

QES GROUP BERHAD ("QES")
Registration No. 201401042911 (1119086-U)

SUMMARY OF KEY MATTERS DISCUSSED AT THE 11TH ANNUAL GENERAL MEETING OF THE COMPANY HELD AT BALLROOM III, TROPICANA GOLF & COUNTRY CLUB, JALAN KELAB TROPICANA, 47410 PETALING JAYA, SELANGOR ON WEDNESDAY, 18 JUNE 2025 AT 10.00 A.M.

Q1. What is the current progress of AETM, considering the Company was still incurring losses last year? When is AETM expected to begin contributing positively to the Group's profits?

The progress of AETM will be a bit slower and QES does not involved in running the operation of AETM as the operations are managed entirely by the US company. QES will be getting an updated quarterly report from them. It is perceived that AETM will likely be able to generate a profit within a year or two.

Q2. What were the key factors that contributed to AETM's losses — was it primarily due to slower-than-expected sales performance, or were the losses driven by the transfer pricing mechanism and tax-related considerations?

The losses were primarily attributed to two key factors. Firstly, there was a slower order intake due to intense market competition, making it challenging to compete effectively with other players. Secondly, the losses were impacted by the transfer pricing mechanism. It was explained that both QES and AETM operate at arm's length and have engaged their respective auditors and consultants to handle tax matters and arbitration related to transfer pricing issues.

Q3. What is the impact of the US tariffs on QES, given that the Group does not have a direct market presence in the United States

The current tariff rate for Malaysia is still considered better compared to other countries, assuming it remains unchanged. However, the company faces significant uncertainty in its planning and budgeting processes, as there is no clarity on what will happen after the 90-day period ends in July 2025. The lack of a definitive response has led many companies to adopt a wait-and-see approach, resulting in delays and cautious decision-making — a scenario that is ultimately unfavorable due to the prevailing uncertainty.

Q4. Given the higher tariff rates imposed on your business in overseas markets such as Vietnam, the Philippines, and Indonesia compared to Malaysia, what is your expectation regarding future sales in these countries? Do you anticipate a reduction in sales moving forward

Based on the current results nearing the end of the second quarter, the businesses in Vietnam, the Philippines, and Indonesia appear to remain relatively strong.

Q5. Is QES shifting its geographical strategy to focus more on markets such as Thailand, Vietnam, and the Philippines, given that the expansion plans in China have not materialised as expected?

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(a) China Expansion Plan

QES had appointed numerous distributors to market its products in China in an effort to penetrate the domestic semiconductor market. However, the results have not been encouraging. One of the key challenges faced is that many of the appointed distributors lack sufficient knowledge of semiconductor processes and do not possess a strong network within the sector. Additionally, QES faces intense competition from local Chinese machine manufacturers, who offer significantly lower prices and are highly competitive.

To address these challenges, QES has shifted its strategy by partnering with a more established carrier in China. However, this approach is still in progress, as it requires time to build customer acceptance and market traction. To further support its efforts, QES has also deployed engineers to China to assist local distributors, with the hope of achieving more meaningful results over time.

The main reason QES ventured into the China market was to focus on the semiconductor segment, as the Company manufactures its own semiconductor equipment. This provided a strategic platform for QES to tap into the rapidly growing Chinese semiconductor market. However, due to intense price competition, the strategy implemented over the past few years has not delivered favourable results.

In response, QES has begun re-evaluating its approach and is now exploring alternative strategies to unlock value from the China market. Rather than engaging in direct price-based competition, the Company recognises the need to collaborate with local players in order to establish a stronger market presence and create mutually beneficial opportunities.

(b) Thailand Expansion and Property Acquisition

QES acquired its own building in Thailand primarily due to recurring flood issues at the previously rented premises, which posed a risk of damage to the equipment and machinery stored there. QES has been operating in Thailand for many years, with a consistent strategy focused mainly on the metal automotive and Electrical & Electronic (E&E) segments, rather than the semiconductor sector.

From the outset, QES's expansion into Thailand was part of a broader strategy to establish a strong presence in the ASEAN region. Management believes that Thailand, along with other ASEAN countries, has the potential to deliver better returns for the Company in the long run.

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Q6 How much has the Company spent to date on the Batu Kawan plant, and how much more is expected to be spent? Additionally, when is the plant expected to be ready for the official opening ceremony?

