MANAGEMENT DISCUSSION & ANALYSIS

INTRODUCTION

Genetec Technology Berhad ("**Genetec**" or the "**Company**") is a public listed company on the Main Market of Bursa Malaysia and a global leader in providing customised, turnkey smart factory automation solutions. With a strong international footprint, we serve a diverse range of industries including e-mobility & energy storage, automotive, hard disk drives (HDD), consumer electronics, appliances, and pharmaceuticals. Our cutting-edge solutions are trusted by clients worldwide, and our global presence enables us to meet the evolving demands of industries across Asia, Europe, and the Americas. Through continuous innovation and a commitment to quality, Genetec delivers high-performance, scalable industrial automation systems that empower businesses across the globe to achieve greater operational efficiency and competitiveness for our global clientele.

VISION AND STRATEGIC DIRECTION

Our vision is to establish Genetec as the world's most competitive leader in industrial automation. We aim to be a continuously learning organisation that attracts top-tier talent, empowering us to meet evolving technological challenges and market demands. We are committed to delivering competitive engineering solutions that enhance our clients' profitability while driving robust operational growth through scalable machine replication.

BUSINESS AND OPERATIONS OVERVIEW

In the financial period 2024, Genetec delivered its strongest financial performance to date, achieving record-high profit after tax, underpinned by a healthy cash position and low gearing ratio. This was accomplished despite a challenging global environment marked by high interest rates and moderate economic softness.

As a provider of capital-intensive solutions, Genetec's business is closely linked to our clients' capital expenditure plans, which are influenced by global geopolitical developments, interest rates, inflation, and consumer sentiment. To navigate these external factors, we have intensified our efforts to help clients enhance production efficiency and yields. By embedding our engineers within client facilities, we work side by side with them to innovate, automate and optimise manufacturing processes, ensuring greater operational efficiency.

Throughout project execution, our engineers collaborate closely with long-term clients, addressing engineering change requests and adapting specifications for upcoming projects in the pipeline. We are also actively working on initiatives with our clients that are currently in the testing and fine-tuning phase, which we expect will lead to significant opportunities as production ramps up. This partnership-driven approach not only strengthens our long-term relationships but also allows us to expand our product offerings and deepen our share of wallet within existing client operations.

Simultaneously, our business development team remains aggressive in identifying new growth opportunities across new markets and industries. To enhance our market reach, we participate in industry exhibitions, collaborate with finders, and develop innovative solutions alongside strategic partners, ensuring our offerings stay ahead of market trends and customer needs.

We continue to capitalise on our first-mover advantage in the domestic battery energy storage market. Domestically, we actively engage with government agencies, regulators, utilities, and project developers to explore and expand opportunities. Our BESS solutions, which are UL9540 certified (the highest international standard for battery energy storage), are the first in Malaysia to be listed under the MyHijau directory, allowing customers to potentially benefit from the Green Incentive Tax Allowance scheme. As we maintain our leadership position locally, we also remain committed to ongoing innovation, enhancing the safety, quality, reliability, and performance of our BESS products to stay competitive in both local and international markets.

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Operational Efficiency and Cost Management

Maintaining competitive pricing without compromising quality is central to our operational strategy. Through rigorous cost management and supply chain optimisation, we have streamlined our operations and strengthened our relationships with long-term suppliers. Our ability to procure materials in bulk and negotiate favourable terms allows us to achieve economies of scale, securing high-quality materials at competitive prices.

With over two decades of industry experience, Genetec possesses the foresight to plan ahead with precision, enabling us to maintain efficient inventory levels and avoid potential supply chain disruptions. This meticulous approach ensures continuity in delivering high-quality products to our clients while safeguarding our margins.

Talent Management and Employee Well-Being

We recognise that our people are the cornerstone of our success. To attract, retain, and nurture talent, Genetec continues to invest in training and development programs that equip our employees with the skills necessary to thrive in an ever-changing technological landscape. Our comprehensive employee welfare programs are designed to promote both physical and mental well-being, ensuring a healthy work-life balance.

