

GAS MALAYSIA BERHAD (240409-T)

MINUTES OF THE 25<sup>TH</sup> ANNUAL GENERAL MEETING OF GAS MALAYSIA BERHAD ("THE COMPANY") HELD AT MAHKOTA II, HOTEL ISTANA, 73, JALAN RAJA CHULAN, 50200 KUALA LUMPUR, MALAYSIA ON WEDNESDAY, 11 MAY 2016 AT 3.00 P.M.

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<b>DIRECTORS PRESENT</b>	YBhg Datuk Hj Hasni Harun YBhg Dato' Sri Che Khalib Mohamad Noh Encik Yusa' Hassan Encik Shigeru Muraki Encik Shazali Dato' Haji Shahrani YBhg Datuk Puteh Rukiah Abd Majid YBhg Datuk Syed Abu Bakar S Mohsin Almohdzar YBhg Datuk Ooi Teik Huat Encik David Tan Lye Chong	Chairman
<b>MANAGEMENT PRESENT</b>	Encik Ahmad Hashimi Abdul Manap  Encik Mohamed Sophie Mohamed Rashidi  Puan Yanti Irwani Abu Hassan	Chief Executive Officer ("CEO")  Chief Financial Officer ("CFO")  Company Secretary
<b>SHAREHOLDERS PRESENT</b>	As per the attendance list [Total : 311 shareholders representing 2,669,352 Ordinary Shares of RM0.50 each (0.20%)]	
<b>PROXIES PRESENT</b>	As per the attendance list [Total : 353 representing 644,764,001 Ordinary Shares of RM0.50 each (50.21%) of which 23,020,174 or 1.79% represented by Chairman]	

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AGM 1/2016 **OPENING ADDRESS**

The Chairman extended a warm welcome to the shareholders and proxies who attended the Twenty Fifth Annual General Meeting ("25<sup>th</sup> AGM" or "AGM").

Before proceeding with the business of the AGM, the Chairman invited the Security Supervisor of Hotel Istana to brief on the evacuation procedure within the meeting room and the hotel building premises.

AGM 2/2016 **INTRODUCTION OF THE BOARD OF DIRECTORS AND KEY MANAGEMENT**

The Chairman introduced each and every member of the Board of Directors and Key Management to the shareholders and proxies.

AGM 3/2016 **QUORUM OF MEETING**

The Company Secretary confirmed that there was sufficient quorum in accordance with Article 71 of the Company's Articles of Association.

AGM 4/2016 **NOTICE OF MEETING**

The Chairman proposed with the consent of all Company's shareholders and proxies in attendance, the 25<sup>th</sup> AGM Notice dated 18 April 2016 as stated in the Annual Report which circulated earlier to be deemed as read.

AGM 5/2016 **PRESENTATION ON QUESTIONS FROM THE MINORITY SHAREHOLDER WATCHDOG GROUP**

The Chairman informed that the Company had responded to the letter dated 6 May 2016 from the Minority Shareholders Watchdog Group ("MSWG"). The reply of which was requested to be read at the Meeting for the benefit of all shareholders, the Chairman then invited Encik Zulkifli Mawardi, Head of Corporate Affairs to read out the questions raised by MSWG and Encik Ahmad Hashimi Abdul Manap, the Chief Executive Officer ("CEO") to read out the written response.

A copy of the said letter together with Gas Malaysia's written reply dated 10 May 2016 are attached as **Attachment I**.

AGM 6/2016 **TO RECEIVE THE AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 TOGETHER WITH THE REPORTS OF THE DIRECTORS AND AUDITORS THEREON**

The Chairman explained that the Audited Financial Statements for the financial year ended 31 December 2015 together with the Reports of the Directors' and Auditors' thereon were meant for discussion only, as it did not require shareholders' approval under the provision of Section 169(1) and (3) of the Companies Act, 1965. Hence, it would not be put for voting.

With the consent of the Meeting, the Chairman proposed that the Auditors' Report which was distributed together with the Annual Report be deemed as read.

The Chairman then tabled the Audited Financial Statements for the financial year ended 31 December 2015 together with the Reports of the Directors and Auditors thereon for discussions and opened the Meeting for questions.

