



MALAYSIAN RESOURCES CORPORATION BERHAD

[Company No: 7994-D]

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Date: 14 July 2020

Minority Shareholder Watch Group (MSWG)

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Confidential
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Attention: **Mr. Devanesan Evanson**
Chief Executive Officer

Dear Sir,

**Malaysian Resources Corporation Berhad ("MRCB" / "the Group")
49th Annual General Meeting ("AGM") on Tuesday, 14 July 2020**

We refer to your letter dated 2 July 2020 in respect of the above matter.

We are pleased to submit our replies to your queries which we presented at the AGM on 14 July 2020. Our replies are:

Strategic and Financial Matters

- 1) In 2019, the Company launched the MRCB Building System (MBS), a prefabricated, prefinished volumetric modular construction method using proprietary fastening Candle-Loc Connection System, that will improve much faster construction time, high precision construction method and contained manufacturing in a controlled environment, which not only eliminates defects, but also improves safety.

- (a) Is MBS comparable to Industrialised Building System ("IBS") or better?

Answer:

MBS is a different construction method to IBS and serves a different purpose. Up to 90% of the construction is undertaken offsite, compared to only 30% to 40% offsite using IBS in Malaysia. Using MBS, modules that are manufactured offsite also have all immovable fixtures and fittings fully installed and pre-finished (floor finishes, tiling, ceilings, electrical points, lighting, plumbing, fitted cupboards, kitchens, sanitary ware, etc.)

Unlike IBS, MBS also allows site development and building fabrication to be done concurrently, thus speeding up construction time. The building itself is constructed as prefabricated prefinished modules in a controlled environment, with more stringent quality controls, efficiency and lower labour requirements.

- (b) What is the expected reduction in construction time and cost using MBS compared to the traditional construction method and IBS respectively?

Answer:

Cost reduction will vary depending on the customisation and specification of the building. We anticipate up to a 10% – 30% reduction in costs through less material wastage, and higher design efficiency and scale. The key advantages will come from faster construction times and lower defects/better quality control, which will speed up revenue recognition and cash generation as well as reduce financing costs for our Property Development Division.

- (c) How much money has the Company spent to make MBS commercially viable?

Answer:

As at 31st December 2019, the Company had incurred RM6.4 million to make MBS commercially viable.

- (d) Is there a possibility that MBS will be used widely in the construction industry in the future? Do third parties who use MBS need to pay for it?

Answer:

We have already stated our intention to license the technology to any company interested in utilising it, including competitors in Malaysia, and this will provide an additional future income stream for the Group. To date, MRCB has already licensed its technology to two companies overseas, one in Hong Kong which is undertaking a student residence project and a temporary quarantine facility, and another in Singapore for a nursing home and senior care center project.

- 2) The Group has identified the renewable energy and waste-to-energy segments as the Group's future business growth.

- (a) Has the Group been successful in securing business from the renewable energy and waste-to-energy segments? If yes, please name the projects and contract values?

Answer:

We are currently in advanced negotiations with the Government and will only make the required announcements when a concession agreement is formally signed.

- (b) How does the Group compete with competitors who are more established in the renewable energy and waste-to-energy business segments?

Answer:

To date, there are no established players in the WTE segment in Malaysia, as it is a new technology in our country. There are also no large scale WTE plants, and the two companies that have secured concessions have yet to complete the construction of their plants.

The Group has a long track record in the energy industry, having previously constructed power plants and several high voltage power transmission lines for TNB. We will leverage on these engineering skillsets and also those of our European technology partner, whose technology has over the years been successfully adopted in hundreds of WTE plants in some of the most environmentally compliant countries across Europe, Singapore and the World.

- 3) The Group's inventory of completed and unsold properties is RM435.3 million in FY 2019, an increase of RM341.8 million or 365.6% as compared to RM93.5 million in FY2018.

- (a) Why has the inventory of completed and unsold properties increased substantially in FY 2019 as compared to FY 2018?

Answer:

The increase in inventory was due to the completion of two property development projects in 2019, namely VIVO at 9 Seputeh and Kalista Park Homes in Bukit Rahman Putra. As at 31st December 2019, both these projects achieved sales of up to 78% and 79% respectively, with the remaining completed and unsold units being recorded as inventory.

