

PESTECH INTERNATIONAL BERHAD
("PESTECH" or the Company")
 [Registration No. 201101019901 (948035-U)]
 (Incorporated in Malaysia)

ANNEXURE A – RESPONSES TO QUESTIONS RECEIVED FROM MINORITY SHAREHOLDERS WATCH GROUP VIA LETTER DATED 18 OCTOBER 2023

1. The Proposed Restricted Issue enables the Group to raise funds expeditiously.

The table below set forth the order book, free cash flow and gearing ratio of the Group for the past 3 financial years:

	As at 30 June		
	2021	2022	2023 (Unaudited)
Order book (RM' billion)	1.76	1.73	1.23
Net cash (used in)/from operating activities (RM' million)	54.70	(108.37)	378.76
Free cash flow (RM' million)	95.12	3.93	16.20
Gearing ratio (times)	2.17	2.10	2.78

- (a) For the financial period ended 31 December 2022, the Company recorded a loss of RM71.44 million with negative operating cash flow and negative free cash flow of RM3.51 million and 34.67 million respectively, coupled with gearing of 2.34 times.

Based on the above, the Company's requirement for additional working capital does not seem to manifest suddenly. Were the high gearing ratio and constrained cash flow identified as potential concerns at an earlier stage?

PESTECH:

The high gearing ratio of the Group is largely attributed to the investment in the projects with deferred payment scheme and concession projects amounting to RM801.00 million, which represents approximately 58.73% of the total borrowings of RM1,363.84 million as at 31 December 2022. The debts for such investments are ring-fenced against payments from clients.

The Group is aware of its high gearing ratio and constrained cash flow and has been continuously looking for avenues to improve its cash flow and gearing level, which include amongst others, the following:-

- i. fund raising of RM20.27 million via a private placement which was completed on 23 March 2022. The said proceeds were used for the working capital requirement of the Group's projects; and**
- ii. disposal of a concession asset in Cambodia for a total cash consideration of USD118.00 million which was completed on 22 March 2023. A total RM218.00 million of the proceeds was utilised to repay the Group's bank borrowings. Overall, the proceeds received has also helped to strengthen the Group's financial liquidity and cash flow.**

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- (b) In view of the financial resources, what are parameters and criteria employed for evaluating and prioritising projects?

PESTECH:

The Group will focus on its core segment, namely engineering, procurement, manufacturing, construction and commissioning as well as projects with milestones and progressive payment scheme. Going forward, the Group will be providing services in construction of electrical infrastructure for electrical grid, rail electrification and renewable energy-related projects.

- (c) What is the targeted gearing ratio, moving forward?

PESTECH:

The Group's gearing ratio based on audited results as at 30 June 2022 is 2.10 times and upon completion of the Proposed Restricted Issue, the gearing ratio will be 1.78 times based on proforma audited results as at 30 June 2022.

Going forward, the Group intends to maintain its gearing level below 2.5 times.

2. Upon the completion of the Proposed Restricted Issue, IJM will emerge as the single largest shareholder of PESTECH holding 44.8% equity interest in PESTECH.

How will strategic decisions, especially those related to collaboration and investments, be made jointly between PESTECH and IJM?

PESTECH:

Upon completion of the Proposed Restricted issue, PESTECH and IJM endeavour to leverage on each other's capabilities to maximise the synergistic benefits and will enter into detailed discussions as and when opportunity for collaboration and investment arises. Any strategic decision will be tabled to our Board with representatives from IJM on the Board.

3. The subscription price of RM0.155 represents a discount of up to 49.0% to the 5-day, 1-month, 3-month, 6-month and 12-month of the VWAMP of PESTECH shares up to 21 July 2023, being the last full trading day of PESTECH Shares preceding the date of execution of the subscription agreement.

The substantial discount presents an opportunity for IJM to capitalise on advantageous pricing, potentially leading to the disposal of shares for a profit in the market. Such an eventuality could hinder the realisation of the anticipated benefits from the collaboration between the parties.

What are the measures in place to safeguard the interests of PESTECH and its existing shareholders?

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PESTECH:

The subscription of PESTECH Shares is a synergistic opportunity for IJM Group to acquire a strategic stake in a listed company with its core businesses of high voltage electrical transmission as well as rail electrification and signalling. We believe it represents a long-term investment of IJM Group rather than for any speculative purposes and/or for immediate realisation to yield profit. Upon completion of the Proposed Restricted Issue, PESTECH will become an associate company of IJM Group and IJM may nominate two (2) Directors to the Board.

As set out in Section 6.1 of the IAL, IJM has also provided declaration that it:-

- (a) intends to continue with the Group's businesses;
 - (b) does not intend to effect and/ or introduce any major changes to the Group's business activities, including any plans to liquidate any of the companies within the Group, sell the assets or re-deploy the fixed assets of the Group or make any other major changes in the business and/ or structure of the Group; and
 - (c) does not intend to effect any major changes to the continued employment of the employees of the Group or its employment policies, except where such changes are considered by the Group to be necessary to improve, amongst others, its profitability, operation and/ or market position, and in the best interest of the Group.
4. RM35.00 million of the proceeds raised from the Proposed Restricted Issue is earmarked for repayment of the credit facility on its maturity date, i.e. 6 months from the drawdown date of 13 September 2023 or upon receipt of the proceeds from the Proposed Restricted Issue, whichever is earlier.

