its Board Charter in line with recommendation 1.7 of the MCCG 2012.

*A4. The Board of Directors is aware of the released of Malaysian Code on Corporate Governance (MCCG) 2012.*

*It is in our agenda to discuss in the coming Board of Directors meetings and we endeavour to comply with the recommendation of MCCG 2012 at the earliest possible date.*