

SUMMARY OF KEY MATTERS DISCUSSED AT THE 8TH AGM OF INARI AMERTRON BERHAD HELD ON 27 NOVEMBER 2018

PART A: KEY MATTERS DISCUSSED BY SHAREHOLDERS

No.	Questions raised by shareholders/proxy	The Company's responses
1.	<p>What is the impact of the slowing down in iPhone sales on the Company's revenue and profitability, and is the weakening MYR against USD beneficial to the Company?</p>	<p>Despite the market sentiment does affect the sales of the end consumer products, our RF production which represents the major revenue contribution to the Group did well in FY2018. As an OSAT company, we work closely with our customers and diversify into other relevant products along with them.</p> <p>The weakening RM against USD is beneficial to the Company.</p>
2.	<p>What is the expected increase in the volume of RF production arising from the transition of 4G to 5G?</p> <p>What is the cost of a RF tester machine?</p> <p>While the trend is moving towards 3D sensing, why is the Company still developing 2D sensing?</p> <p>Latest development of Plant 34 in Batu Kawan.</p>	<p>We do not have an actual estimate, however, the increase in the number of testers consigned by our major customer is a good indicator for the increase in RF production. We had approximately 850 testers in FY2017 and it increased to 988 testers in FY2018.</p> <p>The estimated cost of a tester is around USD1.0 mil.</p> <p>As an OSAT company, we render our manufacturing services to our customers whereby if the job order received is to produce 2D sensing product, we will deliver to their orders. We have also lined up with 3D sensing product too.</p> <p>Construction of Block A with a floor space of 240,000 sqft has been completed and we target to build in the facilities by Jan-March 2019. Production of a new product is expected to commence by second half of 2019.</p>
3.	<p>Given that 5G requires more RF filters, does it mean this will generate more revenue for the Company?</p>	<p>We provide value added services to our customers and charge them based on the activities performed. As the adoption of 5G will increase the number of RF filters, therefore the activities performed will increase accordingly.</p>
4.	<p>What is the application of health sensor and MiniLED?</p>	<p>Health sensor is mainly used in lifestyle apps and activity tracker devices such as wearables and smartphones. We are in the right technology area as there is growing demand for health conscious real-time monitoring devices. MiniLED is mainly used in billboard advertisement. Our MiniLED production has started in small scale and it is important project for our Company which aligns to digital and modern applications.</p>

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5.	<p>Will the adoption of 5G lead to impairment/write off of plant and machinery?</p> <p>Is Plant 34 allocated for new customer in the LED segment?</p> <p>Is the Company in negotiation with new customers to take up Blocks B & C of Plant 34?</p> <p>What is the ratio of 4G to 5G in RF adoption of 5G?</p>	<p>Our equipment can be used for a range of manufacturing activities and should not normally incur impairment. And for those specialised equipment which may incur impairment if targeted projects do not take off, cost of such equipment will be borne by the customers. Those equipment that are owned by us will continue to produce for a fairly long period of time, typically over 10 years, after which impairment is minimal.</p> <p>Block A has been allocated to one of our current customers while Blocks B & C are targeted for new customers. We endeavour to diversify our customer base while still maintaining good relationship with our existing customers.</p> <p>There are potential customers for the remaining 2 blocks, however, we are qualifying customers to select those with good products margin in the niche segments.</p> <p>In general, the ratio of 4G to 5G is about 4 times faster based on information available in the technical website.</p>
6.	<p>In FY2017, there was a grant income of RM7.56 mil. However, why is there no grant income in FY2018?</p>	<p>The grant income in FY2017 was granted by MIDA to our 100% owned subsidiary, Inari South Keytech Sdn Bhd for R&D activities. In December 2017, our 100% owned subsidiary, Inari Integrated Systems Sdn Bhd also obtained another grant of RM100 million to modernise and upgrade the manufacturing facilities, equipment and machineries for the manufacture of Advanced Communication Chips and Die Preparation. During the year, yet another 100% owned subsidiary, Inari Semiconductor Labs Sdn Bhd received its first MIDA claims of RM4.5 mil but it was recognised into balance sheet.</p> <p>Treatment of grant in profit or loss or in balance sheet is subject to MFRS. Government grant which is used for R&D or operating expenditure will be recognised in profit or loss while grant used for capital expenditure will be recognised in balance sheet.</p>