The several questions raised by the shareholders/proxies were responded by the Company as follows:-

- (i) Mr Ng Aik Peng, made reference to the Company's 5-years financial summary, commented that the Company's financial performance has shown a trend of decreasing Profit After Tax despite increase in Revenue. He enquired whether the Company has in place, key performance indicators to manage the trend.

The Chairman of Gas Malaysia responded that the efficiency of the Company is monitored by the Board through KPIs of the CEO. Gas Malaysia Berhad operates a highly-regulated business whereby gas price is determined by regulator and recent regulatory challenges had resulted in reduced gross contribution for every MMBtu of gas sold, which compressed the margin down from what was used to be at RM3.95 per MMBtu to RM2.02 per MMBtu and further down to RM1.58 per MMBtu effective 1 May 2014. To minimize the effect of the margin compression, Company looked into increasing its projected sales volume. Despite the increase in volume of gas sold, the profit is lower largely due to the full year impact of margin compression resulted from the tariff revision, coupled with additional billing for price differential between market prices and regulated prices for LNG volume supplied from the gas supplier.

With regard to share price performance, the Company is doing its best to maintain profitability in order to sustain the Company's ability to pay dividend.

The Company is also being prudent in managing its capital expenditure ("CAPEX"). CAPEX will only be spent to build pipeline in profitable sites. In the event the requested pipeline construction found to be unviable to Gas Malaysia, the Company applies a standard policy that the

customer will have to pay capital contribution in order to make the project viable for the Company to undertake such project.

With regard to level of efficiency of the Company, it is monitored through KPIs of the CEO and senior management of Gas Malaysia. Details of Company's operational excellence are as stated in the 2015 Annual Report under Management & Discussion Analysis section.

The CEO added, the Company did well and excel in managing its operational issues despite regulatory and economic challenges facing by the Company. Initiatives taken by the Company among others, close consultation with regulator to review tariff and embark on new joint ventures to diversify the business. All efforts taken in order to ensure long term sustainability of Gas Malaysia's business and deliver equitable return to the shareholders.

(ii) Mr Lee Leok Soon, a proxy of MSWG thanked the Management for responding to the questions raised by MSWG and for sharing the Management's response with all present at the AGM. He made further enquiries which were responded by the Chairman and CEO as follows:

(a) Technology transfer from the venture businesses as well as the terms for the joint venture with Tokyo Gas Engineering Solutions Corporation for the Combined Heat and Power ("CHP").

The CEO responded that, it is the intention of the Company to be independent from external experts by ensuring successful technology transfer acquired from its joint venture partner in building the Company's internal expertise.

The terms for the joint venture gone through thorough process to ensure the Company's interest protected and Gas Malaysia benefits from the venture.

(b) Any plan to embark on renewable energy in view of high gas costs.

The CEO explained that under the Incentive Base Regulation ("IBR") regime, Gas Malaysia is allowed to

pass-through the variance between actual gas costs and the reference gas costs via the Gas Cost Pass Through ("GCPT") mechanism, and therefore it provides better earnings clarity, certainty as well as stability for Gas Malaysia. The Group will remain financially neutral with respect to variations in gas cost.

The Group intends to enhance its commercial potential by diversifying into the non-regulated sphere of gas distribution business. On renewable energy, the Company is currently working with Sime Darby Offshore Engineering Sdn Bhd to take advantage of their capability in setting up the upgrading system to convert the POME to BioCNG at various palm oil mills.

The new ventures, such as CHP, Virtual Pipeline, BioCNG and other potential ventures are estimated to contribute around 30% to the Group's bottom line in next five (5) years.

- (c) High impairment of trade receivables amounted to RM17.946 million, whether adequately covered with some sort of collateral.

The CEO responded that it was a non-recurring impairment on the penalty charge as a result of excess gas consumed. The Management is actively pursuing the recovery of the amount due.

As per the Gas Supply Act 1993, the Company can only secure from the customer a bank guarantee/security that is equivalent to two months of gas consumption.

Mr Lee also highlighted that the corporate governance aspect is getting stricter, with the coming amendments to Main Market Listing Requirements, new Companies Act and new Code on Corporate Governance 2016, the Board should continuously update themselves by attending relevant continuing educational programmes.

