AWC BERHAD

200101014341(550098-A)
(Incorporated in Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED AT THE TWENTY-SECOND ANNUAL GENERAL MEETING ("22ND AGM" OR "THE MEETING") OF AWC BERHAD ("AWC" OR "THE COMPANY") HELD ON TUESDAY, 28 NOVEMBER 2023 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. Despite posting a record-high revenue of RM381.3 million (FY2022: RM355.2 million), AWC saw its net profit plunge by 90% to RM2.18 million compared to RM21.53 million in FY2022. The lower profit performance was attributable to increasing cost pressure and non-recurring accounting adjustments to impair its trade receivables, goodwill, and contract assets.

This was the second consecutive year of lower profit notwithstanding higher revenue recorded (page 3 of Annual Report ("AR") 2023).

Does the Management expect a better year in FY2024? Has the elevated cost pressure subsided? Is there a likelihood of recovery in AWC's profitability in FY2024?

The Management, having identified the operational issues which weighed on the Group's performance during the year under review, is actively working on resolving them, especially those of the Facilities division. Barring unforeseen material developments that will negatively impact the Group's supply chain and procurement costs moving forward, financial year ("FY") 2024 is expected to be a turnaround year for AWC. The robust orderbook of RM830 million will continue to drive the Group's performance.

Q2. The Facilities division reported its first-ever loss in its history of RM5.9 million compared to a profit of RM11.7 million in FY2022 (page 63 of AR2023). Its performance was impacted by:

- **Impairment of receivables amounting to approximately RM4.5 million (including RM2.9 million due from a related company under the Engineering division).**

- **Increase in operating expenditures due to the impact of Minimum Wage Ordinance 2022 and amendments to the Employment Act amounting to more**

than RM5.0 million.

- **Costs from unscheduled works amounting to approximately RM5.0 million.**

a) **Why was the related company under the Engineering division unable to repay its due to the Facilities division? What were the circumstances that led to the impairment of receivables from this related company?**

What were the efforts taken to recover the receivables before the Group made the provision for it?

While it is not uncommon to have inter-company advances arise from funding working capital deficiencies with related companies within the Group as part of group treasury optimisation, the RM2.9 million due from a related company under the Engineering division had been outstanding since FY2020 when a project undertaken by the related company became delinquent (a trade receivable impairment related to this project of more than RM12 million was registered under the Engineering division in FY2020). Impairment was made on the advance since the project owner has gone into receivership.

b) **What were the unscheduled works about? How did these unscheduled works arise? Instead of passing it down to customers, why did AWC bear the additional cost of unscheduled work?**

The Facilities division's contracts and engagements are predominantly on a comprehensive basis which include the provision of preventive maintenance. Unscheduled works include remedial and rectification works arising from unforeseen breakdowns. Hence, all costs associated with such unscheduled works are at the expense of AWC.

Q3. Similarly, the bottomline of the Environment division was affected by a few unexpected factors namely:

- **Several projects in Singapore turning onerous amounting to RM4.2 million.**

- **The downward revision of the gross profit margin ("GPM") for a project in Singapore by RM1.7 million.**

- **Impairment on trade receivables of RM1.6 million**

a) **Please elaborate on the reason that these overseas projects were 'onerous' contrary to usual operating conditions. How did these 'onerous' projects affect AWC's bottomline?**

These are projects secured before and during the Covid-19 pandemic with costs established under pre-Covid-19 conditions. With projects undertaken in Singapore by the Environment division generally carrying lower margins due to the competitive nature of the Singapore market and escalation of procurement costs post-COVID-19, these projects turned onerous. The RM4.2 million was estimated and recognised as costs to complete these projects, which are expected to be completed in the new financial year ahead.

b) **Was the downward revision of the GPM for the Singapore project within AWC's expectations? If yes, did the Group incorporate this into its consideration when negotiating the contract with the client? If not, why was this unexpected? What caused the margin erosion for the said project?**

It is not uncommon for revisions of project GPM, with positive or negative outcomes, premised on differences between costing and actual procurement costs. This particular project was secured before the Covid-19 pandemic with pre-Covid-19 costing. While the overall project remains profitable (and not onerous), the higher cost of procurement resulted in the downward GPM revision.

