

24 May 2023

Minority Shareholders Watch Group
Level 23, Unit 23-2, Menara AIA Sentral
No.30, Jalan Sultan Ismail,
50250 Kuala Lumpur.

Attention : Mr Devanesan Evanson
Chief Executive Officer

Dear Sir,

Hextar Industries Berhad (“HIB” OR “THE COMPANY”)
11th Annual General Meeting (“AGM”) of HIB to be held on Thursday, 25 May 2023

We refer to the queries raised by the Minority Shareholders Watch Group’s letter dated 12 May 2023. We set out below our replies to the questions raised:-

Operational and Financial Matters

1. For its Fertilisers division, HIB manages its supply chain by sourcing 200 suppliers in the FYE 2022, in which 167 suppliers or 84% are local suppliers and 16% are overseas suppliers. Despite the industry experiencing global fertilisers supply shortage crisis, HIB works closely with international fertilizer suppliers to ensure timely delivery of raw materials and to obtain strong pricing support from them. (page 27 of AR 2022)

(a) Do local or overseas suppliers offer lower cost? What is the Group’s targeted percentage mix between overseas and local suppliers?

Since many of the fertiliser raw materials are not available locally, we are relying on the import as the source of raw materials. Hence, the import cost of fertilisers can’t be compared with the local supply. In this respect, we are unable to reduce the percentage of purchase from overseas suppliers.

(b) Is the industry still experiencing global fertilisers supply shortage?

Yes. Due to the geopolitical tensions between Russia-Ukraine, sanction and export restrictions imposed by certain countries to ensure self-sufficiency had caused disruption to the global supply chain last year. However, the supply chain issue is easing in the first half of 2023.

2. The Fertiliser Division achieved an impressive result for FPE2022 mainly due to the inclusion of HFL Group’s financial results; higher average selling price and additional four (4) months consolidated in the current financial period under review. (page 45 of AR 2022)

Will the higher average selling prices sustain or even be better in FY 2023?

The average selling prices have softened in the first half of 2023 with the easing of global supply chain issue. However, the current selling price is relatively high in comparison to 2021 price. Geopolitical tensions, sanctions and export restrictions are still a concern for the fertiliser industry.

The sustainability of the average selling price and/or future trend price in the second half of FY2023 is dependent on the supply-demand dynamics, driven by the global market.

3. Business Divisions	Gross Profit Margin FPE2022 (16 months) %
Fertilisers	16.5
Heavy Equipment	25.6
Equipment Rental	28.7

(page 46 of AR 2022)

As both the Heavy Equipment and Equipment Rental Divisions can garner much higher gross profit margins than Fertilisers Division, will the Group consider investing more in these two divisions and grow them more rapidly? Please explain.

The Board of Director (“the Board”) will always consider to invest more into a business if there is a desired capital return foreseeable. However, there are many other factors to consider prior to the investment such as the future prospect of the industry, market demand for the products and/or services, existing market competition etc. The profit margin might not be the only concern of the Board members.

In view of the Fertilisers Division is contributing more than 90% of the Group revenue, this Division will always be our key focus to drive the business growth of the Group.

4. With the consolidation of the HFL Group and resultant increase in its annual capacity of compound fertilisers by 8 times, HIB will be able to elevate the earnings capability. HIB will expand its range of fertiliser products and other value-added services to its existing and new customers This provides HIB the leverage to tap into a bigger market and establish the HIB Group as a market leader in the fertiliser industry. (page 52 of AR 2022)

(a) What is HIB’s current market share (%) in the fertiliser industry compared to before the acquisition of HFL Group?

After merging with HFL Group, HIB has become one of the key players in the fertiliser industry in Malaysia. Currently our domestic market share is approximately 15%, as compared to about 2% prior to the acquisition of HFL Group.

(b) What are the percentages of the fertilisers for foreign market and domestic market respectively? Which market generates higher margin?

More than 90% of the revenue of fertilisers are derived from domestic market in comparison to less than 10% from foreign market. There is no significant difference in profit margin contributed between the two markets.



