

MANAGEMENT DISCUSSION & ANALYSIS

COMPANY PROFILE

MClean provides surface treatment, precision cleaning & packaging services for various industries ranging from the Hard Disk Drive, Consumer Electronics to the Oil & Gas industries. Our Group has an established track record of more than two decades operating in Malaysia, Singapore, Thailand and China.

VISION

Our group strives to be the choice service solution provider through continuous innovation so as to deliver sustainable shareholder value to all stakeholders.



PRINCIPAL ACTIVITIES OF OUR GROUP

- Surface treatment services
 - Precision Cleaning in Cleanroom environment
 - Surface treatment & finishing of metal parts
- Cleanroom packaging, assembly & logistics services
 - Clean bulk packaging services
 - Cleanroom packaging services
 - Assembly services
 - E-Commerce & Logistics services



MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

VALUE CREATION STRATEGIES

- Enhance service value via sustainable practices and service excellence
- Enhance profitability and operational excellence with continual innovation to differentiate our services from competition
- Enhance productivity with continual training and development of core competence
- Prudent incubation of promising business with strong growth potential.

OPERATIONAL REVIEW

During the year, the Group carry out the following;

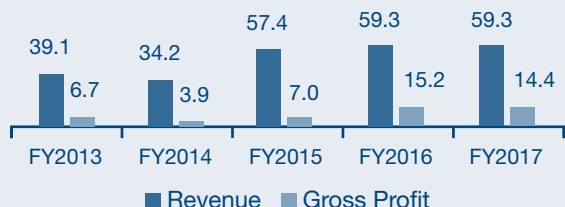
1. As the precision cleaning headquarters in Singapore, Magnetronics Technology Pte Ltd has been renamed as MClean Precision Pte Ltd. The acquisition of Sonic Clean Pte Ltd consolidated MClean's precision cleaning dominance in Singapore. MClean continue to extend its reach in the region with the BOI (Board of Investment of Thailand) approval for MClean Technologies Thailand to commence operation from December 2017.
2. MClean Cloud Logistics Pte Ltd was formed to expand along the electronics value chain into advance logistics – pairing of flexible packaging with intelligent software. Working closely with key partners, it is still in the development stage.

HIGHLIGHTS OF OUR GROUP FINANCIAL INFORMATION FOR THE PAST 5 YEARS (RM'000)

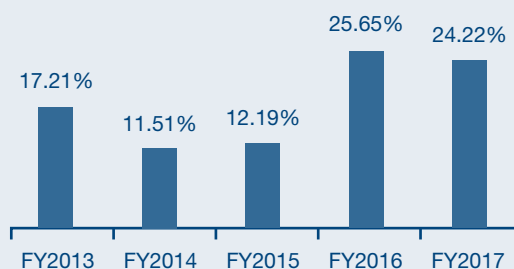
	2013	2014	2015	2016	2017
Revenue	39,142	34,224	57,362	59,340	59,255
Gross profit	6,737	3,939	6,994	15,222	14,351
(Loss)/Profit before tax	(2,958)	(5,592)	3,788	2,687	(3,872)
<i>(Loss)/Profit before tax – excluding non-recurring item relating to the investment in DWZ group</i>	<i>(2,958)</i>	<i>(5,592)</i>	<i>(3,999)</i>	<i>1,421</i>	<i>(3,872)</i>
Net Asset per share	0.19	0.15	0.19	0.19	0.17
(Loss)/Profit per share (“LPS”)/ “EPS”(sen)	(1.66)	(4.76)	2.73	0.48	(2.01)

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

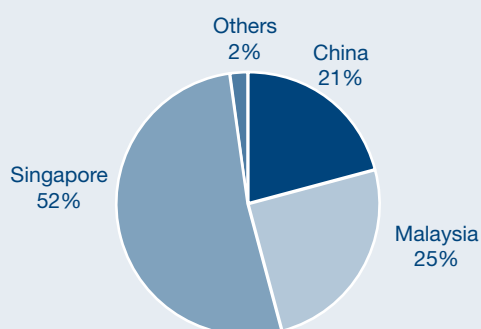
REVENUE & GROSS PROFIT
RM million



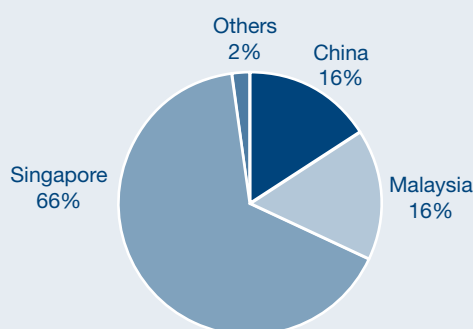
GROSS PROFIT MARGIN



REVENUE INFORMATION BY GEOGRAPHICAL LOCATION IN FY2017



REVENUE INFORMATION BY GEOGRAPHICAL LOCATION IN FY2016



FINANCIAL ANALYSIS

FINANCIAL RESULTS

Sales for FY2017 remained about the same as compared with FY2016. Decrease in Cassette washing services, were offset by higher surface treatment and component washing services.