In addition to these two projects, the Group also acquired 33 apartment units at the St. Regis after the Group's disposal of its 30% equity stake in One IFC Sdn Bhd in May 2019.

- (b) The Group has mentioned that it will continue to aggressively market its completed and unsold properties. Please explain the Group's aggressive marketing strategies that have been taken to reduce the inventory of completed and unsold properties? Are these marketing strategies effective? If not, why?

Answer:

We employ several strategies targeted towards both the local and overseas markets, which include adopting various sales and promotional schemes, such as the 'Stay and Own' scheme, 'Full Furnishing Package' scheme and participation in the 'Home Ownership Campaign' or HOC to reduce the buyers' cost on stamp duty.

We also continuously work towards expanding our network of real estate agents and, where possible, conduct bulk sales or underwriting sales.

Our strategies are always changing to meet customer demands and current economic conditions. For example, when the Movement Control Order was announced, we immediately repurposed our marketing budget into rebates and packages for customers and increased our digital sales and marketing activities. To date, we continue to see healthy bookings come from both the local and overseas markets, particularly from Hong Kong and China, which we have been actively targeting.

(c) What is the current value of completed and unsold properties?

Answer:

The value of completed and unsold properties as at 1QFY2020 is RM552 million. This value has increased when compared to the value recorded as at 31st December 2019 due to the construction completion of our 1060 Carnegie development project in Melbourne.

As at 1QFY2020, 1060 Carnegie achieved sales of up to 88%. However, unlike our other developments where only remaining completed and unsold units are recorded as inventory, for 1060 Carnegie all completed units are recorded as inventory until financial settlement with buyers.

4) The Australia property project, 1060 Carnegie, Melbourne is completed and has unbilled sales of RM225 million. (page 51 of Annual Report)

(a) When will the Group will be able to recognise the revenue from this property project?

Answer:

1060 Carnegie in Melbourne was fully constructed in December 2019 and revenue and profit recognition commenced on the completion of financial settlement with buyers. As at 1QFY2020, 59 units worth RM86.1 million out of the 151 units sold had been settled, and more revenue and profits will be recognised as more settlement completion occurs.

(b) What is the latest take-up rate of this property project?

Answer:

As at 1QFY2020, our 1060 Carnegie project has achieved a take-up rate of 88%.

(c) Where are the other property projects in Australia, if any?

Answer:

Apart from 1060 Carnegie, we have one other completed project in Australia called Easton Burwood, also in Melbourne, which is fully sold. We are currently pursuing other projects in the suburbs of Melbourne, Australia and in Auckland, New Zealand.

5) The Group has set up Bukit Jalil Casting Yard ("BJCY"), to market the supply and delivery of precast components to external parties due to high demand of these materials.

(a) What is the cost advantage of manufacturing the precast components internally as compared to buying from third parties?

Answer:

BJCY produces beams that are on average 6.5% cheaper than the market rate. Notwithstanding this, the purpose of setting up the yard was to secure the supply of precast components for our own projects and to ensure the certainty of delivery. This will also provide an advantage to MRCB as we bid for future infrastructure jobs.

We are currently producing these components for our own infrastructure construction projects on behalf of external clients, and in the future also plan to manufacture components for our MBS from the casting yard.

(b) What is the current capacity of BJCY and the current utilisation rate?

Answer:

BJCY produces several types of beams, such as the u-beams, t-beams and crosshead beams. For each of these, we produce an average of 90, 30 and 18 beams a month respectively. Our current plant utilisation rate is 100%.

(c) How much of the precast components are used internally and how much is sold to external parties respectively?

Answer:

Presently the precast components are 100% produced for our own infrastructure construction projects on behalf of external clients.

(d) When is BJCY expected to contribute to the Group's profitability?

Answer:

The yard is mainly to ensure security of supply for the Group's infrastructure construction projects, but the cost advantages and supply security are already contributing to Group profitability.

We hope the above explanation is satisfactory. Kindly contact Yazmin (03-2859 7105) should you require further clarification. Meanwhile, we also wish to extend our thanks to you for all your support and we will continue to keep the high standards of governance we have always set upon ourselves since we commenced business.

Thank you.

Yours faithfully

MALAYSIAN RESOURCES CORPORATION BERHAD



AMARJIT CHHINA
Chief Corporate Officer