

CME GROUP BERHAD
Registration No. 197901007949(52235-K)
(Incorporated In Malaysia)

SUMMARY OF KEY MATTERS DISCUSSED DURING THE 24TH ANNUAL GENERAL MEETING (“AGM”) OF CME GROUP BHD HELD AT PRECINCT ROOM, DORSETT PUTRAJAYA, LOT 3 (LOT3C5) PRECINCT 3, WILAYAH PERSEKUTUAN BANDAR, 62000 PUTRAJAYA

During the Company 24th AGM, the Chairman informed the shareholders present that the company had received a letter dated 14th December 2020 from the Minority Shareholder Watch Group ('MSWG). The Board has presented the questions raised by MSWG and the answers by the company at the meeting:

Operational & Financial Matters

1) CME's external auditor Messrs Kreston John & Gan highlighted the existence of a material uncertainty which may cast significant doubt about CME's ability to continue as a going concern. As of 30 June 2020, CME's group current liabilities had exceeded current assets by RM31.29 million (page 48, Independent Auditors' Report, AR2020).

This is also the fourth statement of “Material Uncertainty Related to Going Concern” (MUGC) issued by CME's external auditors since FY2016. When does CME expect to fully address the MUGC issue?

Answer:

1. The Group and the Company have implemented certain measures which are currently in progress, amongst which are:
 - Implement measures to strengthen the production team performance ensuring effective production processes with focus on delivering quality products to our customers, on time;
 - The focus is customer-centric overall processes to build on the CME brand name
 - Manage the costing of existing projects to maintain the profitability and closely monitor the progress to ensure the projects are completed within the contract period;
 - Explore new product ranges and identify potential business opportunities for the Group;
 - Actively participate in projects tendering to increase the opportunities of securing new projects;

- Obtain financial support from the financial institutions for financing the existing and upcoming projects; and
 - Sufficient banking facilities available to the Group, should the need arise.
2. CME is working on a few material contracts for the supply of fire trucks to the Government and the Oil and Gas industry. When these contracts are secured, there will be positive contribution in Income and cash flow for the Group.
 3. Further diversification into healthcare related business via a Collaboration Agreement with Bio-Alpha where CME will collaborate with Bio-alpha to develop, manufacture and supply herbal supplements and CME is given the exclusive rights to market, sell and distribute the products.
 4. Recovery of fair value of properties in near future (post COVID pandemic) which will improve net asset position as Properties value represent 99% of the group total Non-Current Asst.
 5. Continue the efforts of better managing cost.

2) CME recorded a net profit of RM178,000 in FY2020 (FY2019: net loss of RM23.65 million), after four consecutive years of net loss (page 15 of AR2020).

Given that CME was loss-making in the first quarter ended 30 September 2020, is the positive performance sustainable for FY21? What are the catalysts to support CME's financial performance in the upcoming years?

Answer :

The FY21 performance will be subject to timing of the awarding of current pipeline contracts which rely heavily on timing of government spending, oil price recovery and timing of economic recovery post-Covid pandemic.

3) As of 30 June 2020, about 83% of CME's total borrowings of RM24.82 million comprised high interest-bearing financial instruments e.g., bank overdrafts (interest rate between 7.82% and 8.45%), and term loans & project loans (interest rate between 7.5% and 8.75%) (page 104 – 106, Note 18 Borrowings, AR2020). Since the finance costs make up 60% of CME's profit from operations of RM2.26 million in FY2020, does the Company intend to restructure its borrowings? How does the Company plan to reduce the finance costs and thus improving the overall profitability?

Answer :

We are currently working closely with all banks to re-negotiate and re-structure the existing loans and facilities with the aim to reduce the monthly repayments and also to reduce the monthly interest and overall financing cost.

4) CME holds 2 parcels of land held for property development located in the South Western intersection of Mandurah Terrace and Henson Street in Mandurah, Australia. The land falls under the zonings of residential, tourism accommodation and mixed-use and commercial (page 18 of AR2020). What are CME's plans for the land?

Answer :

CME currently has plan to dispose of the land but due to the Covid-19 Pandemic, this plan maybe temporarily delayed.

