AWC BERHAD

200101014341(550098-A)
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE TWENTY-FIRST ANNUAL GENERAL MEETING ("21ST AGM" OR "THE MEETING") OF AWC BERHAD ("AWC" OR "THE COMPANY") HELD ON THURSDAY, 24 NOVEMBER 2022 AT 10:00 A.M.

REPLY TO QUESTIONS FROM THE MINORITY SHAREHOLDERS WATCH GROUP ("MSWG")

Mr. Richard Voon Siew Moon, the Chief Financial Officer of the Company, presented to the Shareholders, the questions received from the MSWG along with the replies from the Board as summarised below:-

<u>Operational & Financial Matters</u>

Q1. The orderbook of AWC has been on a declining trend over the years (refer to the table below).

FYE	Orderbook size (RM million)	New projects secured (RM million)
30 June 2019	978	250
30 June 2020	916	250
30 June 2021	862	290
30 June 2022	753	274

Source: AWC's Annual Reports 2019 – 2022

a) **Given that AWC's topline performance is primarily driven by the size and value of contracts secured, a depleting orderbook is of concern, especially in terms of the sustainability of AWC's financial performance.**

What are the strategies to effectively grow the orderbook size and improve the tender win rate?

The Facilities Division will continue to proactively tender for jobs with a bias towards healthcare centric projects. While we expect the Engineering and Environment Divisions to be beneficiaries to the eventual recovery of the building and construction industry domestically, the latter is expected to remain driven by its international markets of Singapore and the United Arab Emirates. In general, margins may be sacrificed depending on the quality of the projects and/or project owners. New products and offerings are continuously explored with the latest being the appointment of a subsidiary, DD Techniche Sdn. Bhd. by Best Water Technology of Germany as the sole and exclusive distributor for Malaysia.

b) **Based on a tender book size of above RM1.5 billion as of 30 June 2022 (page 21 of Annual Report 2022), what is the winning rate of these tendered projects? What is the Group's internal target for order book replenishment in FY2023?**

Which segment is expected to lead the order book replenishment in FY2023?

Internal target for order book replenishment is a modest 15% against the Group's tender book. For FY2023, we expect the Facilities Division to lead the order book replenishment, followed closely by the Environment Division.

Q2. Despite being the second largest revenue contributor to the Group, the Environment division is the most significant profit contributor to AWC. The division recorded a segment result of RM25.56 million (FY2021: RM27.1 million) against RM81.9 million in revenue (FY2021: RM81.88 million).

The year-on-year lower profit was due to weakening gross profit margins for overseas projects, resulting in lower profitability of the Division (page 58 of AR2022).

What caused the weakening profit margins for the projects under the Environment division? Does the Group expect to see a recovery in profit margin in FY2023?

The weakening of project margins was primarily due to adverse effects arising from supply chain constraints and higher cost of procurement, which was a global issue. While we expect to see the cost of procurement to improve in FY2023, it will be partially mitigated by higher manpower costs, especially in the Singapore market.

Q3. Under the Facilities division, the Critical Asset Refurbishment Programme (CARP) recorded growth of more than double in revenue to RM19.1 million in FY2022 from RM9.4 million in the year before (page 57 of AR2022).

While the revenue contribution of CARP is minimal compared to the revenue (RM178.8 million) of the Facilities division in FY2022, does the Group see a better upside from this segment compared to the conventional facilities management and maintenance works? Do works undertaken under CARP enjoy better profit margins?

The work scope of CARP undertaken by the Facilities division differs from conventional facilities management and maintenance works and as such enjoys better profit margins.

Q4. AWC generally grants clients a credit term of 30 days to 180 days. As of 30 June 2022, trade receivables which are past due 181 – 365 days amounted to RM8.36 million (net of impairment), representing approximately 8.4% of AWC's trade receivables of RM99.56 million (Note 35 (b)(i) Credit risk – Trade receivables and contract assets, page 175 of AR2022).

a) Who are these customers with long outstanding trade receivables? Has the Company seen an increase in the credit risk of customers?
Please include details such as country domiciled, amount due, and overdue period of these customers.

During the year under review, the Group's Expected Credit Loss (ECL) charge was RM2.7 million, an improvement compared to RM 7.2 million in the previous year (page 152 of AR2022).

