

PESTECH INTERNATIONAL BERHAD
(“PESTECH” or “the Company”)
(Company No. 948035-U)
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE SEVENTH ANNUAL GENERAL MEETING OF THE COMPANY HELD AT ZAMRUD ROOM, GROUND FLOOR, THE SAUJANA HOTEL KUALA LUMPUR, JALAN LAPANGAN TERBANG SAAS, 40150 SHAH ALAM, SELANGOR DARUL EHSAN ON THURSDAY, 22 NOVEMBER 2018 AT 10:00 A.M.

Total number of shareholders present : 74 shareholders
Total number of proxy present : 125 proxies

The Seventh Annual General Meeting of the Company was attended by all the Directors of the Company.

The shareholders and proxies raised questions on the business and operations of the Group, which were duly responded by the Executive Chairman, Mr. Lim Ah Hock and the Executive Director / Group Chief Executive Officer (“GCEO”), Mr. Paul Lim Pay Chuan.

The clarifications from the Company in response to the questions and comments raised were summarised as follows:-

Agenda 1

Audited Financial Statements for the financial year ended 30 June 2018 together with the Reports of the Directors and the Auditors thereon

1.1 Question

- a) *As stated in the Executive Chairman / Group CEO and Management Discussion & Analysis (page 20 of the Annual Report), the concession assets amounting to RM35.9 million were recognised as Other Income instead of Revenue in accordance to IC Interpretation 12 Service Concession Arrangements.*

In the Statements of Profit or Loss and Other Comprehensive Income, Other income amounting to RM46.712 million has included the interest income arising from concession assets totaling RM35.852 million as explained in Note 25 of the Notes to the Financial Statements (page 127 of the Annual Report). However, Note 37.2 of the Notes to the Financial Statements: Geographical segments (page 146 of the Annual Report), shows that a revenue of RM364.895 million was reported in the geographical segment for Cambodia.

Why the revenue of RM364.895 million was reflected under “Geographical segments” given that the concession assets were recognised as Other Income instead of as concession assets.

- b) *The factors contributing to the increase in segmental revenue to RM364.895 million for Cambodia for financial year ended 30 June 2018 as compared to RM279.769 million in previous year.*
- c) *The expected timeline to recognise the revenue from other infrastructure projects in Cambodia.*
- d) *The status of proposed listing of Pestech (Cambodia) PLC (“PCL”) in Cambodia.*

Response

The net income from the concession assets of RM35.9 million were recognised as Other Income instead of Revenue in the financial statements as guided by the External Auditors and in accordance with the applicable financial reporting standards. The recognition of the balance of the concession income is to be spread over the concession period of 25 years.

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Apart from the concession assets, the Company has three (3) other significant engineering, procurement, construction and commissioning (“**EPCC**”) projects in Cambodia.

The shareholders were further briefed on the benefits and rationale of listing PESTECH Cambodia PLC (“**PCL**”), the subsidiary of the Company, on the Main Board of Cambodia Securities Exchange (“**Proposed Listing**”), among others, the following:-

- to enable PCL to obtain a listing status in a country where the Group has its business.
- to facilitate the better segregation of business responsibilities, including the raising of working capital, which will enable the management of PESTECH and PCL to better focus on growing their businesses in their respective operating regions.
- to enable the Group to gain a stronghold and direct access to the capital market in Cambodia and the Greater Mekong Area, for cost effective capital raising for future expansion of the Group’s business.
- the opportunity of enjoying the special tax incentive/tax holidays granted by the authorities.

PCL is involved in the high voltage and extra high voltage segments of power system design, engineering and infrastructure industry which requires high technical knowledge and skill in the electrical and mechanical engineering. As such, the Cambodian Government welcomes the knowledge transfer in specialised technology and skill from PLC for the economic development and growth in Cambodia.

1.2 **Question**

*A shareholder referred to the recent contract awarded to the wholly-owned subsidiary, PESTECH Technology Sdn. Bhd. (“**PTECH**”) by Syarikat Pembinaan Yeoh Tiong Lay Sdn. Bhd. in September 2018, and enquired the Company’s policy in relation to making announcement on award of contract.*

Response

PTECH had on 25 September 2018, accepted a Letter of Award from Syarikat Pembinaan Yeoh Tiong Lay Sdn. Bhd. (“**YTL**”), appointing PTECH as Sub-Contractor for the turnkey engineering, procurement, construction and maintenance relating to the electrification system for the electrified double track from Gemas to Johor Bahru at a fixed sub-contract price of RM399 million (“**Southern Double Track**”).