With regard to Directors' fees, Mr Lee further queried as to why no resolution put forward for shareholders' approval. The Chairman clarified that shareholders have approved the payment of Directors' fee of not exceeding RM1,500,000 for each financial year commencing financial year

ended 31 December 2014. For the financial year ended 31 December 2015, the total payment of Directors' Fees is RM924,000.00.

(iii) Mr Wan Heng Wah enquired on the following:

- (a) View on whether the Company can overcome the negative impact of compression.

The CEO responded that efforts to address the tariff issue are on-going notwithstanding Gas Malaysia has implemented the IBR which provides better earnings clarity, certainty as well as stability to the Company. Management keeps its close consultation with regulator to ensure margin issues are fairly addressed. Management is positive and confident that the government will re-look into this tariff issue.

- (b) Percentage of regulated business against non-regulated business and whether Gas Malaysia could deepen its penetration into non-regulated business in order to mitigate the negative impact of margin compression, as well as if any, the target set in medium term to focus on non-regulated business for Gas Malaysia to be less depending on its regulated business while addressing the margin compression issue.

The CEO explained that the operation license for Gas Malaysia Berhad to supply natural gas distribution system is only for regulated business.

- (c) Maintain high level of dividend payout at 75% and up to 100%.

Dividend is subject to the profitability of the Company, the CEO highlighted that the Company had in 2014 and 2015 paid 100% dividend to its shareholders. It is also subject to Board's deliberation and decision.

- (iv) Mr Abdul Rahim Bidin expressed his pleasure that Gas Malaysia maintains its dividend payout. He then enquired on negative total shareholders' return and whether the Company will still be affected by margin compression next year,

and whether increasing the gas volume would mitigate the issue.

The CEO explained that even though tariff is determined by the government, Management is taking efforts to present its basis to the government and policy maker in ensuring no further margin compression in 2016.

He added, in addressing the negative shareholders' return, Management's approach is through capturing new business potential while maneuvering the regulatory framework that govern the Company. It is expected to provide future business potential for the medium term. When this takes place, he believes the share price will reflect that, thus improving the return. However, the new ventures are a long gestation process, of which the results would only be seen in 2H of 2016, 4Q of 2016 and 2Q of 2017 for virtual pipeline, CHP and BioCNG respectively.

With regard to major increase in Group's administrative expenses by RM18.4 million (41.9%) as compared to the previous year, the CFO explained that the increase was mainly due to the provision of doubtful debt for a specific customer charged with excess gas penalty which resulted from recoverability issues. The Management is in the midst of recovering the amount due.

In relation to whether PETRONAS's Pengerang project would have any effect on Gas Malaysia's gas volume consumption, the CEO explained that volume of gas sold from RAPID Pengerang is directly to PETRONAS's customers, if any, additional gas would provide certainty of supply reliability to Gas Malaysia.

- (v) Mr William Ng Kok Kiong, sought clarification on how many customers involve in the impairment of trade receivables and efforts taken to recover the amount. The CEO responded that only small number of customers involve in this excess gas penalty. It is an on-going effort by the Company to recover the amount. The Company has not taken any action to terminate or suspend the gas supply as these customers are also good paymasters. To resolve this issue, the Company engaged with the respective

customers and work on repayment through staggered installment scheme.

He further enquired on increase in other receivables, which was responded by the CFO that the amount included in other receivables is RM236,127,000, being the differences between the market prices and the regulated prices on the gas supplied arising from its contractual obligations to its to its gas supplier, for which the government has confirmed its support to the Company under the GCPT mechanism.

In relation to attendance of members at the Risk & Compliance Committee ("RCC") Meeting, the Chairman informed that the meeting which was held in February 2015 was attended by Chairman of RCC and Encik Yusa' bin Hassan. Whilst RRC held in August 2015 was attended by Chairman of RCC and Encik Shazali bin Dato' Haji Shahrani. There was sufficient quorum for both meetings.