Credit risk more than 181 days past due	Malaysia RM	Singapore RM	Middle East RM	Total RM
Facilities	1,664,938	-	-	1,664,938
Engineering	153,462	-	-	153,462
Environment	221,948	(12,908)	3,866,257	4,075,297
Rail	2,464,029	-	-	2,464,029
	4,504,377	(12,908)	3,866,257	8,357,726

b) **Are provisions required for these long outstanding trade receivables?**

As parts of these past due trade receivables are retention sums related to on-going projects, we do not expect any provisions to arise. Nevertheless, regular reviews are conducted with close interactions with counterparties and stakeholders to ensure collections are achieved in a timely manner and to minimise instances of delinquencies.

Q5. In the previous financial year, included in inventories are goods with a carrying amount of RM3.04 million, which was repossessed from trade receivables and will be sold in the ordinary course of business (Note 12 – Inventories, page 151 of AR2022).

From which business did the repossessed goods originate? What is the expected realised value of the goods? What is the progress in disposing of these goods?

This was in relation to the Rail Division with a realisable value of approximately RM3.3 million.

Q6. As of 30 June 2022, AWC had put RM17.94 million (FY2021: RM19.69 million) into short-term investments consisting of unit trust funds placed with fund management companies.

In FY2022, AWC incurred interest expenses of RM466,729 (FY2021: RM66,014) for these investments (Note 29 – Finance costs, net, page 166 of AR2022). Meanwhile, the total income generated from the investments amounted to RM314,256 (FY2021: RM552,005).

Why did the Company incur significant expenses for short-term investments?

This was the fair value loss on short term investment being accounted for accordingly.

Q7. As at 30 June 2022, AWC recorded a net cash position of RM116.1 million and a net cash per share of 36.7 sen (page 59 of AR2022).

Does the Company plan to pare down its borrowings further, especially term loans with higher interest rates of between 3.86% and 7.31% per annum (page 160 of AR2022)?

Yes, the Management will continue to actively review and plan the Group's treasury accordingly.

Q8. With a healthy level of cash in hand, what is the rationale for seeking shareholders' approval for directors to issue and allot shares under Sections 75 and 76 of the Companies Act 2016?

This is a standard general mandate sought at the AGM to provide flexibility to the Company for any funding requirements, such as investment project(s), working capital and/or acquisition(s) that may arise during the year ahead.

<u>Corporate Governance Matters</u>

Q1. The total remuneration of AWC's group managing director Dato' Ahmad Kabeer Mohamed Nagoor had increased by 12.4% year-on-year to RM3.81 million in FY2022 from RM3.39 million in FY2021 which included a bonus payment of RM1.08 million (FY2021: RM900,000).

The comparison of Dato' Ahmad Kabeer's remuneration with executives of other facilities management companies is shown in the table below. Notably, the total remuneration of Dato' Ahmad Kabeer is more than double of UEM Edgenta, despite AWC recording just half of UEM Edgenta's net profit in FY2022.

Company	FYE	Revenue (RM million)	Net Profit (RM million)	The total remuneration of executive director(s) (RM '000)
AWC Berhad	30-Jun-22	355.2	21.53	3,815
UEM Edgenta Berhad	31-Dec-21	2,292.40	43.40	1,356
GFM Services Berhad*	31-Dec-21	124.1	10.00	432

***GFM Services has two executive directors sit on its board**
Source: Companies' annual reports

The Nomination and Remuneration Committee (NRC) is responsible to ensure that the remuneration packages are benchmarked with industry standards in light of the Group's performance in the industry as well as commensurate with the expected responsibility and contribution by the Directors and link to the strategic objectives of the Group (page 35 of Corporate Governance Report 2022).

Comparing AWC's financial performance with its peers, what is the NRC's justification that the remuneration received by Dato' Ahmad Kabeer is fair and reasonable?

- While the packages are benchmarked against industry standards, often times there are no clear nor evident like for like peer comparisons and the NRC is well informed and aware that no one size fits all the criteria within the definition of peers.

- On the comparison to UEM Edgenta, it is worth highlighting that despite recording revenue of RM2.29 billion, the Net profit margin of UEM Edgenta was only 1.89% as compared to AWC's Net profit margin of 6.06%. At AWC, there is an emphasis on delivering sustainable returns to shareholders. AWC's size and earnings base are not identical to that of Edgenta's. Other than Profitability, various other factors play a significant part in determining the remuneration package of the Group CEO.

- The formulation of Dato' Ahmad Kabeer's remuneration package had taken into consideration various factors within the Key Performance Indicators ("KPIs") including financial, strategic, operations management and business plans, product development, conformance and compliance, shareholders/investors' relations, employee training and development, succession planning and personal input to the role. The leadership and importance of the Group CEO in driving the Group via his experience in securing multiple contracts and successfully executing the contracts are also taken into account.

Q2. AWC has departed from adopting Practice 5.9 of the Malaysian Code on Corporate Governance (MCCG), which encourages a board to comprise at least 30% of women directors.

