

PUNCAK NIAGA HOLDINGS BERHAD

**27th Annual General Meeting
29 May 2024**

**Reply to
Minority Shareholders Watch Group**



PUNCAK NIAGA HOLDINGS BERHAD

Operational & Financial Matters

Question 1:

The Group reported a Profit After Tax (“PAT”) of RM3.703 million compared to the Loss After Tax (“LAT”) of RM19.231 million in the previous year’s corresponding period. The improvement from LAT to PAT was mainly due to higher other income attributable from fair value gain on investment properties and discontinuing of legal suits. (Page 21 of AR2023)

Please provide further clarification on the other income attributable to the discontinuation of legal suits (i.e., specify the legal suits involved, clarify how their discontinuation contributes to other income, the amount of other income attributable from the discontinuation of legal suits, the anticipated timeframe for the Group to receive this other income).

Question 1 (Continued)

Answer:

The Group reported a Profit After Tax (“PAT”) of RM3.703 million compared to a Loss After Tax (“LAT”) of RM19.231 million in FY2022 mainly due to other income from fair value gain on investment properties of RM34.4 million and discontinuation of legal suits against Selangor State Government of RM44.6 million.

The discontinuation of legal suits involved the following two (2) legal suits :

- 1. Shah Alam High Court Suit No: BA-22NCVC-228-04/2017 in relation to Pengurusan Air Selangor Sdn Bhd (“PASSB”) claim against Puncak Niaga Holdings Berhad & 5 Others (“the Suit”).**

Question 1 (Continued)

Answer:

The Suit arose from alleged breaches of the Sale and Purchase Agreement dated 11 November 2014 (“SPA”) between Puncak and PASSB relating to the disposals of Puncak Niaga (M) Sdn Bhd (“PNSB”) 70% equity interest and RM212.0 million nominal value of redeemable convertible loan stocks held in SYABAS by the Company to PASSB for RM1.555 billion in line with the consolidation/restructuring of the water industry in the State of Selangor and the Federal Territories of Kuala Lumpur and Putrajaya by the State Government and the Federal Government. The disposals of PNSB and SYABAS were completed on 15 October 2015.

On 25 September 2023, Puncak announced that PASSB had withdrawn its claim against Puncak and the Shah Alam High Court had struck off the Suit.

Question 1 (Continued)

Answer:

2. Shah Alam High Court Suit No: BA-21NCvC-72-10/2017 Puncak (“Plaintiff”) vs 1. Tan Sri Dato’ Seri Khalid bin Ibrahim 2. Dato’ Seri Mohamed Azmin bin Ali (subsequently withdrawn by Puncak) 3. Selangor State Government (1st and 3rd Defendants collectively “Defendants”)

The suit is initiated by Puncak against the Defendants including the Selangor State Government, who Puncak asserts is vicariously liable for the tortious acts of Tan Sri Khalid and Dato’ Seri Azmin in abusing their powers in public office/misfeasance by threatening to cause and/or requesting or attempting to cause the Federal Government to invoke use of the Water Services Industry Act 2006 (“WSIA”) to force a take-over of the State’s water industry.

On 25 September 2023, Puncak announced that the Company’s solicitors had filed the Notice of Discontinuation of Puncak’s claim at the Shah Alam High Court. Hence, the Shah Alam High Court had struck off the case.

Question 1 (Continued)

Answer:

The discontinuing of the legal suits will enable Puncak to reduce incurring more resources and further costs to pursue the matter in court. Puncak had received and recognised the other income of RM44.655 million on 18 October 2023, from discontinuing these legal suits.

Question 2:

During FY2023, the Group and the Company recorded impairment losses on other assets amounting to RM20.61 million and RM162.60 million respectively (Page 147 of AR2023). Please furnish a detailed breakdown of these impairment losses.

Answer:

During FY2023, the Group and the Company recorded the impairment loss on initial classification as Assets Held for Sale amounting to RM20.61 million and RM9.45 million respectively, and the Company recorded impairment loss on investment in subsidiaries of RM153.15 million.

Question 2 (Continued)

Answer:

1. Impairment loss on Assets Held for Sales -

The impairment loss recognised in the Assets Held for Sales was due to the asset is valued at the fair value less costs to sell, subsequent to the Company and its wholly owned subsidiary, Puncak Niaga Management Services Sdn Bhd entering into three (3) separate conditional sale and purchase agreements (“Conditional SPAs”) to dispose 3 parcels of land in Ijok, Selangor on 17 August 2023.

Please refer to page 191 of Annual Report on Note to the accounts No. 17 - Assets Held for Sales.

