

MAG HOLDINGS BERHAD
(fka XingHe Holdings Berhad)
(200401004611)
(643114-X)
(Incorporated in Malaysia)

Summary of Key Matters discussed at the 15th Annual General Meeting (“**15th AGM**”) held at Balai Tunku Abdul Rahman, The Royal Commonwealth Society, No. 4, Jalan Birah, Damansara Heights, 50490 Kuala Lumpur on Friday, 4 September 2020 at 9:00 a.m.

The Chairman welcomed the shareholders, proxies and guests to the Meeting.

There being a quorum, he declared the Meeting duly convened.

The Chairman informed the Meeting that Mr Wang ZhiMin has requested him to extend his apologies for not being able to be present for the Meeting.

The Chairman notified that the Notice convening the 15th AGM had been sent to all the shareholders of the Company in accordance with the Constitution of the Company. He proposed and the Meeting consented that the Notice of Meeting of 30 July 2020 be taken as read.

The Chairman informed the members that in compliance with the Bursa Securities Listing Requirements, all resolutions as set out in the notice of AGM must be put to vote by poll. Our Share Registrar, Securities Services (Holdings) Sdn. Bhd. has been appointed as the Poll Administrator to conduct the polling process and Commercial Quest Sdn. Bhd. will be the Independent Scrutineer to verify the poll results.

The Chairman informed that the Minority Shareholder Watch Group (“**MSWG**”) had vide its letter dated 24 August 2020 addressed to the Board of Directors (“**Board**”) raised several questions on Strategy and Financial, and Corporate Governance matters. On behalf of the Board, the Chairman thanked MSWG for giving advance notice of their questions to enable the Board to have sufficient time to reply.

Questions from and the corresponding reply to MSWG were read out by the Chairman, details as follows:

Strategy and Financial Matters

Question 1

Disposal of 41.15% of Henan XingHe Oil and Fat Co Ltd (“**HXOF**”)

MAG Holdings Berhad (fka XingHe Holdings Berhad) (“**MAG**” or the “**Company**”) disposed 41.15% of its wholly owned indirect subsidiary, HXOF, on 30 December 2019, for RMB155 million and now holds 40.8%. The Company stated that it will be working together with the other shareholders of HXOF to comply with Henan Province People’s Government’s laws, rules, regulations, guidelines and/or such other applicable directive (whether written or nonwritten) (Page 12, Annual Report).

- (a) With the equity interest dropping to 40.8%, will there be any board representation in HXOF? What is the role of the Company in the management and operations of HXOF?

Answer:

The Company no longer has any board representation in, nor having any role in the management and operations of, HXOF following the disposal of 41.15%.

- (b) What are the Government related rules or regulations that will impact HXOF as it has become an associate compared to being a subsidiary?

Answer:

The rules and regulations referred to on page 12 of Annual report are the Henan Province People's Government's laws, rules, regulations, guidelines on compliance with environmental pollution. As had been communicated to shareholders in the past, HXOF suffered productivity losses as the production plant was directed to halt operations from time to time on directives from the Government to temporarily shut down industrial production to reduce smog and to improve air quality. The rules and regulations are imposed on HXOF as a separate legal entity, regardless of HXOF is an associate or subsidiary of the Company.

- (c) How will the deconsolidation of HXOF affect the financial performance of the Company in FYE 2020?

Answer:

The production curbs consequent to PRC's campaign against environmental pollution had resulted in HXOF's plant being unable to run its production for a reasonable amount of time to fulfil sales orders. Hence, the financial performance of HXOF deteriorated with its profit before tax declining from RM125.14 million in FY2015 to RM1.81 million (before the Company's accounting for the loss on disposal of 41.15% in HXOF) in FY2019. The deconsolidation will enable the Company to reduce its reliance on the financial performance of HXOF.