By fostering a culture of continuous learning and employee empowerment, we are well-positioned to meet future challenges and maintain our leadership in the automation industry.

Genetec remains steadfast in our commitment to innovation, operational excellence, and strategic expansion. By maintaining close partnerships with our clients, optimising our supply chain, and investing in our people, we are confident in our ability to drive sustainable growth, enhance profitability, and further cement our position as a global leader in smart factory automation.

Revenue

The financial year end of Genetec and its subsidiaries (the "Group") has been changed from 31 March to 30 June and the financial period ended 2024 are prepared for a period of 15 months from 1 April 2023 to 30 June 2024.

The Group's two core business segments comprise the e-mobility & energy storage and HDD segments. During the financial period under review, the Group delivered total revenue of RM347.0 million, an increase of 44.0% compared to RM241.0 million in the previous financial year.

The e-mobility & energy storage segments recorded RM320.7 million in revenue, a significant increase of 61.0% from RM199.2 million in the previous financial year. It is the largest contributor to the Group's total revenue for the financial period, accounting for 92.4% of the Group's total revenue (2023: 82.7%).

The HDD segment recorded RM7.2 million in revenue, decreased by 81.3% from RM38.6 million in the preceding year, which accounts for 2.1% of the Group's total revenue as compared to 16.0% in the preceding year.

The consumer goods & healthcare segment accounts for the remaining 5.5% of the Group's total revenue (2023: 1.3%), recording RM19.1 million revenue which is a rise of 496.9% from the previous financial year (2023: RM3.2 million).

For the financial period under review, 97% (2023: 96%) of the Group's products were exported to overseas markets. In terms of geographical market segments, the USA and Europe are the Group's major revenue contributors, followed by Malaysia, Mexico and Thailand respectively.

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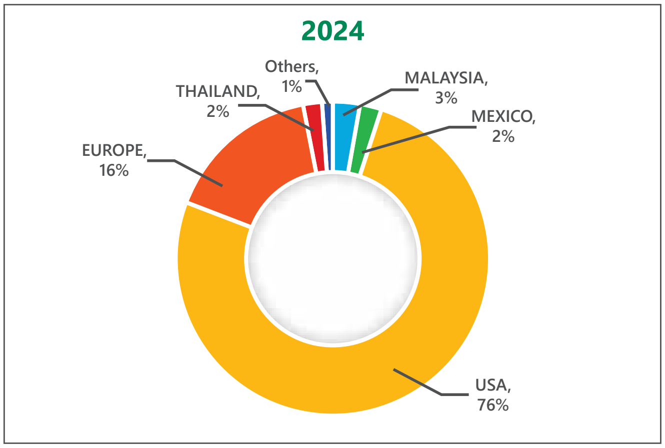
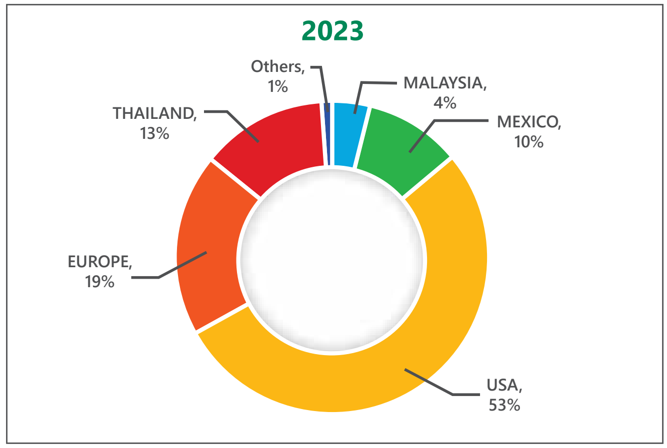
Revenue by Geographical Locations





PROFIT BEFORE TAX

During the financial period, the Group recorded Profit Before Tax of RM90.4 million, a notable 56.4% rise from RM57.8 million in the previous financial year. This significant increase was attributed to the higher sales volume achieved by the Group. Our commitment to cost efficiency measures has also played a pivotal role in enhancing profitability and contributing to this positive financial outcome.

