Uchi Technologies Berhad

(Company No. 457890)

Fifteenth Annual General Meeting Held On May 28, 2013
Question & Answer (Refer to questions raised by Minority Shareholder Watchdog Group (MSWG) letter dated 22th May 2013)

Strategic and Financial Matters

Q1 As stated in the Managing Director's Statement, due to the decrease in global market demand, the Group's revenue was reduced by 12% from USD33.8 million in 2011 to USD29.8 million in 2012 and operating profit declined from RM45.2 million in 2011 to RM40.5 million in 2012. The Group managed to maintain its operating profit margin at 44%, largely due to the effectiveness of the cost-cutting measures undertaken by the Group.

(i) What are the key strategies to sustain the operating profit margin for 2013?
(ii) Does the board foresee an increase in global market demand in the near future?

A1 (i) In consideration of the unfavourable economic climate and the challenges that we encounter in the current year, at this moment, we anticipate revenue growth for the year ending 2013 is likely to remain flat and operating profit margin shall be squeezed by a lower single digit percentage. Nevertheless, the Group is confident that we will remain profitable and maintain a strong balance sheet.

The key strategies undertaken by the Board to address these challenges include enhancing technical innovations capabilities, 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:

- fit solutions that will enable our customers to be the first to launch new products with new features; and

- 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.

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

(aa) 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, in-house designed tailored testing jigs, high resolution scopes, customised electrical and mechanical laboratory to enhance efficiency in meeting customers' demands.

(bb) 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.

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

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

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

(c) we recognised 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.

(ii) Based on the customers forecast and order placed to-date, we anticipate that the revenue growth for the year ending 2013 is likely to remain flat.

Pertaining to the trend of global market demand, we are not the expertise in global economic and therefore are not in a position to comment.

Q2 The Group has announced that it has more than 30 new projects in the R&D pipeline that are scheduled to be launched in 2013 & 2014. With approximately 80% of the Group's revenue contributed by high-end consumer appliances such as fully automated coffee machines, could the Board explain if the projects in the pipeline would see the Group move into a new market segment?

A2 The 30 over projects in the R&D pipeline mainly consist of control modules for fully automatic coffee machines and high precision weighing scales, which form the main contributor to the Group's revenue.

Apart from the above, there are also new products, which are currently in its initial stage of basic research and development. Bonded by the Confidentiality Clause in our Agreement with the customer, we are restricted to disclose any information at this moment to any third parties until the projects are launched.

However, the Board is aware of its responsibility to ensure informative, timely and accurate disclosure of material information concerning the Company to the public and shall make necessary announcement when necessary.

Q3 The Group has officially begun operating its new facility, UCHItecture, early this year. Has this facility yielded any positive results for the Group and its customers so far?

A3 UCHItecture was completed early 2013 and the Company has officially commenced operation in UCHItecture on February 27, 2013. As of to-date, facilities are all in placed as planned but we are now still in the midst of synchronizing the new facilities and the operational procedures.

However, we expect UCHItecture to contribute in terms of operational efficiency via enhanced logistics circulations and assembly area automation, fostering closer business relationship with customers and tightening customer dependency upon Uchitec.

Q4 The Group's revenue is primarily derived from exports to Europe. By promoting the products in Taiwan, Hong Kong and Germany, the Group is looking to diversifying the Group's market segment. Could the Board provide more information on its plans to compete in these new markets?

A4 Uchitec is an Original Design Manufacturer, specializes in providing innovative solutions application in higher end products, which mainly originated from Europe. This explained the good margin we command and the concentration of our customer base in Europe.

In order to diversify our customer base, we put effort to take part in electronic exhibition. We participated in several exhibitions in Hong Kong and Germany but so far, we did not have projects yet to contribute significant turnover. We are also working on new projects with existing customer to provide always new machines to market in order to maintain similar level of margins.

Providing innovative solutions is our value to customers. Therefore, enhancing R&D capabilities is the most important criteria for us to compete in any market.

Apart from the key strategies that Uchitec undertaken as stipulated in Question (1), the Company planned to increase its R&D workforce from the current 40 over headcounts to 50 headcounts by the end of year 2014.

Corporate Governance Matter

Q5 Resolution No. 7 – Proposed authority to grant options to Mr. Chia Tong Saik

MSWG does not encourage the practice of giving ESOS to non-executive directors as they are there to monitor the ESOS allocation to the employees and the executive directors. They also play an important Governance role in the company. Thus their fees should commensurate with their roles and responsibilities as well as size and risk of the operation of the company.

We noted that Mr. Chia Tong Saik is a non-executive director of the company. Could the Board clarify the rationale for the proposal?

A5 Grant of options to Mr. Chia Tong Saik was proposed in accordance to the Bye-Laws of Employee Share Option Scheme 2006 ("ESOS 2006"). The Bye-laws specified rules, terms and conditions of the ESOS 2006, which was established in accordance to the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and approved by the shareholders in 2006.

The rationale for the proposal in respect of Non-Executive Directors, is to attract and retain capable individuals whose contributions are significant to the Group in light of the responsibilities and liabilities inherent in their appointments, albeit in non-executive capacities.

Grant of options to Directors has been consistently applied since 2006. In order to manage the concerns over distraction of the oversight responsibilities of the Directors, the Company has practised the following measures since the establishment of ESOS 2006:

a) The responsibility to oversee the ESOS allocation does not fall only on one Director, but it is the responsibility of the Audit Committee as a whole. The Audit Committee currently consists of 4 members. The ESOS allocation is reviewed by the Audit Committee with the Directors do not participate in the deliberation or discussion of their own allocation, if any.

b) The Company grants option to eligible persons quarterly in February, May, August and November and the date of offer was fixed on the 10th or the immediate working day before 10th should 10th is a non-working day. While for Director, options shall be granted on the same working day upon shareholders' approval. This is to ensure that the Management or Directors will not manipulate the ESOS for personal gain.

With the above measures, the Board is confident that the highest standards of corporate governance are observed throughout the Group so that the affairs are conducted with integrity, transparency and professionalism with the objective of safeguarding shareholders' investment, enhancing shareholders value as well as the interests of other stakeholders.