Question 2

There was a scaling back of raw peanut trading in the final quarter of FY2019 due to the Company's decision to reduce its credit exposure to customers and the poor harvest of peanuts (Page 15, Annual Report). (a) What are the issues/concerns with credit exposures to customers? (b) Is the poor harvest expected to persist? If so, for how long? (c) How will these issues impact the return on MAG's investment in HXOF?

Answer:

The concerns are on collections amid a slowing economy and therefore could result in making provision for doubtful debts which would hit the financial performance of HXOF. The management of HXOF expects the poor harvest to persist for a considerable period of time.

Question 3

The gross profits margin was 15.8% in 2015 reducing to negative 0.2% in 2018 and 2.8% in 2019. (Page 5, Annual Report). (a) What has contributed to the significant decline in the gross profit margin of the edible oil business? (b) Moving forward, what is the expected profit margin of the edible oil business?

Answer:

The decline in gross profit margin year-on-year was due to reduction in sales volumes and lower average selling prices of HXOF's entire product range, in particular, its core product-peanut oil. The declining gross profit margin was also attributed to the high volume of raw peanuts trading in year 2018 and 2019 which came with a lower gross profit margin vis-à-vis the edible oil products. Moving forward, the Company expects the profit margin of the edible oil business continues to be depressed in view of the slowing economy and uncertainty caused by the Covid-19 pandemic.

Question 4

Unsecured Loan of RM235 million to HXOF

A loan was granted to HXOF on 1 October 2019. The carrying amount of the loan as at 31 December 2019 was RM235 million, representing 43.5% of the Company's total assets as at 31 December 2019. The loan was interest-free for the period from 1 October 2019 to 31 March 2020 and bears interest at 1.75% per annum with effect from 1 April 2020. An undertaking arrangement was made by the two (2) shareholders to ensure the settlement of the loan upon maturity (Pages, 107 & 126 Annual Report).

- (a) Why did the Company lend such a significant amount to HXOF in October 2019, given the impending sale of HXOF in December 2019?

Answer:

The loan was granted when HXOF was still a subsidiary of the Company.

- (b) Are there provisions for the terms of the loan to be reviewed given that the relatively low interest rate was granted when HXOF was a subsidiary? If no, why?

Answer:

The interest rate granted was approximate the market rate prevailing in China. The terms can be reviewed subject to mutual agreement.

- (c) What was the purpose of the loan granted to HXOF?

Answer:

As working capital for advance in the purchase of raw peanuts.

Question 5

Purchase of XW Aquaculture Sdn. Bhd. ("**XW Aquaculture**") - Diversification into Prawn Aquaculture

The Company had on 12 December 2019 completed the acquisition of a prawn aquaculture farm in Tawau, Sabah. (Page 14, Annual Report). Till 31 December 2019, the Company had only 1 customer which contributed 100% of the Company's revenue in relation to the prawn farm operations (Page 122).

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- (a) As stated in the Circular to shareholders in relation to the proposed diversification dated 24 June 2019, the Company will continue selling the produce from the farm to the existing distributors and as such, will leverage on the long standing relationship of these existing customers with Mr. Lim Ah Cham, the founder, who will act as an advisor to the Company for a period of five years. How many distributors of the farm are continuing to buy from the Company currently? How many distributors were there as at Dec 2018?

Answer:

There were several distributors that XW Aquaculture can sell to, the selection is determined by the optimum pricing that XW Aquaculture can obtain and the marketing positioning that the Company wishes to take.

- (b) What actions have been taken to broaden the customer base?

Answer:

The Company aims to maintain the existing customer base and also looking at fresh leads to build a larger customer base. We are looking at ways to increase our products and brand visibility. Online digital marketing is an area that we find potential in creating a B2C channel to broaden the customer base.

Question 6

Issuance of Free Warrants

Based on its circular to Shareholders announced on 16 July 2020, the Company is proposing to issue up to 460.89 million free warrants on the basis of one warrant for every two existing shares held by its shareholders. The Circular states that when the Warrants are exercised, funds raised will be used to finance working capital requirements and repayment of borrowings. Why is the Company considering the issuance of warrants although it has a cash position of RM94 million as end of 2019?