The total cost incurred for the Batu Kawan plant is estimated to be close to RM40 million. The plant obtained the Certificate of Completion and Compliance (CCC) from the local authority in May 2025, and the Company is expected to move in either by the end of August or early September 2025. However, the exact date for the official opening ceremony has yet to be determined, as the Company's current focus is on settling in, installing the necessary machinery, and preparing the production line for operational readiness.

Q7 Given the ongoing trade tensions between China and the US, and considering that QES 's core business lies primarily in distribution and secondarily in manufacturing, do you believe it is strategically viable for QES to pursue expansion in China? Would it not be more effective to leverage China to fill supply chain gaps rather than positioning it as a core operational base?

China remains a potentially significant market for the semiconductor sector. QES has consistently made efforts to explore and penetrate this market through various strategies, and while progress has been slow, it recognises that meaningful results will take time to materialise. QES's core strength lies in its distribution business, which contributes approximately 85% of its total revenue. Manufacturing, on the other hand, is an area the Company has been striving to develop, though it remains largely focused on semiconductor equipment, with limited diversification into other product types.

Leveraging its existing core technologies, QES has recently ventured into the Medical Tech Sector, which aligns with its manufacturing capabilities. This move requires minimal reinvestment in R&D, allowing the Company to meet market needs through optimisation. Encouragingly, some positive results have already been observed in this segment.

Looking ahead, the Company recognises that strengthening its manufacturing capability could open opportunities for collaboration with Chinese players, particularly given China's well-established domestic sales networks. In early 2025, the Company revised its market approach by engaging with larger, more established companies in China, rather than relying on smaller distributors—a strategy that had previously shown limited success. These larger partners typically operate multiple offices with broader sales teams, providing greater reach. However, the effectiveness of this approach will require time to assess.

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Training and equipping these teams with a solid understanding of the Company's equipment is crucial. Success in the China market will hinge on their ability to communicate the value of high-end products, as QES is unable to compete in the low-end segment due to intense local competition. The Company's revised strategy focuses on penetrating the high-end equipment market by establishing the right network. If successful, it is hoped that this will translate into tangible sales by 2026.

Q8 It was suggested that the Company should consider bringing in high-quality equipment from China, that is able to complement with the 'Hitachi' brand, to address current product gaps and enhance its distribution capabilities across other ASEAN countries.

QES operates across multiple business units, and it is acknowledged that Chinese equipment manufacturers are actively filling certain gaps in the market—a trend that continues. However, QES remains cautious, as the Company places high importance on maintaining customer trust. QES views its customers as a top priority and is committed to ensuring that the solutions provided meet high standards, as any compromise may result in a loss of confidence and long-term relationships.

Q9 There has been a significant decline in QES's profit and revenue as reflected in the first quarter results. While the distribution division remains profitable, the other division is recording losses. Could you explain the key reasons behind these losses, particularly in the manufacturing division?

The semiconductor equipment segment has been significantly impacted, resulting in low revenue and overall losses. However, more shipments are anticipated in the second quarter, which may help improve performance. As is widely known, the Company's manufacturing activities are primarily focused on semiconductor products, while the Medical Tech segment is only just beginning and is expected to contribute meaningfully in the third or fourth quarter.

For QES's in-house manufactured equipment, specifically the QES Mechatronic range, performance is expected to improve in the second quarter. Overall, the outlook for QES appears more promising, with the Company likely to perform better compared to the year 2024.

Q10 In the 1st quarter results, QES stated that the Company remains optimistic despite the industry facing challenges such as geopolitical uncertainties and the ongoing China–US trade tensions. Could you elaborate on the reasons behind this continued optimism?

QES remains relatively well-covered despite not receiving orders from the China market, as it has secured two large orders from the India market. Additionally, the semiconductor sector in India is showing signs of growth, supported by the country's large population and emerging demand. This brings a sense of optimism for QES, particularly in relation to its equipment manufacturing operations and the anticipated recovery in the semiconductor manufacturing segment.

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While QES is not primarily involved in AI-related businesses, it continues to focus on its core strength in manufacturing automotive IC and semiconductor equipment, as its major customers are not heavily engaged in AI technologies. Nonetheless, innovation remains a key priority for the Company. QES is actively exploring opportunities in advanced packaging solutions, equipment, and materials. Over the long term, this strategic expansion is expected to better position the Company for future growth. The semiconductor sector continues to be a strong and vital segment in Malaysia, representing the country's largest export market.

