**CAB CAKARAN CORPORATION BERHAD**
(200201015998)(583661-W)
(Incorporated in Malaysia)

Postponed Eighteenth ("18th") Annual General Meeting ("AGM") of the Company held fully virtual on Tuesday, 9 June 2020 at 10.30 a.m. from the broadcast venue at the Conference Room, Third Floor, CAB Cakaran Corporation Berhad, Plot 21, Lorong Jelawat 4, Seberang Jaya Industrial Park, 13700 Perai, Penang.

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Summary of the Questions and Answers Session during the Postponed 18th AGM

The Company had received a letter dated 22 May 2020 from the Minority Shareholders Watch Group ("MSWG") raising a few questions on "Strategy & Financials Matters as well as Corporate Governance Matters" of the Company. The questions posted by MSWG and the Company's responses to the questions were read out by the Company Secretary for shareholders' information and shared to the meeting on the screen.

The questions raised by MSWG and the reply from the Management are set out in Appendix A attached.

At the question and answer session, the following pertinent questions posed by shareholders were addressed by the Group Managing Director:-

| | Question | Reply |
|---|---|---|
| 1. | Pertaining to the Audited Financial Statements for the financial year ended 30 September 2019 ("AFS"):-<br><br>HONG HAN MOI<br><br>Page 73 of the Annual Report 2019 - Statements of Profit or Loss and Other Comprehensive Income shown that the Profit Before Tax ("PBT") of RM14.8 million and tax thereon of RM10.8 million. Tax represented approximately 72.9% of the PBT which was extremely higher than the tax rate of 24%.<br><br>Pages 114 and 115 of the Annual Report 2019 - Note 9 to the AFS shows tax effect of expenses not deductible for tax purposes of RM8.788 million. Grossing up non deductible expenses amounted to a very substantial sum of RM36.616 million.<br><br>What are these non deductible items? Company does not seem to have such major non deductible items on Note 10 to the AFS in Page 115 of the Annual Report 2019. | The effective tax rate of the Group was higher than the statutory tax rate due to the losses suffered by certain subsidiaries which could not be offset from profit generated by other subsidiaries.<br><br>Included in the non deductible expenses was depreciation and amortisation for non-current assets during consolidation of the Group account which was not deductible in determining the taxable profit. |

| | **Question** | **Reply** |
|---|---|---|
| 2. | WAN MOHD RUSHDI BIN W.A.LAH<br><br>Proposed for the Management of CAB to dispose of the business of Kyros Kebab as this division has suffered losses every year and the circumstances would not improve with the COVID-19 pandemic whereby public generally no longer opt to purchase food from restaurants. | Given the COVID-19 pandemic and the changes in the consumer purchasing behaviour, the Management will definitely undertake a serious review of Kyros Kebab's operations and to decide whether to continue or to close down the business. |

**APPENDIX A**

**Strategy & Financial Matters**

**Question 1:**

The Coronavirus pandemic, followed by the Malaysian Government's enforcement of Movement Control Order; how has this impacted the Group?

**Reply to Question 1:**

The Coronavirus pandemic and the subsequent enforcement of Movement Control Order (hereinafter referred to as "MCO") has adversely affected the Group's business.

The whole food industry, in particular the retail segment, was disrupted and suffered huge losses. Therefore, the Group's sales to the Quick Service Restaurant ("QSR"), dine-in restaurants and hotels dropped significantly. However, our sales of dressed birds and further processed products to hypermarkets showed a 25% increase.

During this period, the price of broiler also dropped drastically to a new historic low of RM2.50 per kg. Since the sale of live birds constitutes about 20% of the Group's turnover, this episode has adversely impacted the Group's bottom line. (Note: since the beginning of May, the price of broilers has increased significantly to more than RM5.00 per kg).

In addition, there is a significant disruption to the global supply chain including the outbreak of desert locusts across several food producing countries. This affected the production and supply of raw materials which resulted in higher feed cost.

As a result of the above scenario, the Group faces significant operation risk which will have negative impact on its financial results and position, including impairment of assets. Given that the current global pandemic situation is extremely fluid and riddled with uncertainties, it is difficult for the Group to assess the long term impact this has on our business.

**Question 2:**

The integrated poultry division recorded a segment profit of RM34.2 million (2018: RM72.1 million) which was a decrease of 52.6% over the previous year. The lower profit generated by the integrated poultry division was largely due to low average price of broiler prevailing during the year (page 18 of Annual Report 2019 ("AR2019")).

What is the outlook for the price of broiler, going forward?

**Reply to Question 2:**

Before the MCO, the supply of broiler in Malaysia has already reached saturation point. And during the MCO which resulted in significant drop in demand, the selling price of live bird drastically fell to a historic low. However, the reduction in production of chicks as well as broilers since the implementation of the MCO has resulted in the recovery of the price of live bird since the beginning of May.