Mr William Ng further enquired on the capital expenditures and status of the three (3) new businesses. The CEO responded that the capital expenditure planned for the three (3) new businesses are based on projected demand and subject to project viability on case to case basis. In each of the said ventures, the Group is at different stages of evaluating the potential for CHP, virtual pipeline and BioCNG businesses. The status of the businesses are as follows:

- (a) Gas Malaysia Energy Advance Sdn Bhd is currently constructing its first CHP system for a customer in Prai, Penang and is expected to generate revenue in the fourth quarter 2016.
- (b) Virtual Pipeline business is expected to commence operation in 2H16. The subsidiary is expected to generate PAT of approximately RM6.0 million yearly, with the expansion of similar business in the Northern region.
- (c) BioCNG is expected to commence operation by mid 2016.



(vi) Mr Hiew Sze Chuan enquired on the following:

- (a) Clarification on IBR. As far he know it is now based on volume, rml.58 per mmbtu, read from analyst report, they convert this scheme into asset return base of 8% per annum. To clarify, is it confirm.

The CEO clarified that IBR is a form of economic regulation administered by Suruhanjaya Tenaga to owners of natural monopoly infrastructure facilities such as gas distribution networks. It aims to link tariff setting to the network's performance while maintaining the quality of service and performance of the facilities. Utilities are given incentives to improve performance and invest sustainably.

- (b) If any, whether the Board request higher margin from the government compared to 8% currently.

The CEO informed that under IBR, Gas Malaysia will submit its revenue requirement for the duration of the regulatory period, the first of which will run from January 2017 until December 2019. The revenue requirement consists of operating expenses, tax, depreciation, return and gas costs benchmarked to reference gas prices. These form the base tariff which will remain fixed for the duration of the regulatory period. However, every six months Gas Malaysia is allowed to pass-through the variance between actual gas costs and the reference gas costs via the GCPT mechanism.

- (c) Limit of supply from PETRONAS.

The meeting noted that there is no limit to the gas supplied by PETRONAS to Gas Malaysia.

Mr Hiew also suggested information on gas volume sold be inserted in the Company's quarterly results for shareholders to keep track of Company's performance.

With that, the Chairman concluded the questions and answers session for Agenda 1 and proceeded to the next agenda.

AGM 7/2016 **ORDINARY RESOLUTION 1**  
**DECLARATION OF A SINGLE-TIER FINAL DIVIDEND OF**  
**4.77 SEN PER ORDINARY SHARE OF RM0.50 EACH IN**  
**RESPECT OF THE FINANCIAL YEAR ENDED 31 DECEMBER**  
**2015**

The resolution on declaration of a single-tier final dividend of 4.77 sen per Ordinary Share of RM0.50 each in respect of the financial year ended 31 December 2015 was tabled.

The payment of the said single-tier final dividend will be made on 16 June 2016 based on the entitlement date of 27 May 2016.

Ms Young Swee Ting, the shareholder proposed the Ordinary Resolution 1 be put to motion and Mr William Ng Kok Kiong, the shareholder seconded the motion.

The Ordinary Resolution 1 was put to vote by show of hands and it was accepted and approved unanimously without any modification:-

**RESOLVED:-**

**THAT** a single-tier final dividend of 4.77 sen per Ordinary Share of RM0.50 each for the financial year ended 31 December 2015 be and is hereby declared and approved;

**AND THAT** the single-tier final dividend will be paid on 16 June 2016 to the shareholders whose names appear in the Record of Depositors of the Company at the close of business on 27 May 2016.

AGM 8/2016 **ORDINARY RESOLUTION 2**  
**RE-ELECTION OF DIRECTORS PURSUANT TO ARTICLE**  
**95(2) OF THE COMPANY'S ARTICLES OF ASSOCIATION**  
**- MR. TAN LYE CHONG**

The resolution 2 on re-election of Mr Tan Lye Chong who retires in accordance with Article 95(2) of the Company's Articles of Association was tabled.

Pursuant to Article 95(2) of the Company's Articles of Association, one third (1/3) of the Board at the time of the AGM or the numbers nearest to 1/3, shall retire from office at each AGM. The Directors to retire at the AGM shall be the Directors who have been longest in the office.

Mr Lee Leok Soon, the shareholder proposed the Ordinary Resolution 2 be put to motion and Mr Abdul Rahim Bidin, the shareholder seconded the motion.