Q11 Based on the segmental analysis of revenue by geographical location in the 1st quarter results, there was a significant decline in revenue from Malaysia and Singapore. Why revenues in these two key markets have dropped, while other countries appear to be performing well?

Malaysia and Singapore are heavily concentrated in the semiconductor segment, and as such, any downturn in this sector has a direct impact on their revenue performance. In contrast, countries like Vietnam, Indonesia, the Philippines, and Thailand are less dependent on the semiconductor industry, with their economies more focused on the metal, automotive, and electrical & electronics (E&E) sectors. As a result, their revenues tend to be less affected during a semiconductor slowdown.

Q12 A request was made to upload the Q&A at the Company's website

The Q&A shall be uploaded to the Company's website once available.

Q13 Given QES's expressed confidence in its future prospects, could you share why Mr. Chew and Mr. Liew have not exercised any share purchases from the open market?

The Directors are only able to purchase QES shares from the open market, as selling would send an unfavourable signal to investors. Currently, the Company has initiated its share buy-back ("SBB") exercise and has officially commenced the implementation of the SBB programme.

Q14 What is the Company latest order book amounts for both the manufacturing and distribution division?

As of the end of May 2025, there were outstanding orders totaling RM95 million, with RM82 million from distribution and RM13 million from manufacturing. For manufacturing, most of the orders are in USD/RM, while for the distribution division, the orders will be based on a mix of USD/EURO/JPY/RM.

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Q15 QES has recently launched a new high-end product known as 'Wafer Phase Deflectometry'. Could you elaborate on the competitive advantages of this equipment and how it positions QES in the market?

The high-end semiconductor equipment was recently launched in Singapore. The underlying technology originates from France, initially developed by a university and subsequently commercialised by a French company. This advanced equipment is capable of detecting contamination on wafers.

QES is collaborating closely with the French company in bringing this technology to market. The Company is optimistic that the market will be able to absorb this type of high-end equipment and is hopeful that, within the next 6 to 12 months, this collaboration will begin to yield positive results.

Q16 What is QES targeted market for this high-end equipment?

QES plans to initially target the Malaysian and Singaporean markets for its high-end semiconductor equipment, with the intention of first demonstrating the machine's performance and capabilities. Once the equipment's reliability and effectiveness are validated, the Company will explore opportunities to export it to other advanced semiconductor markets such as Korea, Japan, and Taiwan. In parallel, QES also intends to gauge interest from the China market to assess potential demand for the equipment.

QES initially will start targeting the equipment in the Malaysia and Singapore market as the Company will need to prove the machine's ability and capability first before looking into exporting it to Korea, Japan or Taiwan. The Company will also try to target the equipment to the China market to see whether they are interested in the equipment as well.

Q17 What is QES targeted of estimated order for this equipment?

QES aimed to sell 3 to 4 units of this equipment in a year until it can obtain a volume for the order, then only can increase the volume accordingly and he anticipates that it would take at least 2 to 3 years down the road to reach the volume.

Q18 Is there any conflict with your existing distribution of technology used?

There is no conflict between the two technologies as there are different types of technology being used.

Q19 Why the Company borrowing in JPY?

It is our trade financing in Japanese Yen ("JPY") to facilitate our JPY denominated trade transactions.

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Q20 The Securities Commission ("SC") required all public listed companies ("PLC") to conduct their general meeting either through a physical or hybrid meeting. Does QES follow the SC guidelines and requirements?

QES has conducted a fully virtual AGM for the last few years; however, last year SC had announced that all PLCs must hold their general meeting either by way of hybrid or physical. Hence, the Company is complying with the SC guideline. However, the management will consider the suggestion provided to hold hybrid meetings in future

Q21 What is the target that QES set which will benefit the shareholders for year 2025?

QES does not have any plans to do any corporate exercise at this moment. However, for the past few years, QES has followed through on what has been committed to the shareholders and if the Company is making a profit, the Company will endeavor to reward back the shareholders by issuing dividends to them based on a certain percentage of the company profit. The Company does not have any written policy for dividends.

Q22 Proposed QES to look into the setting out of the dividend policy for the Company.

The suggestion to establish a dividend policy will be looked into by the Company.

Q23 Is the Board planning to utilise Company funds to undertake a share buy-back exercise?

