ANCOM LOGISTICS BERHAD

55TH ANNUAL GENERAL MEETING

Questions raised by
Minority Shareholders Watch Group

SUMMARY

	Questions	Answers
1	Cost cutting measures.	• Focus on Cost of Sales. • Gross profit margins improved to 22.8% (FY2021) from 21.7% (FY2020). • Salary cuts, delaying major repair & maintenance, reduction in other overhead costs, no replacement for resign staff
2	Trucking business: • Utilisation rate • New normal and manpower constraints • Outlook for FY2022 • Truck replacement • Annual capex on trucks	• Utilisation decreased by 10% in FY2021 compared to FY2020 (Q4 FY2020 was first MCO). Normal truck utilisation is 70%. During MCO - as low as 10%. • Minimal manpower constraints. Regular COVID tests and SOP compliance added to operating costs. • FY2022 outlook highly dependent on overall recovery as reopening of all economic sectors taking place post pandemic. • 32 trucks replaced since FY2018. Current fleet size is 86 trucks. 44 trucks < 5 years. 6 trucks > 15 years. • Capex RM1.2m (FY2021) to replace 5 trucks in FY2022.
3	Status on the Proposed Acquisition of S5 Holdings Inc	• S5 to finalise negotiations on its business contracts. • Due diligent being carried out.
4	Admin expenses	• Expenses and provision relating to corporate exercise.
5	2-tier voting for independent directors	• Independent directors have maintained independence and free from any business relationships that can interfere with their judgements. • Board will continue to review and take note of this recommendation.
6	Diversity Policy	• Appointment of new directors guided by skills, knowledge, experience and qualifications. • Overall skills and experience of Board members are important for an effective Board.

DETAILED ANSWERS

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OPERATIONAL AND FINANCIAL MATTERS

MSWG Question – Q1

In FY2021, the Group posted lower revenue of RM30.5 million compared with RM30.9 million last year. Despite lower revenue, profit before taxation grew from RM2.1 million to RM2.3 million in FY2021, mainly attributed to cost cutting exercises and better performance in the investment holding activities (page 12 of Annual Report (AR) 2021).

What are the cost components subjected to the cost cutting exercises in FY2021?

How much costs did the Group reduce in FY2021?

Company's response

- The cost cutting measures primarily focused on the Cost of Sales. As a result of these measures, the gross profit margin improved to 22.8% in FY2021 compared to 21.7% in FY2020.
- Measures include salary cuts for management team for 6 months, delaying major maintenance and repairs work, and reduction of other overhead cost due to non-operation.

OPERATIONAL AND FINANCIAL MATTERS

MSWG Question – Q2

Trucking business under Pengangkutan Cogent Sdn Bhd ("PCSB") operated under a highly disruptive environment in FY2021. Business volume decreased, and revenue declined to RM19.5 million in FY2021 compared to RM20.3 million in the previous year, while segmental profit before taxation declined to RM1.0 million from RM1.2 million last year (page 12 of AR 2021).

(a) What was the average utilisation rate of the fleet of trucks in FY2021? How does that compare to the average utilisation rate before the pandemic i.e. FY2020?

(b) With the recent relaxation of Covid-19 restrictions, how has the Company finetuned its trucking's operations to adapt to the new operating environment? Is the Group affected by manpower constraints?

Company's response

- The average utilization rate in FY2021 has reduced by 10% compared to FY2020. Our financial year end is 31 May and the 4th quarter of FY2020 was hit by the 1st MCO imposed at the start of the pandemic from 18 March 2020. The normal utilization of our fleet is 70% and it went as low as 10% during the MCO period.

- The new operating environment requires regular COVID test on all drivers and strict SOP compliance by many of our customers including port, customs and immigration authorities.. This has led to higher operating costs and more administrative procedures. Currently the Group is not facing acute manpower constraints although several truck drivers resign.

OPERATIONAL AND FINANCIAL MATTERS

MSWG Question – Q2 (continued)

Trucking business under Pengangkutan Cogent Sdn Bhd ("PCSB") operated under a highly disruptive environment in FY2021. Business volume decreased, and revenue declined to RM19.5 million in FY2021 compared to RM20.3 million in the previous year, while segmental profit before taxation declined to RM1.0 million from RM1.2 million last year (page 12 of AR 2021).

(c) Given that the trucking business depends on demand for transportation of chemical products, what is the Company's view on the outlook for petrochemicals industry in 2022? What is the expected impact of the prolonged pandemic on trucking's operations and financial position in FY2022?

(d) PCSB has embarked on its truck replacement program since 2018, how many trucks have been replaced to-date and how many more are left to be replaced? Please provide current fleet size and age of trucks.

(e) What is the annual capex for replacement of trucks?