Question 2 (Continued)

Answer:

2. Impairment loss on investment in subsidiaries –

The Company recognised an impairment loss in subsidiaries of RM153.15 million arising from irrecoverable investment costs is recognised up to the recoverable amounts of investments in subsidiaries, mainly on its investment in Puncak Niaga Construction Sdn Bhd (“PNCSB”). The recoverable amounts are determined based on fair value less costs of disposal.

Please refer to page 179 of the Annual Report on Note to the accounts No. 8.2 - Impairment loss on investment in subsidiaries.

Environmental Engineering and Construction

Question 3:

The Kuantan Project and Bunus Project experienced slow progress in FY2023 due to the main contractor being issued an injunction order and delays in work permit approvals by local authorities. The Bunus Project has been granted the 6th Extension of Time (“EoT”) with the completion date extended until 11 July 2024, which is 6 years beyond the original completion date. The Group obtained EoT No. 4 for the Kuantan Project with the completion date extended until 26 June 2024, 2 years beyond the original completion date. (Pages 21, 26 & 27 of AR2023)

(We would like to correct that the EoT No. 4 for the Kuantan Project is until 26 June 2025 as indicated on Pages 21, 26 & 27 of AR2023)

The delay in the construction of the Kuantan Project and Bunus Project may result in ineffective resource allocation, project cost overrun, and ultimately operational loss. As the delay is not caused by the Group, has the Group requested compensation from the client or the main contractor to mitigate part of the losses?

Question 3 (Continued)

Answer:

As at December 2023, the Bunus Project was at 92.55% completion. Bunus Project has submitted a mitigation claim which consists of Idling Cost and Loss & Expenses due to delays caused by the Authorities amounting to RM79,063,344.20, details as follows:

- | | | |
|----|-----------------------|-------------------|
| a. | Loss & Expenses (L&E) | : RM43,447,596.20 |
| b. | Idling Cost | : RM35,615,748.00 |

The above amount is only related to the delay faced by Bunus Project.

As at December 2023, the Kuantan Project was at 96.23% completion. Kuantan Project is in the progress of reviewing the claim for the Idling Cost and Loss & Expenses (“L&E”) to the Malaysian Government after obtaining the Kuantan High Court's decision to uplift the injunction made by a third party.

Question 4(a)

Since FY2017, the Group has made provisions for foreseeable losses for the Bonus Project, as the total contract costs are expected to exceed the total estimated contract revenue. The balance of the provision for foreseeable loss is RM29.1 million as of 31 December 2023. (Page 203 of AR2023)

(a) What is the cumulative loss attributable to the Bonus Project that has been recognised in profit or loss since FY2017?

Answer:

The cumulative loss attributable to the Bonus Project recognised by PNCSB's amounted to RM220.0 million as of 31 December 2023.

Question 4(b)

(b) What are the reasons for the Bonus Project becoming an onerous project?

Answer:

Bonus Project becoming an onerous project as PNCSB experienced the termination of the previous sub-contractor due to non-performance and slow work progress, coupled with the extensive rock excavation works, obstruction at work area due to interfacing with third parties (LLM, IWK, etc.), relocation of utilities such as TNB, Air Selangor & Telekom at site, road reinstatement and inability to secure a working permit due to delay in obtaining approval by local authorities and etc.

The Bonus Project was granted the 6th EoT with the completion date extended until 11 July 2024 for completion due to constraints at the site.

Question 4(c)

(c) What efforts have been made to recover the losses from the client?

Answer:-

Other than the claim of RM79 million (as stated in Question 3), Bonus Project has submitted claim to the client under various conditions allowed in contract as follows:

a. Variation Order (VO)	: RM128,604,607.52
b. Variation of Price (VOP)	: RM10,659,347.66
c. Loss of profit	: RM5,097,212.57
d. Financial Cost due to Loan	: RM54,391,631.00

RM198,725,798.75

In total, Bonus Project has submitted a claim to the client amounting to RM277,816,142.95.

Construction order book and tender book

Question 5(a)

What is the current order book of the construction segment and the targeted order book replenishment in the next two years?

Answer:

Current order books are as follows:

Project	Contract Sum	Certified as at December 2023	Balance
a. Bonus Project	RM393,980,709.64	RM332,512,400.00	RM61,468,309.64
b. Kuantan Project	RM432,655,640.00	RM396,975,942.00	RM35,679,698.00
c. Bukit Chupak	RM47,213,077.22	-	RM47,213,077.22
d. Johor Project	RM82,857,328.90	RM5,215,750.75	RM77,641,578.15
Total	RM956,706,755.76	RM734,704,092.75	RM222,002,663.01

Question 5(b)

What is the current tender book of the construction segment?