5) CME is also involved in the retailing business of baby and mom products via two wholly-owned subsidiaries - Modern Mum Retail Sdn Bhd and Mom's Care Retail Sdn Bhd (page 8 of AR2020).

As there is no disclosure on the performance of retail business in AR2020, what is the financial contribution of the retail business to the Group?

Answer :

CME had ceased operations on this business sector.

6) On 17 September 2020, CME's wholly-owned subsidiary CME Health Sdn Bhd (CMEH) entered into a collaborative agreement with Bioalpha International Sdn Bhd (BISB) for BISB to develop, manufacture and supply health food supplements. CMEH will then market the product exclusively in Southeast Asia region.

CME earlier said the product development, approval from the Ministry of Health, and production and commercialization of the production will take three months to complete (CME's reply to Bursa Malaysia's queries dated 19 September 2020).

a) What are the products being developed by BISB for this collaboration? When does CME expect to market the said products?

b) How does the Company plan to market the products? What are the distribution channels that will be used to market the product?

c) What is the expected profit margin for this new business? How will the new business help to deliver more sustainable performance to CME?

Answer :

The Product is an immunity herbal supplement tea which aims to improve immunity and strengthen respiratory systems. The product has recently obtained the food/product classification from Ministry of Health (KKM). CME is currently in the process of recruiting an experienced team and a distribution agent to drive

the company to achieve its targets. The distribution channel for the products will be through Online (via e-commerce platforms) and offline (via pharmacies, retailers, distributors etc).

The company is planning to retail the product at a recommended retail price of RM45. This will provide a healthy cover for our cost and give us an expected return that reflects the quality of our product.

Corporate Governance Matters

1) The Chairman position of CME has been vacant since FY2000. The Board said it will continue to assess the need to fill the position from time to time (page 3 of Corporate Governance Report).

Why does it take two decades for the Board to assess the need to appoint a chairman and to identify a suitable candidate to fill the position?

Answer:

The board takes note of MSWG's comment. It is our intention to appoint the chairman of the board within the existing Board Members due to ongoing cost control measures. In this regard there are currently two independent non-executive directors who qualify to be appointed as chairman of the board and we shall finalise the appointment soonest possible.

2) YAM Tengku Besar Tengku Kamil Ismail bin Tengku Idris Shah, an independent non-executive director of CME attended only two out of four meetings held in

FY2020 **(an attendance rate of 50%)**, and 2 of the 4 Audit Committee meetings held in FY20 **(an attendance rate of 50%)**.

What is the reason for Tengku Kamil not being able to attend all the board meetings as board meetings are scheduled at the start of the year to enable Board members to plan their appointment schedule (page 29 of AR2020)?

Answer:

The board has informed Tengku Kamil on his 50% attendance. Tengku Kamil will ensure improved attendance for FYE21.

3) Paragraph 15.08 (2), Chapter 15 Corporate Governance of Main Market Listing Requirements (MMLR) requires directors of listed issuers to undertake continuous training to enable them to discharge their duties effectively.

In addition, pursuant to Paragraph 15.08 (3) of Chapter 15, the board of directors must also disclose the exceptional circumstances where any director has not

attended any training during the financial year, valid justifications for the non-attendance of such director.

Apart from Ms. Ong Suan Pin, all the other directors did not attend any training programmes during FY20 (page 30 of AR2020), notwithstanding that all directors are provided with reading materials and internal briefings by Company Secretary.

CME also did not disclose the justifications for the non-attendance of training by directors.

These are breaches of MMLR.

Answer:

The board takes note of MSWG's comment. The board will ensure compliance with Chapter 15 Corporate Governance of Main Market in the next Financial Year.

4) Based on the Corporate Governance (CG) report of the Company on the application of the Practices under the Malaysian Code on Corporate Governance (MCCG), please provide clarification on the following:

a) **Practice 2.1** - The board has a board charter which is periodically reviewed and published on the company's website.

Practice 3.1 - The Code of Conduct and Ethics is published on the company's website.

