Hextar

HEXTAR INDUSTRIES BERHAD
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(Formerly known as SCH Group Berhad)

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WAREHOUSE
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43200 Cheras, Selangor Darul Ehsan, Malaysia.

10 February 2022

Minority Shareholders Watch Group
Tingkat 11, Bangunan KWSP
No.3, Changkat Raja Chulan
Off Jalan Raja Chulan
50200 Kuala Lumpur.

Attention : Mr Devanesan Evanson
Chief Executive Officer

Dear Sir,
Hextar Industries Berhad ("HIB" OR "THE COMPANY")
10th Annual General Meeting ("AGM") of HIB to be held on Monday, 14 February 2022

We refer to the queries raised by the Minority Shareholders Watch Group's letter dated 29 January 2022. We set out below our replies to the questions raised:-

Operational and Financial Matters

1. During the current financial year, HIB's manufacturing plant located in Sarawak has recorded a lower revenue by 18.1% as compared to FY 2020 due to the shortage of raw material supplies, restriction in production capacity and logistics hours. (page 31 of AR 2021)

   (a) Has the shortage of raw material supplies been resolved?

   The supply of raw materials remains tight due to the shortage of freight container and export restriction imposed by China government. However, the Management has increased the stock holding for fertilisers (raw materials) to fulfil the upcoming customer orders.

   (b) With palm oil prices remaining bullish for the last few years, did HIB capitalise on it to grow its revenue? How was the performance for the 1st half of FY 2022 and what is the outlook for the 2nd half?

   Based on the latest quarterly result, the fertilisers division in the first quarter of FY 2022 had reported approximately 42% increase in the revenue as compared to corresponding quarter in FY 2021. The strong revenue reported in the first quarter of FY 2022 will contribute significantly to the financial performance in the 1st half of FY 2022. Barring any unforeseen circumstances, the outlook for 2nd half of FY 2022 remains positive.

2. The decrease in revenue was compensated by its penetration strategy via the acquisition of PK Fert Sdn Bhd to expand its market exposure in Peninsular Malaysia. (page 31 of AR 2021) What are the Group's plans in terms of organic growth and M&A to further expand its fertilisers business? What is the current capacity and targeted capacity to be achieved by end of FY 2022?

   We are constantly reviewing our strategies for our expansion in Peninsular Malaysia. This may include selling fertilisers sourced from other manufacturers to accelerate our penetration into new markets. In relation to any potential Merger and Acquisition (M&A) plans for business expansion, our Group is constantly reviewing our options and will make the necessary announcements should there be any developments.

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In 2021, our Group had completed the reconstruction of the compacting lines to improve the capacity of the manufacturing lines from 65,000 MT to 75,000 MT. We do not have any immediate plans to increase this capacity in the current financial year.

3. Revenue from Heavy Equipment division decreased by RM5.9 million or 26.3% from RM22.5 million in FY 2020 to RM16.6 million in FY 2021. The decrease in revenue from Heavy Equipment division was mainly due to decrease in demand from mining, quarrying and construction activities as a result of COVID-19 pandemic and various movement restrictions implemented throughout the year. (page 31 of AR 2021) How was the division's performance in the 1st half of FY 2022? Is the outlook for the whole of FY 2022 and FY 2023 expected to be much better?

   Based on the latest quarterly result, the Heavy Equipment division had reported approximately 33% increase in revenue in the first quarter of FY 2022 as compared to corresponding quarter in FY 2021. The strong revenue reported in the first quarter of FY 2022 will contribute directly towards the 1st half of FY 2022.

   Our outlook for FY2022 and FY2023 remains positive due partly to the infrastructure projects being undertaken such as LRT 3, Mass Rapid Transit Line 2 (MRT 2), Pan Borneo Highway, which is expected to drive the mining and construction activities.

4. The increase in the revenue of Equipment Rental division was mainly arising from the industrial battery sector which increased by RM6.1 million or 98.4% from RM6.2 million in FY 2020 to RM12.3 million in FY 2021. (page 32 of AR 2021)

   (a) Apart from the supply of temperature control equipment for the Tokyo Olympic in 2020, what other factors contributed to the sector's higher revenue?

   As mentioned above (in the page 32 of AR 2021), higher revenue in the Equipment Rental division was mostly due to trading of industrial batteries which increased by RM6.1 million.

   (b) What are the major parameters that can drive the sector's revenue? What is the outlook for FY 2022 and FY 2023?

   The Equipment Rental's revenue is dependent on the travelling restriction imposed by the government and the public fear of contracting the new Covid-19 variant.

5. In FY 2021, one of its subsidiary companies, Sin Chee Heng Sdn Bhd has received the exclusive distribution right from Robit Group, Finland, to distribute its products in Malaysia for five (5) years. (page 38 of AR 2021)

   (a) What are the types of products to be distributed? What is the demand vs supply dynamics for the products?

   For the new distributorship of Robit, we are distributing drilling equipment and spare parts for applications in mining and construction industries. Robit is one of the top players in the world provide drilling consumables, has 9 of its own sales and service points throughout the world as well as an active sales network in over 100 countries.

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(b) Is the distribution right expected to contribute significantly to the Group's top and bottom line?

In view that Heavy Equipment contributes less than 20% of the Group's revenue, the new distributorship's contribution towards the entire Group's financial performance is not expected to be material.

6. The Group has also ventured into the trading of industrial batteries and related products/peripherals in mid-2020. It plans to expand this business to, amongst others, telecommunication and power supply companies in Malaysia and Southeast Asia. (page 39 of AR 2021) What is the progress of this venture and the performance to date?

The newly ventured business in industrial batteries is progressing well and registered revenue of RM12.3 million in the FY 2021, representing an increase of 98.4% as compared to revenue of RM6.2 million reported FY 2020. This is equivalent to approximately 50% of the revenue in FY 2021 (FY2020: 36%) contributed by the Equipment Rental division.

7. The costs incurred for the internal audit function in respect of the financial year ended 31 August 2021 was approximately RM20,000. (page 64 of AR 2021) Given that the fee is rather small (approximately RM1,600 per month), how does the audit committee assure itself that there would be adequate coverage and an effective audit function?

The Risk Management Committee reviews the risk assessment and mitigation plans on a regular basis. The formulated risk assessment will provide an overview of the Group's risk portfolio to assist the Audit Committee and internal auditors to ensure the adequacy of coverage and effectiveness of the internal control systems.

Corporate Governance Matters 1. Practice

4.1 At least half of the board comprises independent directors. For Large Companies, the board should comprise a majority independent directors. HIB's response: Applied. (page 10 of Corporate Governance Report FY2021) MSWG's comment: Only 3 of the Company's current board of 7 directors are Independent Non-Executive Directors (page 2 of AR 2021). As such, it has not applied Practice 4.1.

Noted on the comment. Will rectify it in the next Corporate Governance Report.

We trust the above answers will address all your questions. Should you require any further information or clarification, please do not hesitate to write to us.

Yours faithfully
Hextar Industries Berhad

- Signed -

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Benny Ang Sui Aik
Group Managing Director