AYS VENTURES BERHAD
(925171-T) (Incorporated in Malaysia)

Our Ref: AYSV/IR/PN/CORR(SH)/001-2020

25 August 2020

Badan Pengawas Pemegang Saham Minoriti Berhad
Tingkat 11, Bangunan KWSP
No. 3, Changkat Raja Chulan
Off Jalan Raja Chulan
50200 Kuala Lumpur

Kind Attention: Mr. Devanesan Evanson

Dear Mr. Devanesan,

Re:9th Annual General Meeting ("AGM") of AYS Ventures Berhad ("AYS" or "the Group" or "the Company") held on Tuesday, 25 August 2020.

Thank you for your letter dated 7 August 2020, of which we only received from your Mr Norhisam on the AGM day i.e. 25 August 2020. Nevertheless, we have answered the questions raised at the AGM. We are pleased to append below the following written replies to the questions raised: -

Strategy & Financial Matters

1. **Covid-19 Pandemic**

   To what extent has the pandemic impacted the Group's business prospects?

Answer:

The global spread of Covid-19 pandemic has a negative impact on the global economy as well as Malaysia's economic growth and fiscal position. Global economic and business activities saw a sharp decline due to the implementation of pandemic global lockdown measures to contain Covid-19 pandemic. The outlook for the global economy is highly uncertain, depending on the duration and magnitude of the pandemic.

The Board anticipates that the prospects and performance of the Group will remain challenging in the upcoming financial year in view of the uncertain outlook on the timing and rate of recovery of the global economy going forward as a result of on-going Covid-19 pandemic, the continued US-China trade conflict, uncertainty in crude oil price, volatility in commodity prices and foreign exchange rates. Nevertheless, the Group will continue to exercise caution in managing the businesses and will focus on improving its performance and growth to strengthen its financial position.

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2. **Despite reporting a 28.2% increasing revenue of RM768.212 million in FY2020 (FY 2019: RM599.347 million), AYS has suffered its first annual loss since its listing in 2012. The recorded loss before tax for FY2020 is RM7.781 while FY2019's profit before tax was RM21.127 million (Page 13 of the Annual Report 2020).**

   How does the Board plan to address the first annual loss recorded since its listing?

Answer:

The Group's financial performance in FY2020 was affected by the global macroeconomic weakness and poor business environment mainly contributed by the US-China trade war and overcapacity of steel mills, fluctuation in the foreign currency exchange rates and later the Covid-19 pandemic. Most of the outlined above are pertaining issues faced by the industry. However, in order to address to these issues in the long term, the Group has to shift its focus into providing value added services and increasing overall efficiency to ensure long term business profitability.

In order to increase revenue in the region and capture larger market share to strengthen the Group's liquidity, cost cutting measures has been put in place in all business entity. The Group is restructuring its business models to focus resources on core businesses, hence the cessation of non-core business units. The warehouse rationalization program is still on-going and will be focusing on improving overall efficiency of the supply chain and lowering inventory holdings to achieve an optimum inventory turnover as well as lower the interest expenses.

3. **The acquisition of Steelaris will strengthen AYS's position as a steel distributor and service provider, reinforcing AYS's footprint in the Asia Pacific region. Singapore is an important distribution point in the supply chain. With the proximity advantage and operational synergies, the acquisition will enable AYS to secure upcoming projects in Singapore and expand its customer base (Page 16 of the Annual Report 2020)**

   a) How will the acquisition of Steelaris strengthen AYS's position as a steel distributor and service provider in the Asia Pacific region?

Answer:

The acquisition fits into the AYS business expansion plan and vision to excel as the regional steel distributor. Singapore is an important distribution point in the global supply chain. The acquisition create synergies for the combined AYS and Steelaris through, amongst others, revenue synergies as the Group is able to grow its customer base and market share beside procurement synergy.

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This acquisition will further enable AYS to capitalize on its existing warehousing resources to further expand its existing business.

Evidently, the Group saw an increase in its customer base, export businesses and also the demand for value added services in FY2020. Steelaris has contributed RM181.473 million in revenue and RM2.863 million in profits in FY2020. The Group's export sales stands at 35% of the Group's total revenue in FY2020.

b) What are the upcoming projects in Singapore that AYS intends to secure? How much are the projects worth?

Answer:

The Singapore Government has announced support measures to sustain the economy and continue with on-going major infrastructure projects. The current high profile projects in Singapore include Changi Terminal 5, Tuas Mega Port, Greater Southern Waterfront redevelopment and Integrated Waste Management Facility. All through to 2031, Singapore will set aside nearly S$100 billion to build roads, rails and active mobility projects. The new Mass Rapid Transit stations and new lines will consume significant amount of structural steel over the next decade. The Singapore government is currently pushing the construction of dormitories due to the fast spreading Covid-19 Pandemic, where Steelaris is actively partaking in the scope of supplying of materials.