Answer:

We have participated in three (3) tenders totaling of RM148 million for tender issued by PAAB, PPPP and JPS.

No	Client	Tender Title	Value (RM)
1	Pengurusan Aset Air Berhad (“PAAB”)	Cadangan Reka Dan Bina Bagi Pembinaan Loji Rawatan Air Chicha (20 Jlh) Fasa 2 Dan Sistem Agihan	RM60,803,596.72
2	Perbadanan Pembangunan Pulau Pinang (Penang Development Corporation) (“PPPP”)	Cadangan Merekabentuk, Membina, Menyiapkan, Menyelenggara Dan Menaiktaraf Paip Pembentungan Dan Lain-Lain Kerja Bersangkutan Dengannya Di Batu Kawan Industrial Park (BKIP), Di Atas Sebahagian Lot 282, Mukim 13, Seberang Perai Selatan, Pulau Pinang (FASA 1) (BINA)	RM28,471,064.00
3	Jabatan Pengairan Dan Saliran (“JPS”)	Projek Memperkukuhkan Struktur Dan Fasilitas Empangan-Empangan Tebatan Banjir - Empangan Batu, Gombak, Selangor (Reka Dan Bina)	RM59,233,120.00
Total			RM148,507,780.72

Plantation Segment

Question 6 (a)

The FFB average yield of the Bintulu estate has been declining over the years to 4.34 metric ton/hectare in FY2023 (Page 33 of AR2023). This average yield is significantly lower than the industry average of 15.79 metric ton/hectare published by the Malaysia Palm Oil Board.

(Source: <https://bepi.mpob.gov.my/images/overview/Overview2023.pdf>)

(a) What are the reasons for the poor FFB yield, and what measures are in place to improve it? Please share the results of these measures.

Question 6(a) (Continued)

Answer:

The reasons for poor Fresh Fruit Bunch (“FFB”) yield are mainly due to the following:

1. Insufficient fertilizer application or nutrient imbalance which impacts crop yield and health. To tackle this problem, we regularly conduct soil and leaf analyses to identify any nutrient deficiencies accurately. Based on the results of these analyses, we apply balanced fertilizers to ensure optimal nutrient availability for the crops.

Question 6(a) (Continued)

Answer:

2. Neglected field conditions which affect crop health and productivity. To address this, we have initiated a comprehensive rehabilitation program focused on improving field conditions. This program emphasizes enhancing overall upkeep and implementing best practices for sustainable field management, thereby fostering better crop growth and yield.

In the year 2023, we completed the manuring program/fertilizer application to improve the soil nutrient profile and overall crop health. We have also actively carried out rehabilitation work and upkeep of the estates.

Under the rehabilitation work and estate upkeep initiative, the Company has devised plans to construct a total of 112 bin stations for FFB collection and gravel approximately 12.325 km of roads to connect these stations efficiently to the main road for transportation purposes.

Question 6(a) (Continued)

Answer:

As of today, 48 bin stations have already been constructed, and 4.37 km of roads have been graveled to facilitate access to these stations. The road gravelling process is being carried out concurrently with the construction of bin stations. By executing these tasks concurrently, we aim to expedite the overall completion of the rehabilitation work and estate upkeep, enhancing the estate's infrastructure for improved productivity and accessibility.

3. A shortage of harvesters had delayed the timely harvesting of crops and potentially leads to losses. To mitigate this issue, we have recently hired additional 54 Tenaga Kerja Indonesia (“TKI”) which lead to a total of 190 harvesters to fill harvester roles. This measure ensures that we have an adequate workforce to manage timely and efficient harvesting, thereby safeguarding our crop yields.

Question 6(a) (Continued)

Answer:

By implementing these measures, we aim to enhance nutrient management, field conditions, and workforce availability, ultimately improving crop quality and yield.

The FFB Yield has improved as compared to the results in the same period last year.

Question 6(b)

The Group will continue to improve roads and bridges in the productive areas to enable full harvesting (Page 39 of AR2023). Currently, what is the estimated percentage of FFB not harvested?

Answer:

The current unharvested FFB stands at 53% (the present crop harvested is at 18,065 MT compared to the budgeted 34,107 MT).

With our harvester ratio is at 1:25 per ha., Puncak believes it will help to increase the FFB crop recovery in our estates. Furthermore, with close supervision during harvesting, all ripe bunches are properly harvested and with good agro-management practices, the palm could perform well in term of their growth and production.

Question 6(c)

In the AGM last year, the Group mentioned that it would increase the intake of Indonesian harvesters with the aim of improving FFB production. Please provide an update on the intake of Indonesian harvesters. Has the labour shortage issue been resolved?