ADMINISTRATIVE EXPENSES

During the financial period under review, the Group's administrative expenses increased by 21.5% to RM20.9 million compared to the previous financial year (2023: RM17.2 million). This is mainly due to an increase in staff costs and assets depreciation with increase in production capacity to meet the demand from our customers.

FINANCE COST

Finance cost decreased RM0.3 million or 8.8% from RM3.4 million for the previous financial year to RM3.1 million in the current year as the Group has reduced its short-term borrowings.

STATEMENT OF FINANCIAL POSITION

Property, plant, and equipment increased by 18.0% from RM114.2 million to RM134.8 million. This increase was primarily due to capital expenditure of RM28.6 million with a depreciation charge of RM8.0 million during the financial period.

The Group finances its operations and investments through internally generated resources and bank borrowings. Borrowings decreased by 59.2% to RM22.5 million in this financial period (2023: RM55.2 million). This reduction was primarily due to net repayment of short-term borrowings of RM34.3 million. To optimise capital structure, the Group obtained facility support from financial institutions. Term loans recorded a decrease of 18.6% to RM4.8 million as of 30 June 2024. The Group's cash & bank balances and short-term investment as of 30 June 2024 decreased for RM15.6 million from RM179.8 million to RM164.2 million.

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CORPORATE EXERCISE

At an extraordinary general meeting held on 29 August 2024, the Company's shareholders approved the establishment of Long-term Incentive Plan ("LTIP") in the form of an employees' share grant scheme of up to 5% of the Company's total issued shares (excluding treasury shares, if any) at any point of time during the duration of the LTIP for the eligible executive Directors and employees of the Company and its subsidiary companies (excluding subsidiaries which are dormant) who fulfill the eligibility criteria.

The LTIP has not been implemented as at the date of this report.

SHARE PERFORMANCE		
HIGHEST SHARE PRICE WITHIN FYE2024	**RM2.92**	▲
LOWEST SHARE PRICE WITHIN FYE2024	**RM1.83**	▼
TOTAL VOLUME TRADED: 8 HUNDRED 13 MILLION 2 THOUSAND SHARES		
TOTAL MARKET CAPITALISATION: RM 1 BILLION 7 HUNDRED 40 MILLION		

DIVIDEND

The Board adopted a dividend policy to recommend and distribute dividend up to 20.0% of the Group's annual audited profit after tax attributable to owners of the Company, depending on its financial performance, the availability of adequate distributable reserves and on condition that such distribution will not be detrimental to the Group's cash flows requirements.

The Company had on 29 August 2024 declared an interim single-tier dividend of 2.0 sen per ordinary share in respect of the financial period ended 30 June 2024, the entitlement date and payment date were on 13 September 2024 and 4 October 2024, respectively.

The total dividend payment is 18.2% of the Group's annual audited profit after tax attributable to owners of the Company for the financial period ended 30 June 2024.

RISK FACTORS

Fluctuation in Foreign Currency Exchange Rate

The Company faces exposure to foreign currency exchange rate fluctuations, as a significant portion of our revenue is denominated in US dollars. To minimise the impact of currency volatility, we employ forward exchange contracts to hedge our receivables in foreign currencies, providing a level of protection against unfavorable exchange rate movements.

Competition in the Global Market

The global market is increasingly competitive. To remain competitive, we continue to innovate, seeking opportunities to automate our clients' manufacturing processes and deliver operational efficiencies. Internally, we have implemented various cost reduction measures to ensure both Genetec and our clients maintain competitiveness. Our deep industry experience enables us to continuously optimise production processes and explore new suppliers, securing better pricing on bulk orders to reduce material costs.