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7.	<p>Any expansion plans for the Philippines and Kunshan operations?</p> <p>Any development on the potential collaboration or merger & acquisition with PCL Technologies Inc?</p>	<p>We are trying to re-organise the Philippines operations more into industrial, fibre-opto and automotive segments. We also plan to build a new CK3 plant in Philippines if there are plans for new orders or commitment from customers.</p> <p>While for China operations, our strategy is for in-sourcing and developing local eco system to strengthen our service offerings. Amertron Technology Kunshan's products are automotive certified and are used by the top notch automotive suppliers.</p> <p>Our decision to divest out of PCL was due to both parties being unable to form an ideal joint-venture configuration which could synergize business strategies. In the future, we may very well relook the possibility of tie-up with PCL again as well as other merger & acquisition plan when the timing is right.</p>
8.	<p>What will trigger the Company to exercise share buy-back authority?</p>	<p>This authority empowers the Board to purchase the Company's shares to stabilise the supply and demand, thereby supporting the fundamental value of Inari's shares especially when the share price is low. Before any decision is made for share buy-back, the Board will deliberate between utilising the Company's fund for dividend payment or share buy-back.</p>
9.	<p>What is the Company's dividend policy and does the Company intend to declare higher dividend in the future?</p>	<p>The Company's dividend policy as stated in the IPO prospectus was 40% of the Group's profit after tax. Since FY2016, the Company's dividend payout ratio is more than 40% of our profit after tax and in the recent first quarter of FY2019, we have declared dividend up to 85% of our profit after tax. The Company will continue in striving to declare higher returns to the shareholders.</p>

PART B: MATTERS RAISED BY MSWG

No.	Questions raised by MSWG	The Company's responses
1.	<p>As reported under the Chairman's Letter on Page 18 of the Annual Report for FY2018, the Group posted a revenue of RM1.38 billion, an increase of 16.9% as compared to RM1.18 billion reported in the previous financial year. Higher demand of both Radio Frequency ("RF") and opto-electronic products remain the main contributor to the increase in revenue.</p> <p>a) Of the 16.9% increase in revenue, what was the percentage contributed by these two categories of products?</p> <p>b) Would the significant increase be sustainable going forward?</p>	<p>a) Of the 16.9% increase in revenue, the percentage contributed by these two categories of products are as follows:</p> <p>Radio Frequency (RF) – 8% Opto-electronic products – 6% Generic products – 2.9%</p> <p>b) It depends on the market acceptance on the new smartphones. However, the introduction of new flagship 5G smartphones will be an inflexion point. These 5G phones are expected to be launched in second half of 2019 from market intelligence.</p> <p>The above is related to RF sector. The rest of the existing business segments are expected to remain flat. However, we have been working on a few new projects to sustain revenue growth.</p>
2.	<p>As stated on Page 27 of the Annual Report, the Group is in the midst of preparing for qualification of new health sensor, 2D facial recognition and MiniLED products for the IOT segment and expects successful full scale production ramp-up by the middle of 2019.</p> <p>a) Are these products expected to contribute significantly to the Group revenue?</p> <p>b) Please brief shareholders on the Group's plan to venture into the IOT business</p>	<p>a) If the market acceptance of these few IOT related products is good, these could lead to double digit growth for the full year revenue.</p> <p>b) We are working in the IOT business in the area of manufacturing sensors. We are already working closely with a major customer in their sensor division that will used in a lot of IOT products. But work is still in early stages of design and manufacturing.</p>