Q4. The Engineering division booked losses related to impairment on contract assets amounting to RM3.2 million primarily arising from the 8 Conlay project (page 64 of AR2023).

To recap, AWC's subsidiary Qudotech Sdn Bhd ("Qudotech") bagged a subcontract for the provision of plumbing works for 8 Conlay by the project ex-main contractor MCC Overseas (M) Sdn Bhd ("MCCO") back in 2017.

Has Qudotech fully completed the project? How much revenue was recognised in the past for the works on 8 Conlay? Who is the current creditor for the outstanding amount? What are the options available for AWC to recover the amount? Will the Group resort to legal options to protect its interests?

After MCCO, Grand Dynamic Builders Sdn Bhd ("GDBSB") was appointed as the main contractor for 8 Conlay. As a nominated subcontractor, Qudotech was re-engaged under GDBSB. To-date, we have recognised more than RM23 million as revenue from this project. We are currently in negotiations with the owner of 8 Conlay to structure a recovery of outstanding sums attributable to the project and will not discount legal options to protect our interests.

Q5. Goodwill totalling RM5.35 million was impaired from AWC's book in FY2023. The breakdown of impairment of goodwill according to divisions and subsidiaries was as below:

- **Engineering division under DD Techniche Sdn Bhd ("DDT") - RM1.45 million**
- **Rail division under Trackwork & Supplies Sdn Bhd ("TWS") - RM3.9 million**

Does the impairment of goodwill suggest a worsening prospect for DDT and TWS as the carrying amounts of the goodwill exceeded the recovery of their value considering their financial performance?

Yes, to some extent.

To combat DDT's earnings shrinkage, the Management is actively exploring new business opportunities in water filtration including going downstream with consumer type products. In the meantime, the RM1.45 million goodwill impairment will be the final impairment as all goodwill attributable to DDT has been fully impaired.

In the case of TWS, the RM3.9 million was necessitated by the weaker earnings and compounded as we only own 60% of TWS. As announced on Bursa Malaysia Securities Berhad on 9 October 2023, AWC has served notice to Trakniaga Sdn Bhd to acquire the remaining 40% shares in TWS from them via a Call Option. Upon completion, TWS will become a wholly-owned subsidiary. This, along with future opportunities, is expected to alleviate future impairments on goodwill arising from TWS.

Q6. AWC plans to consolidate the operations of Stream Group and Trackwork & Supplies Sdn Bhd to bolster the Group's performance going forward (page 20 of AR2023).

What is the synergy to be created as the two subsidiaries are from two different divisions namely Environment and Rail division?

The context of "consolidating" Stream Group and Trackwork in the Chairman's Statement on page 20 of the AR2023 alludes to both companies becoming wholly-owned subsidiaries, hence bolstering profit attributable to shareholders of AWC.

Q7. About 45% (or equal to RM171.86 million) of AWC's revenue was derived from Customer A. Given AWC's heavy reliance on Customer A to drive its topline performance (page 205 of AR2023), what strategy is in place to mitigate the risk of a slowdown in order or works performed for Customer A?

As Customer A is a very diverse organisation (the Government of Malaysia and its related ministries and Government-Linked Companies), it is inevitable for AWC with its varied offerings of products and services to actively participate in tenders called by it. Mitigating this, AWC also actively tenders for projects from other customers, contracts from whom contributed towards the remaining 55% of the Group's consolidated revenue for FY2023.

Sustainability Matters

Q1. The Group is committed to tracking its carbon footprint for Scope 3 emissions in the following years (page 48 of AR2023). When will the Group be ready to disclose the data for a better assessment of the Group's sustainability efforts?

As we are at the beginning stages of measuring the carbon emissions because of our businesses, more detailed disclosures will be made available when we are able to better track and collate more meaningful data as defined by the Greenhouse Gas Protocol.