Answer:

The Group has actively pursued recruitment drives in Indonesia, collaborating with local agencies and government bodies to facilitate the hiring process. Special incentives and competitive salary packages have been offered to attract more workers from Indonesia.

As mentioned earlier, we have successfully employed 54 Indonesian harvesters. This brings the total number of harvesters employed by the Company during the period of 2023-2024 to 190 harvesters. Currently, barring any unforeseen circumstances, the labour issue has been resolved, ensuring adequate manpower for our operations.

Question 6(d)

What is the average age of the palm oil trees in the Bintulu estate?

Answer:

The average age for the palm oil trees is as per below:

- Below 4 years (immature) around 15%
- 4 - 7 years (mature) around 6%
- 8 - 15 years (mature) around 79%

Concession and Facilities Management Segment

Question 7

Upon completion of the construction works of CA-Z1P2 and CA-Z1P3, the Group is entitled to fixed payments throughout the tenure of the concession period, as outlined in the concession agreements. (Page 206 of AR2023)

Are the Groups permitted, per the concession agreements, to renegotiate the concession payment in the event of inflation or unexpected increases in operational costs during the tenure of the concession period?

Concession and Facilities Management Segment

Answer:

CA-Z1P2

As permissible under Clause 5.4 of the Concession Agreement for Z1P2, which allows for the company to propose revision of the Maintenance Charges 5 year period in 2019. TRIplc has submitted its proposal to Kementerian Pendidikan Tinggi and Universiti Teknologi Mara (“UiTM”) for rate revision from RM1.146 per sq ft currently, to RM1.559 per sq ft. However, currently, the revision proposal is still pending and yet to be revised.

CA-Z1P3

Clause 5.6 of the Concession Agreement for Z1P3 allows the Group to request for a review of the Asset Management Services Charges in the 5th year, which will be in the year 2025.

Sustainability Matters

Question 1 (a)

There are increasing cases of lost time injuries (LTI) and incidents in the Plantation Division and the Bonus Project. In FY2023, the Plantation Division reported 39 cases of minor injury (LTI < 4 days), while the Bonus Project reported 2 cases of fatality and 2 cases of serious injury (LTI > 4 days). (Page 72 of AR2023)

(a) Is the current Health, Safety, and Environmental Policy effective and operating as intended?

Question 1 (a) (Continued)

Answer:

The Environmental, Safety and Health Policy has been implemented and updated on 20 March 2022. Puncak Niaga Group is committed to ensuring the health and safety of our employees, contractors and interested parties. PNCSB has been awarded with ISO 45001:2018 since 9 September 2021 and the certification is valid until 7 October 2026. While Danum Sinar Sdn Bhd (“DSSB”) has been awarded with MSPO Certification and DSSB has complied with the Principle 4 Responsibility to social, health, safety and employment conditions.

Question 1 (b)

Please explain the reasons for the increasing cases of LTI and incidents. What are management's pro-active plans to further improve the health and safety culture of the group to bring down the injury and incidents?

Answer:

1. Plantation Division reported cases mainly involved our harvesters, who are primarily affected by thorn pricks and miscuts during frond staking.

Amongst the pro-active plans undertaken by the Group includes:-

- i. Safety Training
- ii. Safety Audits and Inspections
- iii. Employee Engagement and Participation
- iv. Safety Management System
- v. Health and Wellness Programs

Question 1 (b) (Continued)

Answer:

2. For PNCSB, the increase in cases of LTI and incident cases were caused by poor safety culture of the foreign workers employed by the sub-contractors, and the incidents which involved the public had occurred in PNCSB's premises. Even though the incidents were not caused by PNCSB, the PNCSB is required to report the cases.

Question 1 (b) (Continued)

Answer:

3. All incidents that occurred have gone through the incident investigation process in accordance with the Standard Operating Procedures (“SOP”) set by the Company. The corrective actions have been identified and implemented at the project site and by all appointed contractors. Furthermore, risk assessment and hazard identification assessment have been revised following the incident. Additionally, safety training has been provided to employees and contractors.

Corporate Governance Matters

Question 1

The Company has departed from the Practice 5.9 of MCCG which suggests that the Board comprises at least 30% women directors. The Board currently has two (2) females directors among its eight (8) members, which represents about 25% of the Board composition (page 31 of CG report).

Given the current gender disparity on the Board, when does the Board plan to appoint additional female directors?

Answer:

The Company will endeavour to achieve at least 30% women Directors on the Board of the Company within the next 2 years.

THANK YOU