The uncertainty and expectation of recession globally and in Malaysia, as well as the disruption to the global supply chain have resulted in a drop in global food supply and increase in the price of food. As such barring unforeseen circumstances, the selling price of broiler is expected to remain firm over the next 6 months.

**Question 3:**

The Management will continue to progressively upgrade and modernise all its open house farms to closed house farms. The Management has set a target of three years to fully convert all farms into closed house system (page 22 of Annual Report 2019 ("AR2019")).

(a) To-date, how many open house farms and closed house farms does the Group have?

(b) What is the capital expenditure for converting all the Group's open house farms to closed house farms for the next three years?

**Reply to Question 3(a):**

To-date, all our Grand Parent Stock Farms and Parent Stock Farms are using closed house system. For broiler farm, excluding the farm houses owned by contract farmers and those rented from third parties, the CAB Group has 63 broiler farms, of which only 4 farms are closed house and 5 farms are partially closed house.

**Reply to Question 3(b):**

The conversion cost of open-house broiler to closed-house broiler system may vary depending on the size, location, material used and the existing condition of the farm. Basically the conversion cost ranges from approximately RM20 per sq feet to RM35 sq feet.

The Group is currently in the midst of carrying out works to convert the open-house broiler farms to closed house system. The estimated cost to convert the Group's open-house broiler farms to closed house farms is about RM150 million to RM250 million.

**Question 4:**

The Management will proceed with caution by investing in only two supermarket outlets in 2020 (page 22 of AR2019).

(a) Is the plan to open two supermarket outlets in 2020 still on track?

(b) Where will the two supermarket outlets be located?

(c) What is the cost of investing in these two supermarket outlets?

**Reply to Question 4(a):**

The management expects to open one supermarket outlet in June 2020 subject to no disruption of renovation work from CMCO. However, the other outlet which has yet to commence work will be deferred due to interruption of renovation work and shortage of renovation material resulted from MCO and CMCO.

**Reply to Question 4(b):**

The supermarket outlet to be opened in June 2020 is located in Selama, Perak and the other one will be located in Sungai Kob, Kedah.

**Reply to Question 4(c):**

Estimated cost of investing in one supermarket outlet is about RM2 million.

**Question 5:**

The Group's allowance for impairment losses on trade receivables increased significantly to RM19.6 million (2018: RM11.4 million) (Note 25, page 149 of AR2019).

(a) How much of the allowance for impairment losses of RM19.6 million are attributable to related parties?

(b) How much of the RM19.6 million of the allowance for impairment losses are aged more than one year?

(c) What actions have been taken to recover the said amount?

(d) To-date, how much of the impaired trade receivables have been recovered?

**Reply to Question 5:**

The Group's allowance for impairment losses on trade receivables increased significantly to RM19.6 million as compared to FYE2018 was mainly due to the adoption of expected credit loss model ("ECLs") to determine the impairment on debt instruments under MFRS 9.

The Group applied the simplified approach and recorded 12 months ECLs on all trade receivables. The Group have elected not to restate comparative figure and as such an adjustment of RM7.47 million (refer to page 152 of AR2019) have been recognised in the beginning of the FY2019.

a) No specific impairment was provided for the debts of related parties.
b) RM17.145 million out of RM19.6 million of the allowance for impairment losses are aged more than one year.
c) So far the action taken are sending letter of demand to receivable, share the information of the receivable who didn't pay their bills on time through Malaysia's leading Credit Reporting Agency CTOS and legal action against the receivables.
d) Excluding the provision for ECLs, none of the individual impaired receivable has been recovered during the period.

**Question 6:**

The Group's gearing ratio has increased to 0.79 times (2018: 0.68 times) (Note 38 (a)(i), page 167 of AR2019).

What is the Company's optimum gearing ratio?

**Reply to Question 6:**

Gearing varies from firm to firm and from industry to industry. The optimum gearing ratio of a company may vary depending on the profitability, liquidity and the competitive position of the Company which will change over the time.

The management always considered carefully all aspects of the business situation in deciding the optimum borrowing of the Group. In principle, the management will endeavour not to exceed the gearing ratio of 1.0 time.

(Note: The above gearing ratio should read in conjunction with note 38 (a)(i), page 167 of Annual Report 2019).

**<u>Corporate Governance Matters</u>**

One of the Company's Independent Non-Executive Director, Y.B. Goh Choon Aik is a member of Penang State Legislative Assembly for Bukit Tambun.

MSWG comment:

MSWG advocates against having politicians on listed companies as such a situation creates increased risk and greater potential for conflict of interest.

Please take note.

**Reply:**

The Board of Directors shall take note of your kind comment.