The Ordinary Resolution 2 was put to vote by show of hands and it was accepted and approved unanimously without any modification:

**RESOLVED:-**

**THAT** Mr Tan Lye Chong retiring in accordance with Article 95(2) of the Company's Articles of Association, be and is hereby re-elected as Director of the Company.

AGM 9/2016

**ORDINARY RESOLUTION 3**  
**RE-ELECTION OF DIRECTORS PURSUANT TO ARTICLE**  
**95(2) OF THE COMPANY'S ARTICLES OF ASSOCIATION**  
**- YBHG DATUK SYED ABU BAKAR BIN S MOHSIN**  
**ALMOHDZAR**

The resolution 3 on re-election of YBhg Datuk Syed Abu Bakar bin S Mohsin Almohdzar who retires in accordance with Article 95(2) of the Company's Articles of Association was tabled.

Mr Lim Jit Thin, the shareholder proposed the Ordinary Resolution 3 be put to motion and Ms Young Swee Ting, the shareholder seconded the motion.

The Ordinary Resolution 3 was put to vote by show of hands and it was accepted and approved unanimously without any modification:

**RESOLVED:-**

**THAT** YBhg Datuk Syed Abu Bakar bin S Mohsin Almohdzar retiring in accordance with Article 95(2) of the Company's Articles of Association, be and is hereby re-elected as Director of the Company.

AGM 10/2016

**ORDINARY RESOLUTION 4**  
**RE-ELECTION OF DIRECTORS PURSUANT TO ARTICLE**  
**95(2) OF THE COMPANY'S ARTICLES OF ASSOCIATION -**  
**YBHG DATUK OOI TEIK HUAT**

The resolution 4 on re-election of YBhg Datuk Ooi Teik Huat who retires in accordance with Article 95(2) of the Company's Articles of Association was tabled.

Mr Azril Haris Mat, the shareholder proposed the Ordinary Resolution 4 be put to motion and Mr Nisham @ Abu Bakar Ahmad, a proxy seconded the motion.

The Ordinary Resolution 4 was put to vote by show of hands and it was accepted and approved unanimously without any modification:

**RESOLVED:-**

**THAT** YBhg Datuk Ooi Teik Huat retiring in accordance with Article 95(2) of the Company's Articles of Association, be and is hereby re-elected as Director of the Company.

AGM 11/2016 **ORDINARY RESOLUTION 5**  
**TO RE-APPOINT MESSRS. PRICEWATERHOUSECOOPERS AS**  
**AUDITORS OF THE COMPANY FOR THE ENSUING YEAR AND**  
**TO AUTHORISE THE DIRECTORS TO FIX THEIR**  
**REMUNERATION**

The resolution on re-appointment of Messrs. PricewaterhouseCoopers ("PwC") as Auditors of the Company until the conclusion of the next AGM and to authorise the Board of Directors to fix their remuneration was tabled.

The Meeting noted that the retiring Auditors, PwC had indicated their willingness to accept the re-appointment and consented to act as Auditors of the Company for the financial year ending 31 December 2016.

Mr William Ng Kok Kiong, the shareholder proposed that Ordinary Resolution 5 be put to motion and Mr Hiew Sze Chuan, a proxy seconded the motion.

The Ordinary Resolution 5 was put to vote by show of hands and it was accepted and approved unanimously without any modification:

**RESOLVED:-**

**THAT** Messrs. PricewaterhouseCoopers be and are hereby re-appointed as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorize the Board of Directors to fix their remuneration.

AGM 12/2016 **SPECIAL BUSINESS: ORDINARY RESOLUTION 6**  
**PROPOSED RENEWAL OF SHAREHOLDERS' MANDATE FOR**  
**RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE**  
**OR TRADING NATURE WITH PETROLIAM NASIONAL BERHAD,**  
**PETRONAS GAS BERHAD AND PETRONAS DAGANGAN BERHAD**  
**("PROPOSED SHAREHOLDERS' MANDATE")**

The resolution on the proposed renewal of shareholders' mandate for Recurrent Related Party Transactions of a revenue or trading nature with Petroliam Nasional Berhad, PETRONAS Gas Berhad and PETRONAS Dagangan Berhad ("Proposed Shareholders' Mandate") was tabled.

