KELINGTON GROUP BERHAD
Registration No. 199901026486 (501386-P)
(Incorporated in Malaysia)

A summary of discussion on the Agenda of the Twentieth Annual General Meeting held on 10 July 2020
– Audited Financial Statements for the financial year ended 31 December 2019

Item 1 of the Agenda
- **Audited Financial Statement for the financial year ended 31 December 2019**

Mr Ng Seet Kow, a shareholder raised the following questions/concern:-

a) outlook of the Company for the next five (5) years in the light of the economic impact of Covid-19 outbreak which affected around the world;
b) the extent of the impact of Covid-19 on the Company over the next 5 years; and
c) the reason accounted for the increase of the share price.

Mr Ong Weng Leong ("**Mr Ong**"), the Chief Operating Officer of the Company replied that:-

a) Due to the outbreak, the project work at the operating sites for engineering services business had experienced operational disruption following the lockdown in China, Malaysia and Singapore.

   Nonetheless, with the ease of restrictions, the operations in China and Malaysia had gradually resumed in May 2020 whilst the operation in Singapore was still not allowed by the government due to the foreign workers issue. There was no impact on Taiwan operation.

b) As for the industrial gases business, the liquid carbon dioxide ("**LCO2**") plant had achieved about 50% of the production capacity before the movement control order ("**MCO**") but the production capacity had declined as there were no activities being carried out during the MCO. However, the LCO2 plant had resumed operation in April 2020 and that the production capacity had gradually increased.

c) There was an impact on the dry ice business as the Company had been supplying dry ice to the aviation industries, which were significantly affected by the outbreak.

   Nevertheless, there was no impact on the onsite supply of nitrogen gas for one of our Customer based in Cyberjaya as the Company was charging a fixed facility fee for the supply.

d) It was too early to ascertain the impact of the Covid-19 over the next 5 years. However, the Company expected that the revenue for the second quarter of 2020 would be impacted by the outbreak. In overall, the Company was still fundamentally strong and had a positive net cash position to weather the current crisis.

e) The increase of share price was mainly due to the improvement in the performance and fundamental of the Group as a result of the expanding of business operations of the Group. In addition, the venture into the industrial gases business was one of the Company's key plans to improve the earning visibility and drive long-term recurring revenue stream.

f) Management was cautiously optimistic that the Group would be able to maintain the business momentum over the next five (5) years.

Mr Wong Teck Quee, a shareholder raised the following questions:-

a) trade receivables which had been due more than 30 or 60 days reflected in the financial results for the first quarter of 2020;
b) status of application for certification for the supply of LCO2 to the food and beverage industry;
c) the Company's plan to supply LCO2 to Indonesia; and
d) total debts of the Company.

The Chairman and Mr Ong replied that:-

a) the Company had offered different payment terms in different countries depending on the terms of the contracts and that the Company did not foresee any issue on the trade receivables and the delay in the payment was mainly due to the lockdown.

b) The application for certification was still on-going and the audit had been completed 2 weeks ago. The Company expected the supply of LCO2 to be certified in the next 1 to 2 months.

c) The Company was planning to expand the industrial gases business to Indonesia and Australia and had added additional LCO2 skid tanks to prepare for exporting to the overseas market.

d) The total debt of the Company was about RM40 million and part of the debt was the banking facility granted by HSBC Bank Malaysia Berhad to partly finance the construction of the LCO2 plant.

Mr Chong Wei Sern, a shareholder enquired on the followings:-

a) the material litigation between Mutiara (FE) Pte Ltd against Kelington Engineering (S) Pte Ltd and whether the Company had made any provision in the financial results for the first quarter of 2020 in respect of the claimed sum; and
b) the Company's current outstanding order book.

The Chairman and Mr Ong replied that:-

a) the material litigation was commenced before the completion of the project. The payment was on-going and had yet to be certified and necessary provision had been made by the Company.

b) the outstanding order book for the first financial quarter of 2020 was about RM322 million. The Company had been participating in project tenders during the lockdown period and would announce the same in the financial results for the second quarter of 2020 in due course.

Mr Foong Siew Ping, a shareholder enquired on the followings:-

a) the strength of the Company comparing to the suppliers of the UHP business in China and Taiwan and the prospect of industrial gases business in Malaysia as the Company did not have the air separation unit;
b) the prospect to build an engineering team; and
c) charging formula for the UHP project in China.

The Chairman and Mr Ong replied that:-

a) One of the main competitive advantages for the Company to operate in China market since the establishment in year 2003 was language skills. Our team could speak both Chinese and English and prepare proper documentations in English, which was crucial for semiconductor industry. Thus, the Company could compete with the other competitors from Taiwan, Korea and the United States.

   The Company did not have air separation unit currently and would consider investing in the air separation unit when the Company had found an anchor customer for the same.

b) The Company was currently still recruiting and training the right talent to build up the engineering team. It would take about 3 to 5 years to train the employees to perform at a senior level.

c) There was no fixed charging formula. Instead, the Company would charge a fixed contract sum for UHP engineering project in China depending on clients' preference.

Mr Lee Wai Khee, a shareholder enquired whether the Company could supply the nitrogen gas to other customers, to which Mr Ong replied that the onsite supply of nitrogen gas was exclusively for our Customer based in Cyberjaya with a fixed facility fee for a period of ten (10) years.

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<u>Item 1 of the Agenda (cont'd)</u>

- **Audited Financial Statement for the financial year ended 31 December 2019**

Mr Siah Kim Meng, a shareholder enquired on the followings:-

a) sustainability of the profit margin of the Company and the reason of low contribution from the operation in Taiwan.
b) the revenue from the contract secured for the 10-year onsite supply of nitrogen gas.
c) the break-even capacity utilisation for the LCO2 plant and the capital expenditure ("**CAPEX**") to be spent on the LCO2 plant.

Mr Ong replied that:-

a) The increase of the profit margin of the Group was mainly due to improvement of the productivity in engineering services. The Company had reduced the general contracting works due to low profit margin. Instead, the Company had increased the UHP and process engineering works which contributed better profit margin. In addition, the Company anticipated that the profit margin for the industrial gases service business would be increased in the next 1 to 2 years.

   With regard to the contribution in Taiwan, Mr Ong informed that the semiconductor industry in Taiwan was a controlled market, whereby the Company could only work under a Taiwanese Company as a sub-contractor and that the profit margin was not favourable.

   The Company had been carrying out the business of building and installation of solar panel in Taiwan half year ago. Further, the Company had secured job from an American producer of computer memory and computer data storage based in Taiwan. The performance of Taiwan would be getting better.

b) The break-even capacity utilisation for the LCO2 plant was 30%. The Company had achieved 50% production capacity before the MCO. However, during the MCO period, the production capacity had been reduced. As the Company had resumed operations, the production capacity had been gradually increased and expected to achieve 30% in the next few months.

   With regard to the CAPEX, the major CAPEX had been spent on LCO2 plant and the Company did not foresee any large CAPEX to be spent on LCO2 plant in the future, save for the storage tank which cost about RM200,000 to RM300,000, if required.

Mr Tai Shih Chau, a shareholder enquired whether the operation in China was as good as Singapore. The Chairman replied that the operation was improving in China but the operations in Singapore and Malaysia were better still.