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43200 Cheras, Selangor Darul Ehsan, Malaysia.

5. At the Group level, for FPE 2022, inventories written down rose sharply to RM16.577 million (FY 2021: RM126,000). Inventories written off also increased significantly to RM9.447 million (FY 2021: Nil). (page 164 of AR 2022)

Please explain the reasons for the significant increases in write-downs. Is there a need to further enhance the inventory management policy/system?

The inventories written down were mainly derived from HFL Group (prior to the acquisition completed) due to raw material price softening. The inventories written off partially were due to damage stock caused by flood at the end of 2021.

The key factors causing the major loss on the inventories were due to external market factor and natural disaster, rather than inventory management policy or system.

Corporate Governance Matters

1. Practice 5.9 - The board comprises at least 30% women directors.

HIB's response: Departure. Currently, there is only one (1) female director on the Board. The Board acknowledges the importance of gender diversity in the Board. The Board is considering more female Directors within the Board as a long-term goal to which incremental steps shall be taken to ensure it is adopted within the reasonable timeframe stipulated.
(page 28 of CGR 2022)

MSWG's comment: Considering that the Board has only one (1) woman director on the Board, when does the Board expect to apply the Practice?

Barring unforeseen circumstances, the Board expects to apply the Practice 5.9 before the next 12th Annual General Meeting for the financial year ending 31 December 2023.

2. During the financial year, only three (3) directors attended seminars/conferences/training programmes. They are Dato' Chan Choun Sien, Ms. Ong Tzu Chuen and Mr. Sham Weng Kong. Other Directors of the Company were not able to select any suitable training programmes to attend during the financial year due to their busy work schedule. However, they have constantly been updated with relevant reading materials and technical updates, which will enhance their knowledge and equip them with the necessary skills to effectively discharge their duties as Directors of the Company. (page 66 of AR 2022)

The other three (3) Directors who did not attend seminars/conferences/training programmes during the financial year are Mr. Ang Sui Aik, Benny, Dato Sri Chee Hong Leong and Mr. Sim Yee Fuan. They should try harder to find the time to attend seminars/conferences/training programmes every year to have continuing professional development/education as it enables them to carry out effectively their fiduciary duties.

The Board members have noted on the request of MSWG and will address it accordingly.



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3. The costs incurred for the internal audit function in respect of the financial period ended 31 December 2022 was approximately RM22,000. During the financial period ended 31 December 2022, the following were the activities carried out by the Internal Auditors in discharging its responsibilities on the audit planned for the year:
- To review the Corporate Governance of Hextar Industries Berhad.
 - To review the Production Process of PK Fertilizers (Sarawak) Sdn. Bhd.
(page 76 of AR 2022)

Given such low cost (approximately RM1,800 per month for FPE 2022), we had asked the Audit Committee, last year, how they were able to assure themselves that there would be adequate coverage and an effective audit function. The limited activities carried out in FPE 2022 as stated above casts further doubt on the effectiveness of the internal audit function. The Audit Committee and the Board should look into this seriously.

The outsourced internal audit function is generally at a cost lower than in-house. The fee is charged based on two review cycles or RM11,000 per review cycle, instead of RM1,800 per month. As mentioned in our earlier reply, the Risk Management Committee will review the risk assessment and risk mitigation action conducted on regular basis. The formulated risk assessment will provide the overview of the risk portfolio to ensure adequate coverage of the internal control function. There is no benchmark stated on the listing requirement or corporate governance regarding the minimum internal audit fee of a listed company. The internal audit works were performed according to proper audit planned, defined objectives and scope of work. Without any detail assessment, it's improper to conclude that our internal audit work as "limited activities carried out".

Having said that, our Audit Committee had increased the annual internal audit review to three (3) cycles in October 2022, while reviewing the internal audit plan for 2023. Accordingly, the internal audit fee in FYE 2023 will be increased by 50% to RM33k as compared to FPE 2022.

We wish to reiterate that the Audit Committee and the Board are very serious on the effectiveness of internal audit function.

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