Supply Chain Disruption and Material Cost Fluctuations

The Company is susceptible to supply chain disruptions due to natural disasters, geopolitical conflicts, and shifts in global supply and demand. Such events can lead to material shortages, higher shipping costs, and longer delivery timelines. To counter these risks, we have established a reliable network of long-standing suppliers, allowing us to procure materials at competitive prices without compromising quality. Additionally, our procurement team consistently seeks alternative supply sources to diversify risk and avoid over-reliance on specific suppliers. Our logistics team also collaborates with multiple shipping agents and freight forwarders to mitigate shipment delays and cost increases.

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Technology Specialisation and Talent Acquisition Challenges

Our projects require highly specialised technical expertise, making talent acquisition and retention a challenge. To address this, the Company actively collaborates with local universities, participating in career fairs and sponsoring technology and innovation competitions to attract top talent in engineering and technology fields. To retain skilled employees, we have implemented comprehensive talent retention initiatives, including a long-term incentive plan, competitive salary packages, and structured career development programs. These programs provide employees with continuous training opportunities, fostering a positive work culture and ensuring our workforce remains engaged, skilled, and capable of contributing to the company's long-term success.

FORWARD-LOOKING STATEMENT

The automotive industry stands at a pivotal juncture as major players evaluate the path forward between full electric vehicles (EVs) and hybrid models. Regardless of the approach, the shift towards sustainable mobility is unstoppable. EVs remain a promising growth sector, with the Economist Intelligence Unit (EIU) forecasting a 21% expansion in global EV sales as policymakers intensify efforts to reduce carbon emissions. Key to this growth will be advancements in charging infrastructure and battery technology, which are essential to alleviating consumer concerns over range anxiety. Genetec has long anticipated this trend and aligned its strategy accordingly. Today, we are well-positioned to capitalise on this global shift, serving clients in the production of both EVs and hybrid automotive components.

As our engineers continue to collaborate closely with clients around the world, we see significant opportunities to further automate our clients' manufacturing processes. With the anticipated ramp-up in production, these collaborations are expected to translate into substantial opportunities for the Company. The e-mobility & energy storage segments are poised to remain key growth drivers, and we will continue to strengthen our strategic partnerships with key clients.

Furthermore, from interactions with various partners and stakeholders globally, we see opportunities to expand into new industries by leveraging the experience and know-how we have gained from our work in the e-mobility & energy storage business. The demand for process automation is growing across various industries, and we are well-positioned to bring our proven expertise to these new markets.

In the broader context of the energy transition, as the world shifts from fossil fuels to renewable energy, battery energy storage systems is critical to ensuring a stable, reliable, and resilient grid. BESS addresses the intermittency issues of renewable energy sources such as solar and wind. Bloomberg projects that the global BESS market will grow from 100 GWh at the end of 2023 to 1,800 GWh by 2030, representing a compound annual growth rate (CAGR) of 27%. As an early mover in this space, the Company is well-positioned to capitalise on the vast opportunities presented by this global trend and remains optimistic that demand for BESS will increase in both domestic and international markets.

Looking ahead, we are confident in our ability to navigate the evolving landscape. Our focus will remain on innovation and operational efficiency to drive sustainable growth. We will continue to strengthen long-term relationships with key clients, deepen our share-of-wallet, broaden our product offerings and client base, and further solidify our position in the e-mobility & energy storage markets. At the same time, we will remain agile, staying at the forefront of emerging technologies and future industry needs.

These forward-looking statements are based on the management's forecast, assumptions and expectations considering various factors that may affect the business at the time of writing. These statements are not guarantees of future performance and undue reliance should not be placed on them. Such forward-looking statements involve known and unknown risks and uncertainties, which may cause actual performance and financial results to materially differ from the projections of future performance or result expressed or implied by such forward-looking statements. We undertake no obligation to provide updates to these forward-looking statements if circumstances or management's estimates or opinions should change in the future unless otherwise required by Bursa listing requirements, by applicable securities requirements or by law. The reader is cautioned against placing undue reliance on forward-looking statements.