Company's response

- We are still at the early stages of post pandemic situation and the outlook of the trucking operations will be shaped by the overall recovery of the economy. As the country progresses towards reopening of all economic sectors, we are hopeful that our operations will resume back to the normal level.

- Since FY2018, we have replaced a total of 32 trucks. Our current fleet size is 86 trucks of which 44 trucks are less than 5 years and 6 trucks which are more than 15 years old.

- In FY2021, our capex on motor vehicles is RM1.3 million compared to RM2.4 million in FY2020. We plan to replace 5 trucks in FY2022.

OPERATIONAL AND FINANCIAL MATTERS

MSWG Question – Q3

ALB together with its holding company, Ancom Berhad, had on 16 July 2020, entered into a Heads of Agreement ("HOA") with S7 Holdings Sdn. Bhd., Merrington Assets Limited, MY E.G. Capital Sdn. Bhd. and Avocat Sdn. Bhd. for, amongst others, the Proposed Acquisition of the entire share capital of S5 Holdings Inc (page 13 of AR 2021).

What is causing the delay in the progress of negotiations with the vendors of the Proposed Acquisition as it has been more than a year since the Company entered into a HOA?

Company's response

- On the part of ALB, we have conducted the necessary due diligent on the financials, legal and operational under the requirements for RTO exercise.

- The delay is mainly due to the extended period of time on S5 Holdings Inc negotiations with regards to its business and contracts.

- We shall make appropriate announcement when they is update on this Proposed Acquisition.

OPERATIONAL AND FINANCIAL MATTERS

MSWG Question – Q4

"Administrative and other operating expenses" have increased by 16% from RM4.65 million in FY2020 to RM5.39 million in FY2021 (page 51 of AR 2021).

(a) What are the reasons for the increase in administrative and other operating expenses? Please provide a breakdown of the expenses.

(b) What are the Company's pro-active efforts to improve the cost structure?

Company's response

The higher administrative and other operating expenses is mainly due to additional expenses incurred in relation to the RTO exercise of approximately RM600k in FY2021 and the appointment of Deputy Group CEO in the middle of FY2020. In FY2021, the payroll costs is for the full financial year.

The management is pro-actively monitoring the operational cost structure i.e. the cost of sales, which have resulted in better profit margins in FY2021 compared to FY2020 despite lower sale volume. In terms of head office expenses, the management will continuously strive to maintain a lean operating expenses.

CORPORATE GOVERNANCE MATTERS

MSWG Question – Q5

Under Practice 4.2 of the Malaysian Code on Corporate Governance ("MCCG"), it is stated that "If the board intends to retain an independent director beyond nine years, it should justify and seek annual shareholders' approval. If the board continues to retain the independent director after the twelfth year, the board should seek annual shareholders' approval through a two-tier voting process".

Mr. Lim Hock Chye ("Mr. Lim") and Encik Safrizal Bin Mohd Said ("Encik Safrizal") have served the board for 18 years 10 months and 17 years 11 months respectively as the Independent Non-Executive Directors. The board will seek shareholders' approval for Resolution 9 and Resolution 10 to retain Mr. Lim and Encik Safrizal to continue to act as the Independent Directors of the Company until the conclusion of next Annual General Meeting (AGM) of the Company. The board has decided not to adopt the two-tier voting process for the said approval (Page 101 of AR 2021).

Based on the Company's reply letters dated 16 October 2019 and 21 October 2020 to MSWG's letters dated 7 October 2019 and 13 October 2020 respectively, the Company responded that the board would discuss on this matter and consider the suggestion by MSWG to adopt the two-tier voting process. What is the board's concern in adopting two-tier voting for resolutions to retain Mr. Lim and Encik Safrizal as the independent directors?

Company's response

- As disclosed in pages 27 and 28 of the Annual Report, the Board is of the opinion that the Mr. Lim and En. Safrizal have maintained their independence and freedom from any business or other relationship which could interfere with their exercise of independent judgement and to provide the necessary check and balance.

- Nevertheless, the Board will continue to review and take note of this recommendation of 2-tier voting process.

CORPORATE GOVERNANCE MATTERS

MSWG Question – Q6

ALB in its Corporate Governance (CG) Report 2021 states that it has applied Practice 4.5 which requires the board to disclose in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. Currently, the Company does not have any women directors on the board. The board has formulated a Diversity Policy but there was no disclosure in its annual report on gender diversity targets and measures to meet those targets. Hence, the Company has not applied Practice 4.5.

Does the board plan to have women directors? If so, by when?

Company's response

- The Board is supportive of the of gender diversity of the Board. However, the appointment of new directors will be guided by skills, knowledge, experience and qualifications and not just on gender and ethnicity alone.

- The appointment of directors are based on merit and in the context of the overall skills and experience for the Board to be effective.