Currently, AWC's Board comprises five directors, out of whom one is a female director, representing 20% female representation at the Board level.

Does the Company intend to adopt Practice 5.9 of MCCG? If yes, by when?

- The Board currently has five (5) members, comprising one (1) Group Chief Executive Officer/President and four (4) Independent Non-Executive Directors, out of whom one (1) is a female Independent Non-Executive Director, representing 20% representation at the Board level.

- Based on the current size and level of complexity of the Group's business and operations, the Board is of the opinion that the current Board size with four (4) Independent Non-Executive Directors, representing 80% of the Board's composition, amply provides the element of independence in the Board's composition and conduct, the Board decisions are made objectively in the best interests of the Group taking into account diverse perspectives and insights.

- The Board takes note of Practice 5.9 of MCCG. Women's representation on the Board and in senior management will be taken into consideration when vacancies arise and suitable candidates are identified, underpinned by the overriding primary aim of selecting the best candidate to support the achievement of the Company's strategic objectives.

QUESTIONS RAISED BY THE SHAREHOLDERS DURING THE MEETING

There were several questions/comments posted by the Shareholders which were duly responded by the Board of Directors of the Company. The Q&A provided, where relevant, are as summarised below:-

Q1. Is there a plan on listing of the Environment division?

There is no plan on listing of the Environment division at the moment. Perhaps when the market sentiment is better, according to the environment division a more favourable valuation.

Q2. Can AWC consider to give bonus distribution?

There is no plan for a bonus distribution at the moment.

Q3. Can we have a hybrid online/physical AGM/EGM next year? This will meet best practice of MCCG 2021.

The Company will keep that in mind for consideration.

Q4. Despite difficult economic environment, AWC Berhad achieved commendable results in 2022. Any reason why its stock price is still undervalued with a Price-Earning ratio of approximately 6-7 only?

While the Company focuses on creating a sustainable earnings base for the Group, the Company is unable to control how the stock price performs. Furthermore, overall market sentiment had been weak and especially unkind to small capital stocks.

Q5. What is the company's future outlook?

As the global economy is expected to slow down with a weaker recovery anticipated post pandemic, the Company remains extremely cautious about the overall outlook. The Company remains steadfast in building up the order book and replenishing it from a decent size tender book of above RM1.5 billion. This should help the Company to weather any storms and uncertainties moving forward. The Company has seen the initiatives and efforts in growing its Healthcare portfolio particularly in the healthcare support services (HSS) segment under the facilities division has been bearing fruits with several new projects secured during 2022, namely the NIH, Hospital Orang Asli Gombak, Perak State Clinics and most recently the RM188 million contract for Institut Kanser Negara. From this segment itself, the Company has secured jobs worth exceeding RM360 million for the year 2022. The Company will continue to be on the lookout for more jobs in this segment.

Q6. Will the Board consider giving door gift such as e-voucher or e-wallets for those participating in this AGM as a token of appreciation?

The Board and Management will take into consideration the request on the door gifts.

Q7. Can we expect higher dividend as the cash is growing every year and breach over RM100 million?

For the financial year 2022, The Board of Directors had earlier declared the first interim dividends amounting to 0.5 sen per ordinary share which was paid out to our shareholders in March 2022. A final dividend of 1.5 sen has been proposed and recommended by the Board, subject to shareholders' approval at this AGM. If approved by shareholders, the total pay-out for the year will be 2.0 sen per ordinary share versus 1.5 sen per ordinary share in the previous year. The total pay-out is approximately RM6.3 million, translating to a dividend pay-out ratio of approximately 29.0% against earnings per share versus a pay-out ratio of 18.0% in the previous corresponding year, which represents a decent yield of over 4.5%.

This has showed the commitment of the Company to pay more dividends as and when it is able to do so. That said, AWC is also mindful in balancing the funding requirements for capital expenditure and working capital considering prospective businesses, earmarked expansions, and new projects in the pipeline, hence the conservation of cash.

Q8. With the few new contract received these few months, is AWC able to break the record of profit after tax of RM26 million next year?

The Company's current orderbook is robust with jobs exceeding RM300 million secured during the year. AWC Group is concerned with on increasingly volatile operating environment where the global economic slowdown is expected to affect the Group's activities locally and abroad. The Company will adopt a prudence strategy in its operational activities as well as activities and explore new business opportunities to harness synergies within the business group. Despite the uncertainties and challenges that lie ahead, the Group is cautiously optimistic of a better performance in the year 2023. AWC is hopeful but unable to give absolute guidance.