QES will continue to monitor opportunities to buy back its own shares. If the Board believes that the share price has fallen to a level that no longer reflects the Company's intrinsic value, it considers this a good opportunity to execute the share buy-back ("SBB") from the open market. Share buy-backs are a common practice among public listed companies.

The Company remains in full compliance with the Securities Commission's guidelines, including the restriction that prohibits purchasing more than 10% of its total issued shares. Shareholder approval has already been obtained to proceed with the SBB. Before executing any buy-back, the Board also carefully evaluates the Company's solvency position and ensures sufficient funds are available to support the exercise without affecting operational or financial stability.

Q24 Why has the depreciation expense increase from 4.2 million to 5.7 million?

The increase in the depreciation cost was mainly due to the increase of capex investment in Batu Kawan land, Thailand office premises and demo equipment.

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Q25 Employee benefit expenses increased from 57 million to 62 million. Is the Company employing more employees?

The increase in the employee benefit expenses is due to an increase in the number of employees from the year 2023 to the year 2024. It should be about 5% to 8% higher compared to the year 2023 with the year 2024.

Q26 Does a stronger USD currency benefit QES or a lower USD currency benefit QES?

The weakening of the USD will result in a stronger Ringgit Malaysia ("RM"), which could lead to increased losses for QES. From the Company's perspective as an exporter, a stronger USD is more favourable, as it enhances export revenues when converted back to RM. Therefore, any depreciation of the USD poses a financial disadvantage to QES.

Q27 We note that warranty expenses, which were previously zero, have increased to RM1.2 million this year. Could you provide the details behind this amount and explain the reasons for the increase?

The warranty expenses of RM1.2 million recorded during the year represent provisions made for warranty obligations related to the Company's manufacturing equipment. The Company provides a one-year warranty to customers, and the provision is estimated at approximately 2% to 3% of the machine's value. In the previous year, no such provision was required as the warranty obligations for the distribution segment were back-to-back with principals, allowing the Company to claim warranty costs from them. However, given the substantial increase in the volume of machines sold this year under the manufacturing segment, the Company is now required to make its own warranty provision.

Q28 We note that RM1.2 million of employee benefit expenses have been capitalised into intangible assets this year. Could you clarify whether QES capitalised any other cost components besides salaries? Additionally, what is the basis or accounting policy applied in capitalising these costs?

Capitalised cost are wholly relates to the Company's Research & Development ("R&D") activities for the development projects. In addition to capitalising payroll costs associated with R&D. there will be material and software cost incurred as well.

Q29 What is the current status of the software talent shortage that was highlighted in previous years? In light of the increased integration across QES's business segments, does the Company see this as an opportunity to attract skilled talent from other organisations?

Talent retention continues to be a common challenge for most companies in Malaysia. Fortunately, QES has managed to retain its core engineering team, despite some resignations over the year. In particular, the primary workforce of software engineers based in Penang remains largely intact. The Company will continue to assess and review its workforce periodically to ensure stability and address any emerging gaps.

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Q30 We note that trade receivables amounting to RM1.8 million are outstanding for more than 90 days, yet the loss allowance provision stands at only RM63,000. Could you elaborate on how the loss allowance was determined and whether the provision is adequate given the ageing profile?

The total gross amount of trade receivables outstanding for more than 90 days stands at RM1.8 million, with a loss allowance of RM63,000 recognised. Additionally, a separate credit impaired amount of RM1.6 million has been fully captured. The Company is confident that the current provision for loss allowance is adequate, in accordance with the Expected Credit Losses ("ECL") guidelines. Furthermore, the amounts provided have been reviewed and verified by the Auditors.

Q31 What is QES current adoption/application of AI practices in QES ?

The Company currently operates using Microsoft 365 and has implemented several applications across Finance and ELP functions. However, AI adoption is still in its early stages, particularly within the Malaysian context, where it remains more of an emerging influence than a widespread daily practice.

At present, the most notable exposure to AI is through the use of ChatGPT. The IT Department Manager has begun exploring various AI tools and platforms, with the main challenge now being how to effectively integrate AI into the Company's existing business processes.

The Human Resource Department has started utilising AI for resume screening and basic data analytics, while the Sales & Service Department incorporates AI tools to enhance PowerPoint presentations. However, there are limitations to AI usage, particularly due to the costs associated with subscribing to certain advanced applications.