Gross profit remained relatively consistent.

Other income for FY2017 decreased by 86.7% from RM2.41 million to RM 0.32 million mainly due to a one off compensation for profit guarantee shortfall of RM1.27 million in FY2016. Excluding this non-recurring item, profit before tax for FY2016 was RM1.42 million.

Administration expenses increased by approximately 30.71%. The increase was mainly due to increased in indirect staff cost of approximately RM2.29 million and legal and professional fee of approximately RM0.81 million.

Other expenses for FY2017 mainly comprised of foreign exchange losses of RM 1.10 million. While in FY2016, it was mainly comprised of intangible asset written off of RM0.99 million.

Finance cost was lower in FY2017 as compared to FY2016 due to interest expense was still incurred for a term loan of RM1.49 million which was only fully repaid after May 2016.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

Loss before tax for FY2017 was RM3.87 million as compared to profit before tax RM2.69 million for FY2016. Excluding the non-recurring item relating to the investment in DWZ group, adjusted result before tax for FY2017 was a loss of RM3.87 million as compare to FY2016 was a profit of RM1.42million. This loss was mainly due to:

- a) Indirect salary cost Indirect staff cost increased by RM2.28 million
- b) Legal and professional fee increased by RM0.81 million
- c) Foreign exchange loss of RM1.10 million

FINANCIAL POSITION

The Group's property, plant and equipment increased by approximately RM4.90 million, mainly due to the addition of property, plant and equipment of approximately RM9.37 million which was partially offset by the depreciation charged for the year under review of approximately RM4.26 million and disposal of certain property, plant and equipment. The addition relates to equipment and renovation cost for the Groups' new factory facility in Malaysia.

Cash and bank balances decreased by 30% to RM4.62 million as at 31 December 2017 as compared to RM6.6 million as at 31 December 2016. The decrease in cash and bank balances was mainly use for cash outlays for dividend paid to non-controlling interest amounting to RM0.59 million and purchase of property, plant and equipment.

Trade payables increased by approximately RM3.02 million to RM7.92 million mainly due to the capital expenditure payables.

The Groups' total borrowings increased by 49.74% to RM3.38 million mainly due to additional drawdown for the group expansion.

DIVIDEND

The Group had not adopted any dividend policy. However, the Board will evaluate the Group's profitability, long term plan and cash flows position annually before recommending any dividend payment.

RISKS ANALYSIS

Market risk

MClean main market is in the magnetic Hard Disk Drive industry (HDD). Solid state drive (SSD) has completely dominated the mobile devices and is expected to eventually replace magnetic disk in laptop and desktop storage. However the magnetic disk continue to be the major storage for enterprise and cloud data. The future of HDD hinge on its continual deployment of new technologies to maintain its cost advantage per storage capacity over SSD.

Even as the HDD market decline it is still a sizable volume industry, MClean continue to position itself to expand its market share at the expense of its competitors.

MANAGEMENT DISCUSSION & ANALYSIS (cont'd)

Foreign currencies exchange risks

MClean operates in four countries and its revenue is highly correlated to the strength of USD and Malaysia ringgit. MClean rely on natural hedging to partially mitigate such risk and uses the forward exchange contracts to further mitigate the net exposure in such currencies exposure. This exchange risks is further detailed in pages 81 to 86 note 31 of the Audited financial statements.

FORWARD LOOKING STATEMENT

The Group operate mainly in the HDD industry which continue to be competitive and challenging. Against this backdrop, our newly established operating base in Thailand is expected to be fully operational by the 2nd half of 2018. With our increasing geographical presence in all our major customers operations, we are well position to meet the challenges ahead.

The group expanded its capability along the electronics industry value chain. It shall be offering one-stop service from design, moulding right up to assembly and packaging for the electronics industry.

On a longer term, the Group is also exploring the renewable energy business. Appropriate public announcements shall be made when it materialised. These new initiatives and investments are vital for the group self-renewal to secure future revenue streams.