Practice 6.1 - The board has in place policies and procedures to determine the remuneration of directors and senior management. The policies and procedures are periodically reviewed and made available on the company's website.

Practice 6.2 - The Committee has written Terms of Reference (for Remuneration Committee) which deals with its authority and duties and these Terms are disclosed on the company's website.

CME's response for the Practices above: Applied. The necessary documents are published on the Company's website at www.cme.com.my.

MSWG's comment: As of 14 December 2020, the documents and policies mentioned above are not available on CME's corporate website www.cme.com.my. Thus, CME did not apply the Practices above.

b) **Practice 8.5** - All members of the Audit Committee should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.

CME's response: Applied.

MSWG's comment: Since the Audit Committee chairman and member, namely, Dato Khairi bin Mohamad and YAM Tengku Besar Tengku Kamil Ismail Bin Tengku Idris Shah, did not attend any training programme (in the form of continuous

professional development) during FY20 (page 30 of AR2020), the Company did not apply this Practice.

Answer:

The board takes note of MSWG's comment. The board will ensure the documents and policies are available on CME website and all members of the Audit Committee to undertake continuous professional development moving forward.

c) **Practice 10.2** - The board should disclose–

- whether internal audit (IA) personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence;
- the number of resources in the internal audit department;
- name and qualification of the person responsible for internal audit; and
- whether the internal audit function is carried out in accordance with a recognised framework.

CME's response: Applied. The internal audit function is outsourced to T. H. Kuan & Co, an independent consulting firm, to review the adequacy and integrity of the Group's system of internal control.

MSWG's comment: The Board did not disclose the name and qualification of the personnel responsible for the IA function (e.g., the head of IA) and whether the IA function is carried out in accordance with a recognised framework in its CG Report.

Answer:

The board takes note of MSWG's comment. The board will disclose the name and qualification of the personnel responsible for the IA function (e.g., the head of IA) and whether the IA function is carried out in accordance with a recognised framework in our future CG Report.

d) **Practice 12.3** - Listed companies with a large number of shareholders or which have meetings in remote locations should leverage technology to facilitate –

- including voting in absentia; and
- remote shareholders' participation at General Meetings.

CME's response: Applied. Shareholders are entitled to appoint proxy/proxies to attend and vote by filing a valid proxy form at the registered office of the Company not less than forty-eight (48) hours before the time set for the meeting.

MSWG's response: As CME did not implement voting in absentia and remote participation at AGM by shareholders, the Company has inaccurately stated that it has applied the Practice.

Answer:

The Company's Annual General Meetings have always been held in towns that are not considered remote.

5) As the necessary information are not available on CME's corporate website www.cme.com.my, the Company has also breached the following Bursa Malaysia 's Main Market Listing Requirements (MMLR):

- Chapter 9, Paragraph 9.21 (2) of the MMLR requires companies to publish a summary of the key matters discussed (KMD) at the AGM onto the Company's website soon after the conclusion of the general meeting.
- Chapter 15, Paragraph 15.08 A (2) of the MMLR states that the written TOR of Nominating Committee must be made available on the listed issuer's website.
- Chapter 15, Paragraph 15.11 A (2) of the MMLR states that an audit committee must have written TOR which deal with its authority and duties, and such information must be made available on the listed issuer's website.

Answer:

The board takes note of MSWG's comment. Moving forward the Board will ensure Chapter 9 Paragraph 9.21 (2), Chapter 15 Paragraph 15.08 A (2) and Chapter 15, Paragraph 15.11 A (2) of MMLR are adhered to.

6) The cost incurred for the IA function for FY20 was RM21,000 (page 34 of AR2020).

Given that the IA fee is rather small (RM1,750 per month), how does the Audit Committee assure itself that there would be adequate coverage and an effective audit function, since the IA expenses were to be spread over on nine subsidiaries and four key areas of reviews (page 39 of AR2020)? How many internal audit reports were issued for FY 20?

Answer:

The Audit committee had assessed and evaluated the competency internal auditor including consideration of their qualification and experiences. The Audit Committee is confidence the internal audit functions and systems are conducted in compliance with certification and regulatory requirements in spite of the low fees