The details of the Proposed Shareholders' Mandate was elaborated in the Circular to Shareholders dated 18 April 2016 which was dispatched together with the Annual Report.

The Chairman informed the Meeting that the related parties involved in the Recurrent Related Party Transactions which were stated earlier, namely Minister of Finance (Inc.), Petroliam Nasional Berhad, PETRONAS Gas Berhad and PETRONAS Dagangan Berhad and the Director of the Company namely, Encik Yusa' Hassan were deemed interested and have abstained from all Board deliberations and also be abstained from voting on this resolution.

The shareholder, PETRONAS Gas Berhad, and persons connected to PETRONAS Gas Berhad were also deemed interested and shall abstained to vote on this resolution.

Mr Abdul Rahim Bidin, the shareholder proposed that Ordinary Resolution 6 was put to motion and Mr Ng Aik Peng, the shareholder seconded the motion.

The Ordinary Resolution 6 was put to vote by show of hands and it was accepted and approved unanimously without any modification:

**RESOLVED:-**

**THAT** subject to the provisions of Main Market Listing Requirements of Bursa Malaysia Securities Berhad, approval be and is hereby given to the Company and its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature with the related parties, as set out in Section 2.4 of the Circular to Shareholders dated 18 April 2016, which are necessary for the day-to-day operations; and are undertaken in the ordinary course of business of the Company and its subsidiaries, on arm's length basis, on normal commercial terms which are not more favourable to the related parties than those

generally available to the public and are not detrimental to the minority shareholders of the Company and that such approval shall continue to be in force until:-

- i) the conclusion of the next Annual General Meeting ("AGM") of the Company following this AGM at which the Proposed Shareholders' Mandate is passed, at which time it will lapse unless the authority is renewed by a resolution passed at the next AGM;
  - ii) the expiration of the period within which the next AGM after the date it is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (the "Act") (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Act); or
  - iii) revoked or varied by resolution passed by the shareholders at a general meeting,
- whichever is the earlier.

And that the Directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they may consider expedient or necessary to give effect to such transactions as authorised by this Ordinary Resolution.

AGM 13/2016 **TO TRANSACT ANY OTHER BUSINESS OF WHICH DUE NOTICE SHALL HAVE BEEN GIVEN IN ACCORDANCE WITH THE ACT**

The Company Secretary confirmed that the Company had not received any notice of any other business in accordance with the Act.

AGM 14/2016 **CLOSURE OF MEETING**

Gas Malaysia's 25th AGM ended at 4.40 p.m. with the Chairman thanked all shareholders and proxies of the Company present at the Meeting.



**MINORITY SHAREHOLDER WATCHDOG GROUP**  
*Shareholder Activism and Protection of Minority Interest*

6 May 2016

**BY FAX/EMAIL**

(Fax No: 603-5192 6766)

The Board of Directors  
**Gas Malaysia Berhad**  
No. 5, Jalan Serendah 26/17  
Seksyen 26, 40732 Shah Alam  
Selangor Darul Ehsan

**Attention:** Puan Yanti Irwani Binti Abu Hassan  
Encik Noor Raniz bin Mat Nor  
*Joint Company Secretaries*

Dear Sir,

**Re: Twenty-Fifth Annual General Meeting (AGM) of Gas Malaysia Berhad**

In the interest of minority shareholders and all other stakeholders of the Group and the Company, we would like to raise the following points and queries.

**Strategy/Financials**

1. The Chairman's Statement reported that with gas industry liberalization, the Group intends to enhance its commercial potential by diversifying into the non-regulated sphere of gas distribution business as a catalyst for growth. namely three new businesses- the Combined Heat and Power ("CHP"), "Virtual Pipeline" and "BioCNG".
  - (a) In what ways, would the Board's decision to diversify into three new businesses namely the Combined Heat and Power ("CHP"), "Virtual Pipeline" and "BioCNG" enhance and contribute to the current core business of natural gas and LPG?
  - (b) What are the anticipated strategic arrangements should the Group diversify on its own or should the Group enter into joint ventures with strategic partners/players in the gas industry?
  - (c) What would be the capital expenditure planned for the three new businesses whilst its 5-year capital expenditure for existing natural gas distribution system has been estimated at RM700 to RM800 million, to cater for the expected increase in demand despite the incentive-based regulation benefiting the Group?
  - (d) Amid the gas costs make up 95 per cent of the Group's total cost of operation, how would the Group rationalize its core businesses and optimize its cost structure for sustainability of its profitability and earnings in near to long term?