The Company has fixed a materiality threshold to only announce the acceptance of material contracts with contract value exceeding RM50 million. Nevertheless, the Company would undertake a materiality assessment for events or information reasonably expected to have a material impact on the Company’s financial performance or operations, as to determine whether an announcement should be made.

1.3 **Question**

A shareholder requested for an update on the rail electrification projects.

Response

Colas Rail System Engineering Sdn. Bhd., an indirect wholly-owned subsidiary, is involved in the Mass Rapid Transit 2 (“**MRT 2**”) project. The Group has also tendered for certain sections of Keretapi Tanah Melayu Berhad (“**KTMB**”)’s Double Track and Light Rail Transit Line - Ampang Line and Kelana Jaya Line. The Group is currently in its exploration stage to tender for a railway project in Thailand.

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1.4 **Question**

Why the Company has not declared any dividend to reward its shareholders.

Response

The Board would endeavour to provide stable and sustainable dividends to shareholders. In recommending the payment of dividend, the Board would have to take into consideration the Group's business prospects, capital requirements and growth strategy. Having considered the ongoing execution of the three (3) EPCC projects in Cambodia with deferred payment arrangement for at least four (4) to six (6) years, the Company needs to conserve sufficient liquidity to cover the working capital, borrowings as well as payment of borrowings, interests and other capital expenditure for the next few years.

1.5 **Question**

How was the contribution from PESTECH Energy Sdn Bhd ("PEN") towards the overall revenue of the Group in light of the intense competition and pricing pressure from the China's competitors.

Response

The Group is not affected by margin compression. The Group would only tender for projects with reasonable margin to sustain the operating earnings.

The main business of PEN is in the provision of design and supply of remote control systems and data communication products and its related services. At that juncture, the contribution from PEN was not that significant. The demand for DC-switchgear supplied by PEN is envisaged to increase in tandem with the execution of the MRT 2 system project and the Southern Double Track project. Hence, the Management is confident with the future contribution from PEN.

1.6 **Question**

With reference to the amount due from contract customers of RM708.639 million at Group level in the Statements of Financial Position (page 75 of Annual Report), whether the said amount was due from various customers or a single customer.

Response

The bulk of the amount was due from contract customers in connection with the three (3) EPCC projects in Cambodia, with deferred payment arrangement for at least four (4) to six(6) years.

1.7 **Question**

A shareholder suggested that the Company to consider venturing into the business of generating power through the use of biomass.

Response

Malaysia has tremendous biomass, such as oil palm waste, agricultural waste and municipal waste. Malaysia is well-positioned to promote the use of biomass as a renewable energy source. However, Malaysia would require advances in technologies for converting this biomass to biofuel efficiently and economically.

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PESTECH is specialised in power transmission infrastructure and products, power generation and rail electrification. It is not feasible for PESTECH to venture into the entire process of biomass renewable energy. However, PESTECH could undertake EPCC projects in power generation using biomass waste from palm oil mills and other agricultural waste.

1.8 **Question**

Whether the Company has in place, any strategy on renewable energy.

Response

The Group has a team of people working hard on renewable energy, notably, to participate in the tender for the large-scale-solar (LSS3) programme scheduled to be released by the Ministry of Energy, Science, Technology, Environment and Climate Change (MESTECC) in 2020. The Group is currently in talks with several local and foreign partners to collaborate in the tender for solar power generation.

The biggest challenge for solar power developers is finding suitable tracts of land near the grid. The LSS3 programme would entail total electricity generation capacity of 500MW. It is estimated that three (3) acres of land are required to generate 1MW. A power plant of 30MW will need 100 acres of land for solar power generation.

Agenda 6

Proposed Renewal of Existing Shareholders' Mandate For Recurrent Related Party Transactions Of A Revenue Or Trading Nature

2.1 **Question**

The rationale of engaging Vestech Project Sdn Bhd to carry out the civil works in the transactions as set out in Section 1.3 of the Circular.

Response

The Group is principally involved in the provision of engineering, design, manufacturing, installation and commissioning of electrical power facilities. In the ordinary course of business and for the day-to-day operations, there would be some civil works involved whereby the Group does not have the expertise to render such services. Further, it is difficult to engage the services of a competent and reliable civil works contractor at fair and reasonable cost. The close working relationship and co-operation with Vestech Project Sdn. Bhd. would allow the Group to make more informed commercial decisions in its business dealings.

For the rest of the items on the Agenda, there were no questions raised by the shareholders at the Seventh Annual General Meeting of the Company.

The resolutions set out in the Notice of Seventh Annual General Meeting dated 24 October 2018 were put to vote by way of poll. The Chairman announced the results of the poll for each of the resolutions and declared that all the resolutions set out therein were duly carried and passed by the shareholders and proxies present.