Corporate Governance Matters

Q1. The total remuneration of AWC's group managing director ("GMD") Dato' Ahmad Kabeer Mohamed Nagoor continued to be on an uptrend, increasing by 16.8% year-on-year to RM4.45 million in FY2023 from RM3.81 million in FY2022 which included a bonus payment of RM1.6 million (FY2022: RM1.08 million) (page 81 of AR2023).

The higher remuneration is against a significantly lower net profit of RM2.176 million recorded in FY2023 (FY2022: RM21.53 million), which resulted in a lower dividend distributed to shareholders at 0.5 sen per share, 75% lower compared to 2 sen per share in FY2022 (page 22 of AR2023).

While the factors affecting bottomline such as impairment of trade receivables, goodwill and contract assets, are non-cash in nature and represent a prudent approach in accounting treatment, they would have a negative effect on the balance sheet and dampen investors' confidence in a company.

Given that it was a challenging year, why was Dato' Ahmad Kabeer rewarded a higher remuneration and AWC's shareholders a lower dividend?

Firstly, the higher remuneration was partly contributed by the new 5-year contract for the GMD which had taken into account inflation amongst other considerations. The salary of the GMD represented a 20% increase from the previous 5-year contract where there were no annual adjustments during the contract period. As for the bonus payment, it had been based on AWC's financial performance for FY2022 when the Group recorded a net profit of RM21.53 million. The payment of bonuses takes into consideration a diverse number of factors including but not limited to the achievement of 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.

It is worth highlighting that the GMD was instrumental in securing multiple contracts during FY2023 where the Group recorded an all time high replenishment of new orders/contracts amounting to approximately RM455 million, representing an annual revenue cover of more than 1 time.

QUESTIONS RAISED BY THE SHAREHOLDERS DURING THE MEETING

There were several questions/comments posted by the Shareholders prior to the Meeting and during the live streaming which were duly responded to by the Board of the Company. The Q&A provided, where relevant, are as summarised below:-

Question received from the Shareholder prior to the Meeting

Q1. What is AWC's plan towards compliance with Environmental, Social and Governance ("ESG") standards where many industries have new norm standards?

While the Company acknowledges that ESG compliance is an important aspect of corporate governance, particularly for a publicly traded company, and with the investors increasingly embracing socially responsible investing, the Company continues to actively monitor the standards and requirements. The Company is committed to implementing the necessary measures to remain relevant and in compliance with regulatory requirements.

Questions received from the Shareholders during the live streaming

Q1. How much does the company allocate for the virtual AGM expenses and when does the Company plan to return to physical AGM? This would provide an opportunity for shareholders to meet with the management face-to-face.

The cost for convening the virtual AGM is RM16,000. The Company will carefully weigh and consider the decision to revert to physical AGM as and when deemed fit. For shareholders' information, ever since the Covid-19 Pandemic in 2020, the Company has been conducting the AGMs virtually. Currently, the Board is of the view that having virtual AGMs is more efficient, cost-effective and requires less time.

Q2. Will the Board consider giving door gifts such as e-vouchers or e-wallets for those participating in this AGM as a token of appreciation?

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

Q3. May I know what is the company's future outlook?

Underpinned by a robust orderbook in excess of RM830 million and a tender book of over RM700 million, the Group is cautiously optimistic about the outlook.

The economic forecast for Malaysia and the global landscape in FYE 2024 presents the Group with both challenges and opportunities. Global awareness and direction towards Sustainable Development and living along with respective nations' goals of achieving Net Zero carbon emissions would position AWC's offerings including STREAMs Automated Waste Collection System, our Rain Water Harvesting Solutions and Best Water Technology (BWT) products at the forefront of engineering a cleaner and sustainable environment.

With record-breaking orderbook replenishments and various potential pipelines of new orders tendered for, we remain optimistic that the Group is on a more solid footing to surpass our past performances moving forward.