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**BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD**

(Incorporated in Malaysia • Company No: 524989-M)  
Tingkat 11, Bangunan KWSP, No: 3, Changkat Raja Chulan, Off Jalan Raja Chulan, 50200 KUALA LUMPUR.  
Tel: (603) 2070 9090 Fax: (603) 2070 9107  
E-Mail: [watchdog@mswg.org.my](mailto:watchdog@mswg.org.my) Website: [www.mswg.org.my](http://www.mswg.org.my)

2. The share of results in a joint venture has yet to earn profits and contribute positive earnings despite its investment increased and stood at RM25.274 million as at 31 December 2015 (2014: RM11.547 million) at the Group's level.
- (a) Would the Board anticipate when this joint venture company could be profitable, and with the Group's effective interest of 66 per cent in Gas Malaysia Energy Advance Sdn Bhd ("GMEA"), why would the Board apply the equity method of accounting for the joint venture?
- (b) Who is the minority shareholder of the balance of 34 per cent in the joint venture company, GMEA?
3. In Note 6 to the financial statements: profit from operations, it is reported that the impairment of trade receivables amounted to RM17.946 million (2014: RM360,000).
- What are the reasons for the impairment of these trade receivables and why were trade receivables not adequately covered with bank guarantees or cash deposits as collateral?

#### Corporate Governance

With reference to the recent amendments to the Main Market Listing Requirements, companies are required to publish the summary of key matters discussed at the AGMs onto the companies' website. In line with this, we hope the Board would publish the summary of proceedings for the AGM at the Company's website.

We would appreciate if the Board could present the queries raised for shareholders present at the AGM. At the same time, we look forward to a written reply for our records. Thank you.

Yours sincerely



Quah Ban Aik  
Head, Corporate Monitoring  
GMB/agm/LLL/qba/rbb



10 May 2016



A member of  MMC Group

**Minority Shareholders Watchdog Group**

11<sup>th</sup> Floor, Bangunan KWSP  
No. 3, Changkat Raja Chulan  
Off Jalan Raja Chulan  
50200 Kuala Lumpur

**Attention: Mr. Quah Ban Aik**  
**Head, Corporate Monitoring**

Dear Sir

**Twenty-Fifth (25<sup>th</sup>) Annual General Meeting (“AGM”) of Gas Malaysia Berhad (“Gas Malaysia” or “the Group”)**

Thank you for your letter dated 6 May 2016. We would be happy to present the points raised in your letter and our answers at our forthcoming AGM for the benefit of our shareholders. Our written reply is set out below for your record.

**Strategy/Financials**

1. The Chairman’s Statement reported that with gas industry liberalization, the Group intends to enhance its commercial potential by diversifying into the non-regulated sphere of gas distribution business as a catalyst for growth; namely three new businesses- the Combined Heat and Power (“CHP”), “Virtual Pipeline” and “BioCNG”.

(a) In what ways, would the Board’s decision to diversify into three new businesses namely the Combined Heat and Power (“CHP”), “Virtual Pipeline” and “BioCNG” enhance and contribute to the current core business of natural gas and LPG?

***Answer:***

- 1) *For CHP, it enables higher utilisation of natural gas as the CHP system generates both electricity and steam to the factory by utilising natural gas;*
- 2) *For virtual pipeline, it enables higher utilisation of natural gas as the virtual pipeline is able to reach customers that are not accessible to natural gas pipeline network via land transportation; and*
- 3) *For BioCNG, it acts as an initiator in strengthening our position in natural gas distribution business as it promotes the conversion from other fuels to gas by factories within a certain radius of the palm oil mills. Once sufficient volume of factories within an area converts to gas, then it will be economical to develop the natural gas pipeline network in such area.*

- (b) What are the anticipated strategic arrangements should the Group diversify on its own or should the Group enter into joint ventures with strategic partners/players in the gas industry?