What are the contingency plans, if the Proposed Restricted Issue and/or the Proposed Exemption do not proceed as planned?

PESTECH:

The credit facility is provided by Alliance Bank Malaysia Berhad as a bridging loan to PESTECH to fund the working capital of its Group pending completion of the Proposed Restricted Issue.

Should the Proposals do not proceed as planned, PESTECH will negotiate with Alliance Bank Malaysia Berhad to extend the tenure of the loan and/ or look for other alternative options to repay the credit facility.

5. Upon completion of the Proposed Restricted Issue, PESTECH Group could enhance its services by collaborating with IJM. This partnership will enable PESTECH to offer integrated construction and project management solutions, with a focus on electrical infrastructure concession projects.

The collaboration will also allow both companies to bid for larger projects, providing

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comprehensive turnkey solutions for local and international rail projects. IJM's investment will support PESTECH's growth by overcoming financial limitations and competing with multinational conglomerates. Together, the parties aim to explore opportunities in power, rail electrification, signaling, communication, and renewable energy projects in developing countries.

- (a) The disclosures in the Circular do not indicate that IJM is bound to collaborate with PESTECH on future projects. As such, what is the basis for the Company's confidence regarding the realisation of potential benefits of the Proposed Restricted Issue and the Proposed Exemption outlined in the circular?

PESTECH:

As a 44.83% associate company of IJM, we believe that both parties can jointly collaborate in the respective area of expertise to bring mutual benefits as envisaged under the Proposed Restricted Issue. With the availability of skill sets, project track records and network for concession projects that PESTECH has, PESTECH is able to bring added value to IJM in the undertaking of rail electrification, electrical infrastructure and renewable energy works. IJM's entry as a major shareholder to our Group is also expected to strengthen the corporate profiling of PESTECH.

Further, as extracted from IJM's announcement on 24 July 2023 in relation to its subscription of PESTECH shares,

"The Proposed Subscription presents IJM Group with the opportunity to collaborate with PESTECH Group, enhancing competitiveness and enabling participation in larger projects. By including PESTECH's capabilities into IJM's diversified portfolio, synergies may be derived for IJM Group to offer more comprehensive solutions and expand its geographical footprint."

- (b) What are the risks associated with the share subscription by IJM and collaboration with IJM? How does the Company mitigate the said risks?

PESTECH:

The identified risks associated with the share subscription and collaboration with IJM and our mitigating measures are as follows:-

i. Non-completion risks

The completion of the Proposed Restricted Issue is subject to the fulfilment of conditions precedent as set out in the Subscription Agreement. As at to-date, the completion of the Proposed Restricted Issue is conditional upon the following being obtained:-

- a) approvals from the shareholders of PESTECH for the Proposals;**

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- b) approvals of the SC for the Proposed Exemption;**
- c) approvals or consents from the financier of the Group for favourable revisions of the Group's existing bank borrowings; and**
- d) approvals or consents from relevant finances and counterparties to contracts entered into by the Company.**

In the event any of these conditions precedent is not fulfilled or waived, the Subscription Agreement shall lapse and hence, the Company will not be able to complete Proposed Restricted Issue. Notwithstanding the above, our Board and management will use its best endeavour to ensure every effort is taken to obtain all necessary approvals and ensure all the conditions precedent are fulfilled.

ii. Influence of IJM in the Company

Upon completion of the Proposed Restricted Issue, IJM will become the largest shareholder of PESTECH holding 800,000,000 PESTECH Shares which represents 44.83% of the enlarged issued share capital of PESTECH. Correspondingly, there will be a dilution to the equity interest of other shareholders in the Company.

When PESTECH becomes an associate company of IJM upon the completion of the Proposed Restricted Issue, IJM will be able to exercise significant influence over the election of our Directors and the approval of any corporate proposals or transactions requiring the approval of our shareholders, unless they are required to abstain from voting either by law and by relevant guidelines or regulations.

iii. Synergistic risks

The anticipated business synergies between both PESTECH Group and IJM Group may not be fully realised. However, both PESTECH and IJM are poised to benefit from potential synergy and shall work closely to create synergies for one another.

iv. Business and operation risks

The Proposed Restricted Issue will not materially change the risk profile of PESTECH Group as both entities are involved in engineering and infrastructure construction related businesses. Both entities are familiar with the inherent risks in these sectors including shortages of materials, equipment and labour, fluctuation of construction costs as well as availability and rising cost of financing.

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- (c) What are the mitigating steps in the event of potential conflicts of interest between PESTECH and IJM arising from future collaboration?

PESTECH:

Any terms for the future collaborations will undergo negotiation and will only be agreed if there are mutual benefits to each other, and before formalisation of the future collaborations.

Upon completion of the Proposed Restricted Issue, any transactions between PESTECH Group and IJM Group may be regarded as a related party transaction pursuant to the Listing Requirements. In this respect, the audit committee of the Company will deliberate and provide recommendation to the Board for approval for the transaction.

An independent adviser will also be appointed by the Board to advise on the fairness and reasonableness of such transactions, if required, according to the Listing Requirements.

Besides, the approval of non-interested shareholders for the related party transaction may be required according to the Listing Requirements.