MUHIBBAH ENGINEERING (M) BHD
47th AGM - 10 September 2020

MINORITY SHAREHOLDERS WATCH GROUP ("MSWG") – Q&A

STRATEGY & FINANCIAL MATTERS

1. Covid-19 Pandemic
Given the Covid-19 pandemic, to what extent has it impacted Muhibbah's prospects?

MEB's response:
Our Infrastructure Construction and Crane segments had experienced some delay in work progress due to the movement control order ("MCO") imposed. This has resulted in lower work performed and hence decrease in revenue during the period. However, operation has thus far resumed.

As for our Airport concession, due to the air travel ban and restriction imposed by many countries, this has adversely affected the performance of our international airports in Cambodia.

Barring any unforeseen circumstances, post COVID-19 crisis, the Group is hopeful that the gradual easing of the lockdown worldwide in tandem with the recovery of COVID-19 pandemic will improve the economic conditions. The Government's implementation of more monetary and fiscal stimulus packages will help to support the economy and the private sectors.

The Group continues to take appropriate measures and actions to cater for its business undertaking moving forward.

2.

	Infrastructure construction	
	2019 RM'000	2018 RM'000
segment profit/(loss)	**(45,883)**	**197,319**

(Source: Page 120 of the Annual Report 2019)

a) What are the reasons for the infrastructure construction segment to record a loss of RM45,883,000 in FY2019 as compared to a profit of RM197,319,000 in FY2018?

MEB's response:
The losses reported in our infrastructure construction segment for FY2019 were mainly due to the loss incurred for our Middle East project, which has experienced unexpected adverse soil conditions and cost overrun.

b) What is the segment outlook in FY2020? Does the Board expect the segment to return to profitability in FY2020?

> **MEB's response:**
> The infrastructure construction industry is expected to remain soft. For the 6 months period ended 30 June 2020, the infrastructure construction segment has reported cumulative loss before tax of RM9 million due mainly to the adverse impact of the COVID-19 pandemic. The loss included a one-off provision for staff restructuring costs of RM11 million to streamline the overhead of this division. The construction activities have also mellowed nowadays pending further stimulus plan by the Government. The Board expects a challenging business environment for the year 2020.

3. On-going projects

a) What is the current progress of the Group's existing projects? Are the projects on track to be completed within the stipulated timeframe?

> **MEB's response:**
> Majority of MEB Group's ongoing material projects have obtained the relevant extension of time from the clients due to the delay anticipated following the restriction imposed during the MCO or lockdown period. These projects have also since resumed work activity. As such, the Group does not foresee completion beyond the stipulated timeframe.

b) Are there any of the Group's current projects facing cost overruns or other issues? If so, what is Muhibbah's strategy to manage the issues?

> **MEB's response:**
> Due to the delay in work progress experienced as a result of the implementation of MCO, the Group has incurred unexpected costs associated to the delay. On this note, the Group is actively engaging with the clients to manage such costs and expects to continue submitting the appropriate claims associated with the delay.
>
> In addition, the Management has also taken several cost savings measure to streamline the Group's operational costs such as staff restructuring exercise to ensure continued efficiency in the Group's business and operations.

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4. During the year 2019, the offshores cranes market was relatively neutral. On the contrary, the construction crane market was relatively good mainly driven by the Australian market. Additionally, the Group continued its penetration into smaller sized crane segment in other new markets in Europe continent with some new crane models. The Group has further invested RM55 million in its tower crane rental fleet in 2019 for this purpose (Page 8 of the Annual Report 2019).

a) What is the outlook for the Group's offshore and construction cranes markets in FY2020?

MEB's response:
As a results of the COVID-19 pandemic and the drop in oil and gas prices, it is expected that the offshore and construction crane market to be also slow.

b) What are the new markets in the European continent for the smaller sized crane segment into which the Group has penetrated or intends to penetrate?

MEB's response:
The markets are in the 100-400mT segment and these are the segment in the Europe market.

c) Does the Group expect to invest in cranes in the next two financial years? If so, what is the capital expenditure budgeted for the investment?

MEB's response:
As a results of the COVID-19 pandemic, we expect to take a pause in our investment in cranes whilst we assess the market situation. Nevertheless, we already have some cranes being built midway and we shall be completing these. As such, you will still see some investments being booked in 2020. As for 2021, it will be selective and strategic in nature whether to invest or not. This will mostly depend on market conditions and factory workload.

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5. As at 29 April 2020, the outstanding secured order book for the construction and engineering division stands at approximately RM897 million (Page 8 of the Annual Report 2019).

   The outstanding total secured order book for the Crane and Automation division stands at approximately RM521 million (Page 10 of the Annual Report 2019).

   How long will the divisions' order books last? What is the targeted order book replenishment in the next two financial years?

MEB's response:
For construction and engineering division, the outstanding order book is expected to be completed between FY2020 to FY2023. The order book replenishment for the next 2 years is expected to be soft.

As for crane division, normal project delivery time ranges from 10-16 months; as for Automation division, most of the orders are to be completed within 12 months period. As a result from the COVID-19 pandemic and the resultant drop in oil and gas prices, we expect the crane order intake to be lower and expect steady/slightly low intake for Automation division.

CORPORATE GOVERNANCE MATTERS

1. Practice 4.2 of the Malaysian Code on Corporate Governance (MCCG) states that if the Board continues to retain the independent director after the twelfth year, the Board should seek annual shareholders' approval through a two-tier voting process.

   The Board through Resolutions 7 & 8 is seeking shareholders' approval for two independent directors who have served for more than 12 years, to continue to act as Independent Non-Executive Directors of the Company. Is the Board going to implement the two-tier voting process at the upcoming AGM as per Practice 4.2? If the Board does not intend to implement the two-tier voting process, please explain why?

MEB's response:
Similar to our prior year's AGM, a two-tier voting process will be implemented for Resolutions 7 and 8 in this AGM.

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2. The Company in its Corporate Governance Report for FY2019 (Page 37) states that it has applied Practice 12.3 of MCCG. Practice 12.3 of MCCG refers to facilitating or providing platform for shareholders to vote remotely without being physically present at the Company's AGM.

   The Company's explanation on the application of Practice 12.3 of MCCG is as follows;

   "The Company's general meetings have always been held at venue and manner which is easily assessable and are not in remote locations so as to encourage participation from all shareholders. Shareholders are also entitled to appoint proxy/proxies to vote on their behalf in their absence at the general meetings".

   Practice 12.3 is not about the choice of venue or the availability of proxy-voting, as such the Company has not applied Practice 12.3 of MCCG.

   Please take note.

   MEB's response:
   We will take note.