**Answer:**

*The Group shall enter into joint venture arrangement with partners that have extensive experience and know-how in the new fields whose expertise the Group is in need of. For example:*

- 1) *For CHP, the Group partner with Tokyo Gas Engineering Solutions Corporation who has extensive experience in the business, having installed close to 400 CHP plants in Tokyo over the past 15 years;*
- 2) *For virtual pipeline, the Group team up with IEV Energy Sdn Bhd who has successfully implemented similar businesses in Indonesia and Vietnam; and*
- 3) *For BioCNG, the Group team up with Sime Darby Offshore Engineering Sdn Bhd to take advantage of their capability in setting up the upgrading system to convert the POME to BioCNG at various palm oil mills.*

- (c) What would be the capital expenditure planned for the three new businesses whilst its 5-year capital expenditure for existing natural gas distribution system has been estimated at RM700 to RM800 million, to cater for the expected increase in demand despite the incentive-based regulation benefiting the Group?

**Answer:**

*The capital expenditure planned for the 3 new businesses are based on projected demand and subject to project viability on case to case basis. In each of the said ventures, the Group is at different stages of evaluating the potential for CHP, virtual pipeline and BioCNG businesses.*

*On a separate note, we would like to highlight that in view of the current moderate economic growth, our five-year capital expenditure for the NGDS has been revised down to approximately RM400 million.*

- (d) Amid the gas costs make up 95 per cent of the Group's total cost of operation, how would the Group rationalize its core businesses and optimize its cost structure for sustainability of its profitability and earnings in near to long term?

**Answer:**

*As we are already operating at a lean cost structure, further cost optimisation can only be achieved by increasing our operational efficiency.*

2. The share of results in a joint venture has yet to earn profits and contribute positive earnings despite its investment increased and stood at RM25.274 million as at 31 December 2015 (2014: RM11.547 million) at the Group's level.

- (a) Would the Board anticipate when this joint venture company could be profitable, and with the Group's effective interest of 66 per cent in Gas Malaysia Energy Advance Sdn Bhd ("GMEA"), why would the Board apply the equity method of accounting for the joint venture?

**Answer:**

*GMEA is currently constructing its first CHP system for a customer in Prai, Penang and is expected to generate revenue in the fourth quarter 2016. Based on progress to date, the venture is expected to be profitable in 2017.*

*Equity method of accounting is adopted for GMEA as the business is co-operated by both shareholders as agreed in the Joint Venture Agreement.*

- (b) Who is the minority shareholder of the balance of 34 per cent in the joint venture company, GMEA?

**Answer:**

*The minority shareholder is Tokyo Gas Engineering Solutions Corporation, formerly known as Energy Advance Co. Ltd.*

3. In Note 6 to the financial statements: profit from operations, it is reported that the impairment of trade receivables amounted to RM17.946 million (2014: RM360,000).

What are the reasons for the impairment of these trade receivables and why were trade receivables not adequately covered with bank guarantees or cash deposits as collateral?

**Answer:**

*It was a non-recurring impairment on the penalty charge as a result of excess gas consumed. The Management is actively pursuing the recovery of the amount due.*

*As per the Gas Supply Act 1993, we can only secure from the customer a bank guarantee/security that is equivalent to two months of gas consumption.*

## **Corporate Governance**

With reference to the recent amendments to the Main Market Listing Requirements, companies are required to publish the summary of key matters discussed at the AGMs onto the companies' website. In line with this, we hope the Board would publish the summary of proceedings for the AGM at the Company's website.

### **Answer:**

*On the recent amendments to the Main Market Listing requirements, Gas Malaysia takes note on the new ruling and shall comply accordingly.*

*We wish to inform that the minutes of the last AGM held on 7 May 2015 are already available for reference on our Company's website under Investor Relations sub-section.*

We hope we have sufficiently addressed your queries. We look forward to meeting your representative(s) at our AGM and will be pleased to address any further questions you may have.

Thank you.

Yours sincerely

**GAS MALAYSIA BERHAD**



**AHMAD HASHIMI ABDUL MANAP**  
Chief Executive Officer