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3.	With the ongoing trade friction between US and China, please enlighten shareholders how it has affected exports particularly in the context of the Group having plants operating in China?	<p>The outcome of the ongoing trade friction between US and China is unpredictable and the situation is developing in real time as we write. The immediate impact we can see is the cloud over the global economy leading to reduced growth and forecasts. However, this impact looks uneven across product lines. With our operations mainly located in Malaysia and Philippines, we are located in neutral zones and are therefore best positioned for this trade friction.</p> <p>The main customer of our operations in China is from Germany. Hence, we do not foresee any direct impact on our operations in China as a result of the trade friction between US and China.</p>															
4.	<p>a) What are the production capacities and utilisation rates of the plants in Malaysia, Philippines and China respectively?</p> <p>b) What are the expansion plans in the various countries and the capital expenditure expected to be incurred?</p>	<p>The average production capacities and utilisation rates of the plants in FY2018 are as follow:</p> <table border="1" data-bbox="1144 667 1966 1043"> <thead> <tr> <th data-bbox="1144 667 1335 775">Plant</th> <th data-bbox="1335 667 1655 775">Available Production Floor Space (square feet)</th> <th data-bbox="1655 667 1966 775">Average Production Capacities and Utilisation Rate</th> </tr> </thead> <tbody> <tr> <td data-bbox="1144 775 1335 839">Malaysia</td> <td data-bbox="1335 775 1655 839">764,000</td> <td data-bbox="1655 775 1966 839">70%</td> </tr> <tr> <td data-bbox="1144 839 1335 903">Philippines</td> <td data-bbox="1335 839 1655 903">272,000</td> <td data-bbox="1655 839 1966 903">70%</td> </tr> <tr> <td data-bbox="1144 903 1335 975">China</td> <td data-bbox="1335 903 1655 975">100,000</td> <td data-bbox="1655 903 1966 975">60%</td> </tr> <tr> <td data-bbox="1144 975 1335 1043">Total</td> <td data-bbox="1335 975 1655 1043">1,136,000</td> <td data-bbox="1655 975 1966 1043"></td> </tr> </tbody> </table> <p>As mentioned on Page 29 of the Annual Report, we have allocated approximately RM150 million in capital expenditure for the acquisition of production equipment (plant, machineries and equipment). For FY2019, we expect the expansion plan be more focussed in Malaysia, particularly with the completion of our new plant in Batu Kawan.</p>	Plant	Available Production Floor Space (square feet)	Average Production Capacities and Utilisation Rate	Malaysia	764,000	70%	Philippines	272,000	70%	China	100,000	60%	Total	1,136,000	
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5.	What is the percentage of Group revenue spent on R & D annually?	<p>We are an OSAT company and R & D activities are minimal to the Group. Nevertheless, we are working closely with our customers to assist on their product and production R&D activities by being able to tune and tool up our production lines rapidly to meet their prototyping and volume manufacturing demands.</p> <p>Also as an assembly and test house, we participate and invest in the customers' R&D activities in their late stages, commonly known as the New Product Introduction (NPI) stage. These NPI investments amount to about 4% of our current annual capex expenditure of RM150m and will form part of the overall production capacity eventually.</p>														
6.	<p>As noted on Page 164 of the Annual Report, the Group has two major customers with revenue equal or more than 10% of the Group's total revenue. Page 169 also reported that the Group has significant concentration of credit risks on 2 (2017: 2) customers which comprise approximately 93% (2017: 82%) of the trade receivables balance as at the end of the reporting period.</p> <p>Is the Board concerned with such credit concentration risks? What measures have been taken to mitigate such risks?</p>	<p>The Board has no concern on such credit concentration risks as our historical trade receivables ageing was healthy and as per Page 169 of the Annual Report, the trade receivables amount past due more than 60 days comprised only 0.15% (RM308k) of the total trade receivables (RM202 mil) of the Group. Below is the extract of the gross ageing of trade receivables of the Group on the Page 169 of the Annual Report:</p> <table border="1" data-bbox="1173 807 1823 1050"> <thead> <tr> <th></th> <th style="text-align: right;">2018</th> </tr> <tr> <th></th> <th style="text-align: right;">RM'000</th> </tr> </thead> <tbody> <tr> <td>Not past due</td> <td style="text-align: right;">104,701</td> </tr> <tr> <td>1 – 30 days past due</td> <td style="text-align: right;">83,578</td> </tr> <tr> <td>31 – 60 days past due</td> <td style="text-align: right;">13,765</td> </tr> <tr> <td>Past due more than 60 days</td> <td style="text-align: right;">308</td> </tr> <tr> <td></td> <td style="text-align: right;">202,352</td> </tr> </tbody> </table>		2018		RM'000	Not past due	104,701	1 – 30 days past due	83,578	31 – 60 days past due	13,765	Past due more than 60 days	308		202,352
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7.	<p>Proposed Granting of Options to Non-Executive Directors (Resolutions 8-10)</p> <p>In line with good corporate governance practices, MSWG does not encourage the practice of giving option to non-executive directors as they play the governance role in the Company and are responsible in monitoring the option allocation to employees and executives directors.</p> <p>Under the Proposed Allocations, we noted that non-executive directors are also eligible to subscribe for new shares in the Company.</p> <p>i. Could the Board provide the rationale for allocating the option to non-executive directors?</p> <p>ii. How would the Board ensure that the issue of conflict of interest is addressed if the non-executives are also the recipients under the scheme when presiding and deliberating on such allocations under the option scheme?</p>	<p>Our overall Policy and Procedures for Non-Executive Directors' Remuneration is defined in Para 5.1 and Para 3.1 (b) of "Inari Remuneration Policy and Procedures for Directors and Senior Management" which is published and available on Inari Website. The grant of options to independent directors is in accordance to our Employee's Share Option Scheme (ESOS) Scheme/By-Laws approved by shareholders during the EGM held on 4 October 2013. Highlighting some relevant key points as below:</p> <p>a) In remunerating Non-Executive Directors, the Board is guided by the aspects of contribution and individual performance, calibre, skill sets and experience that the Non-Executive Directors bring to bear.</p> <p>b) The remuneration structure for Non-Executive Directors is developed commensurate with the Non-Executive Directors responsibilities at both the Board and Board Committee level and is sufficient to attract, incentivise and retain quality Non-Executive Directors.</p> <p>c) Inari's Remuneration Committee will conducts annual evaluation on Non-Executive Directors' remuneration packages and determine based on the basis of their qualification, experience and competence, having regard to their responsibilities, time commitment.</p> <p>The allocations of option scheme is determined and approved by the ESOS Committee pursuant to the said ESOS Scheme/By-Laws. The respective Independent Directors are abstained from making decision on their own ESOS allocation. Therefore, there is no issue of conflict of interest arise when presiding and deliberating on the allocations under the option scheme.</p>

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	iii. How is the monitoring process under the option scheme?	<p>As mentioned above, the option scheme is guided by the Inari Remuneration Policy and Procedures for Directors and Senior Management and also in accordance with our Employee's Share Option Scheme (ESOS) Scheme/By-Laws.</p> <p>Besides, the share options granted to Non-Executive Directors is guided by Para 8.20 of Bursa Listing Requirements whereby the non-executive director must not sell, transfer or assign shares obtained through the exercise of options offered to him pursuant to a Share Issuance Scheme within <u>1 year</u> from the date of offer of such options.</p>