4. What are the latest capacity utilization rates for the Group's plants? What are the planned utilization rates for the plants in FY2021?

Answer:

The optimum production capacity of the Purlin plant is 66.67% of the design production capacity. The actual production for FY2020 was 56.15% of the design production capacity. The optimum production capacity of the Service Centre is 83.33% of the design production capacity. The actual production for FY2020 was 4.99% of the design production capacity.

The Group has seen an improved demand for Purlins and the value-added services as provided by the Steel Service Centre. However, due to the disruption to businesses and plants shut down as a result of the Covid-19 pandemic, the plants will see a lower than expected utilization rate for FY2021.

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5. **The Group's borrowings increased by RM43.778 million to RM355.378 million with gross gearing and net gearing ratio of 1.37 times and 1.24 times respectively as compared to RM311.600 million with gross gearing and net gearing ratio of 1.14 times and 1.07 times respectively as at end of the FY2019. The increase in the borrowings resulted from the working capital requirements of the new subsidiary (Page 14 of the Annual Report 2020)**

   What is the Group's optimal gearing level?

Answer:

The higher gearing ratios in FY2020 was due to incorporation of new subsidiary's financial position, and higher working capital requirement by the new subsidiary. However, it is still within the acceptable level of leverage.

It is part of the Group business strategy to improve its gearing. We aim for an optimal gearing of 1 time in the long run. However, this may be impacted by changes in the market situations whereby higher gearing is unavoidable such as during down times where the Group would be faced with longer trade receivables and inventory days.

Corporate Governance Matters

1. **The Company in its Corporate Governance Report for FY2020 (Page 9) states that it has applied Practice 3.1 of the Malaysian Code on Corporate Governance (MCCG).**

   The Company states that the Code of Business Conduct is available on the Company's website at www.ays-group.com.

   However, we are unable to locate the Code of Business Conduct on your corporate website. Please take note.

Answer:

The Code of Business Conduct was earlier uploaded onto the Company's website under "Corporate" section. However, due to the recent Corporate Website revamp, the Company had inadvertently left out the Code of Business Conduct but we assure that this is rectified immediately. The Code of Business Conduct has been uploaded to the website in the "Governance" directory under "Corporate" section. The URL is as below:

http://ays-group.com/governance.php

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2. **The Company in its Corporate Governance Report for FY2020 (Page 20) states that it has applied Practice 6.1 of MCCG.**

   Practice 6.1 of MCCG expects that the board has in place policies and procedures to determine the remuneration of directors and senior management, which takes into account the demands, complexities and performance of the company as well as skills and experience required. The policies and procedures are periodically reviewed and made available on the company's website.

   However, we are unable to locate the policies and procedures on your corporate website. Please take note.

Answer:

The Company has not uploaded the full policy and procedure on remuneration on the Company website but has extracted and summarized it in the Corporate Governance Overview Statement, as disclosed on pages 19 to 26 on the annual report which is available on the Company's website.

3. **The Company in its Corporate Governance Report for FY2020 (Page 29) states that it has applied Practice 8.5 of MCCG.**

   The Company has not applied Practice 8.5, as not all members of the Audit Committee have attended formal training programmes or seminars for continuing professional development (Pages 22-23 of the Annual Report 2020) relating to the development in accounting and auditing standard, practices and rules.

Answer:

We wish to highlight that all the Audit Committee members were briefed thoroughly on the adoption of New Standards / Amendments / Improvements to MFRS as stated in Notes 2.4.1 to the Financial Statements, by our external auditor, Grant Thornton Malaysia PLT and the Board views that this satisfies the application Practice 8.5 of MCCG.

4. **The amount paid as non-audit fees amounted to RM177,725 and is 130.68% of the audit fees of RM136,000 in FY2020 (Page 46 of the Annual Report 2020). The non-audit fees incurred were for the report on the Statement of Risk Management and Internal Control (RM5,000) and the due diligence exercise prior to the acquisition of the 51% equity interest in Steelaris Pte. Ltd. (RM172,725).**

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What is the Group's policy in relation to non-audit fees paid to the auditors?

Answer:

The Audit Committee reviews all audit and non-audit fees prior to the confirmation of services. The non-audit fees of RM172,725 was considered fair in view of the scope of work carried out by the external auditors. The Audit Committee had assessed and affirmed that the non-audit fees paid does not impair the independence and objectivity of the external auditor.

Thank you.

Yours faithfully,
AYS VENTURES BERHAD

Oh Pooi Foon, Jess
Group Managing Director

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