Answer:

The issuance of free warrants will not raise any immediate funds for the Company since the warrants are issued at no cost to the entitled shareholders. As it stands, it serves as a potential source of funds until and unless the holders exercise their option to convert the warrants into ordinary shares. The issuance of warrants is also to reward shareholders of the company for their continuous support.

Corporate Governance

Question 1

Frequent Changes in Ng Min Lin's and Wang ZhiMin's Designations

Ng Min Lin had changed designation numerous times as follows (Page 6, Annual Report):

- 28 January 2011 – appointed as Non-Independent Non-Executive Director (“NINE”)
- 1 April 2011 - Re-designated to Executive Director (“ED”)
- 24 April 2014 - Re-designated as NINE
- 6 September 2016- Re-designated as Senior Independent Director and Chairman of the Board
- 28 December 2018 - ceased to be the Senior Independent Director
- 31 December 2019 - Re-designated as Executive Chairman of the Board.

Page 23 of the Annual Report stated that Ng Min Lin, a Malaysian, was redesignated to Executive Chairman (“EC”) on 31 December 2019 given the purchase of the new prawn aquaculture business. It is also noted that Ng Min Lin and his wife own about 16% of the Company.

Mr Wang ZhiMin (Page 7, Annual Report)
24 April 2014 – Appointed as Executive Director
6 September 2016 - Re-designated as NINE
30 October 2018 - Independent Director.

MSWG is concerned on the frequent re-designations as it involves directors being re-designated from executive and non-independent to being independent. What are the reasons for the frequent re-designations?

Answer:

The Company takes note of MSWG’s concern on the frequent re-designation of Mr Ng Min Lin and Mr Wang ZhiMin. Generally, the re-designations were carried out in line with shareholdings, the degree of involvement in the business of the Company and the classification of independent directors, executive and non-executive directors in accordance with the listing rules and code of corporate governance.

The Company wishes to correct a statement in the question which read “It is also noted that Ng Min Lin and his wife own about 16% of the Company”. The shareholding percentage as stated in the question is incorrect.

Question 2

- Other Issues

- (a) The Company’s website has not been updated with details of the Company’s new business. The Company’s website should be updated to ensure that shareholders and prospective investors and other stakeholders understand the business profile.
- (b) The Company website does not have information on ‘key matters discussed’ or minutes of its past annual general meetings. Paragraph 9.21(2)(b) of the Bursa Listing Requirements requires listed issuers to publish a summary of the key matters discussed at the annual general meeting, as soon as practicable after the conclusion of the annual general meeting.

Answer:

The Company takes note of the issues raised and will rectify the issues as soon as possible.

1. Audited Financial Statements (“AFS”) for the Financial Year Ended 31 December 2019 (“FY 2019”) together with the Reports of the Directors and Auditors thereon

The Chairman informed that as provided for in Section 340(1) (a) of the Companies Act 2016 (“Act”), it was not required that the AFS be formally approved and therefore the first item of the Agenda was meant for discussion only and is not put forward for voting.

He informed the Meeting that nevertheless, the Board would be pleased to answer any questions on the AFS.

The following query was raised by shareholder and response made by the Board members:

Question 1

Mr Stephen Lye (Shareholder) queried on the decrease in cash and bank balances of the Company compare between Year 2018 and Year 2019.

Answer:

The Chairman answered that HXOF is no longer a subsidiary of the Group, and therefore the cash amount of HXOF was not consolidated into the 2019 Group account.

There were no questions raised for Agenda items 2, 3, 4, 5, 6, 7, 8 and 9. All the resolutions tabled at the 15th AGM for the Company and voted upon by poll were duly passed by the shareholders.

There being no other business, the Meeting terminated at 9:50 a.m. with a vote of thanks to the Chairman.