For now, the Company is encouraging staff to begin using AI tools, with plans to gradually expand adoption across other departments such as Back Office, Finance, and Supply Chain Management. The long-term objective is to integrate AI into the overall business processes to drive efficiency and simplification. AI is viewed as a supportive tool to enhance productivity, and the Company is steadily moving towards embedding it into day-to-day operations.

Q32 Under the Company's 'Go Green Policy,' what measures are in place to address situations where thunderstorms cause trees to fall along roadsides, posing hazards to road users? How does the Company plan to manage such risks while maintaining its environmental commitments?

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While the Company does not specifically focus on isolated incidents such as trees falling by the roadside, QES remains committed to broader environmental and social responsibilities through its ongoing Corporate Social Responsibility (CSR) and Environmental, Social and Governance (ESG) efforts. Environmental sustainability is a key priority for the Company, and through these initiatives, QES aims to contribute positively toward a better and more sustainable planet.

The Company has been actively implementing various ESG-related initiatives internally, which are publicly disclosed on its corporate website and detailed in its Annual Report. On the CSR front, QES has been involved in activities such as blood donation drives and visits to homes for handicapped children and the elderly—efforts that are carried out voluntarily by its employees.

Q33 Which division—Manufacturing or Distribution—is primarily contributing to the Company's recurring income?

The recurring income is generated from the distribution division as the distribution division has a large installation base over the years while semiconductor equipment goes under the factory of manufacturing division. The semiconductor equipment is usually maintained by the factory of manufacturing division themselves. QES has only spare parts sales from the manufacturing division.

Whereas for distribution, preventive maintenance is required as QES distributes x-ray related equipment and that which is high risk sensitive equipment and this equipment will last at least 10 or 15 years. Maintenance contracts will be entered for this equipment and the distribution division will get recurring income from the maintenance services provided.

Q34 How long will the RoHS equipment last before it becomes obsolete?

The lifespan of the equipment is quite subjective, as it largely depends on how well the customer maintains it. However, on average, most units can easily last for at least 10 years. Over the years, the manufacturing division has continued to improve its products by enhancing existing features, upgrading capabilities, and occasionally introducing new functionalities.

That said, the installed base for the manufacturing division is relatively smaller compared to the distribution segment, making direct comparisons between the two less meaningful or conclusive.

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ROHS ("Restriction of Hazardous Substances") is a regulation imposed by the European Union, requiring that any product exported to EU countries meets specific limits on hazardous substance content. QES supplies a range of instruments used to test for compliance with these requirements. These instruments are not new to the Company—QES has been selling them for the past twenty years.

Most of these instruments are x-ray based and include x-ray tube detectors, which have a limited lifespan and typically require replacement every two to three years. This generates recurring revenue for QES, as the maintenance and replacement of these components contribute to the Company's after-sales income stream.

QES's distribution channel is largely driven by regulatory and compliance requirements. Customers typically do not invest in new equipment unless there is a new rule or regulation mandating compliance. In such cases, if their products fail to meet the updated standards, they risk losing access to overseas markets—prompting them to purchase or upgrade their equipment accordingly.

As a result, there is little incentive for QES to develop and promote new machines unless there is a clear regulatory demand, as customers are unlikely to invest in equipment that is not essential to their operations. Furthermore, most of the equipment distributed by QES is not manufactured in-house but sourced from the Company's suppliers, with QES serving as the distributor for these products.

Our manufacturing products primarily cater to the semiconductor industry, including semiconductor equipment as well as inspection and measuring instruments. As processes and technologies evolve, we continuously strive to improve and enhance our products to meet changing industry needs. The development of new equipment and solutions is essential to ensure that we can continue to support our customers effectively. Therefore, it is critical for the Company to stay ahead by ensuring that new and relevant products are available to offer to the market.

Q35 With regard to after-sales support for the manufacturing division, will Mr. Liew be personally involved in servicing customers in China, or is there a local distributor team based in China to handle after-sales support?

QES does have engineers in China that provide after sales support. It is based in Chengdu and Shanghai. QES does provide engineers to do the installation after selling the equipment. Besides, QES also collaborates with the local equipment maker in China and was in the process of training them up so that they will use their own resource for the after sales support. It is not economical for QES to send their own engineer to be based over in China. There will be local engineers in China that provide after sales support to the customer and if the local engineer is not able to handle the problem, then they will refer to QES engineer for the support. If after attempting, the problem still cannot be solved, then QES will send their engineer in the headquarter over there to provide the after sales support.