



**MINORITY SHAREHOLDERS WATCH GROUP**  
Shareholder Activism and Protection of Minority Interest

7 June 2019

BY FAX/HAND

The Board of Directors  
**XINGHE HOLDINGS BERHAD**  
22-09, Menara 1MK,  
No 1 Jalan Kiara, Mont Kiara,  
50480 Kuala Lumpur

**Attention: Mr Chong Voon Wah**  
**Mr Thai Kian Yau**  
**Company Secretaries**

Dear Directors,

**Re: 14<sup>th</sup> Annual General Meeting (AGM) of XingHe Holdings Berhad ("XingHe") to be held on Thursday, 12 June 2019**

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In the interest of minority shareholders and all other stakeholders of the Company, we would like to raise the following issues: -

**Strategy & Financial Matters**

- 1) The prolonged production curbs by the Chinese government to tackle environmental pollution has resulted in the Company's plant being operated only for a total 44 days in FY18, as compared to 46 days in the second half of FY17 (page 14 of AR2018). This has taken a toll on the Company's financial performance.
  - a) How many days did the Company's plant operate in the first five months this year?
  - b) Is the Company in a better position to negotiate for higher production days since the edible oil production process does not generate any major environmental concerns (page 22 of AR2018)?
- 2) The Company has stated that the setting up of a plant to process 22,500 kilograms of tuna and other marine seafood per month has been delayed and is only expected to be operational in late-2019 (page 17 of AR2018). What is the reason of the delay?

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**BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD**

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- 3) The Company has trade and other receivables of RM306.39 million as of 31 December 2018, a 332% increase compared to last year (page 61 of AR2018).

Advances for peanut purchases during the financial period amounted to RM137.21 million.

Cash and bank balances was lower year-on-year at RM260.56 million as compared to RM431.47 million in FY17.

- a) Trade receivables has further increased to RM440.84 million in the first quarter ended 31 March 2019 (page 3 of the Interim Financial Statements for the Financial Quarter Ended 31 March 2019).

The quarter-on-quarter higher trade receivables has eroded the Company's cash and bank balances, causing it to decrease to RM124.05 million.

What are the measures taken to improve the high level of trade receivables?

- b) As stated on page 46 of XingHe's Board Guidelines Section D: Code of Ethics and Conduct, payments generally should be made only to the person or firm that actually provided the goods or services.

What is the rationale of providing the substantial prepayment to peanut suppliers before the Company receives the goods? How does the Company manage the non-delivery risk of the goods? What is the drawdown schedule of the goods from peanut suppliers?

- 4) The Company's short-term borrowing which will be due in one year has increased to RM198.76 million as of 31 December 2018 as compared to nil in FY17.

a) What is the reason for the substantial increase in short-term borrowings?

b) In light of the Company's declining cash level, what are the measures taken to ensure no default takes place?

**XINGHE HOLDINGS BERHAD**

14<sup>th</sup> AGM, 12 June 2019

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We would appreciate if the Board could present the points raised here, and their related answers, for the shareholders present at the forthcoming AGM. At the same time, we await a written reply as soon as possible for our records.

Thank you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Devanesan Evanson', is positioned above the printed name and title.

**Devanesan Evanson**

Chief Executive Officer

DE/QBA/LCY/XINGHE/AGM 2019

## Reply to MSWG's letter of 7 June 2019

### Strategic & Financial Matters

- (1)(a) The Group's plant operated 11 days for the first five months of 2019.
- (b) The fact that edible oil production does not generate any major environmental concerns is of no consequence as the production curbs are applied on a blanket basis in the Beijing-Tianjin-Hebei region as well as cities in the smog-prone provinces of Shanxi and Henan (where the Group's plant is located). The Group's management has continuously engaged with the local authorities to lift the said curbs even with assistance from Henan Finance Bureau\*, a state-owned strategic investment institution of the Henan Province People's Government but to no avail. This is because the curb directives were issued by the Central Government in Beijing and not the local authorities.
- \* *Henan Finance Bureau's wholly-owned subsidiary, Henan Agirc-Investment Co. Ltd has an equity stake of 8.85% in the Group's subsidiary, Henan XingHe Oil and Fat Co., Ltd.*
- (2) The delay was primarily due to financial difficulties faced by the landlord whose premises was rented by the Group to set-up the tuna and other marine seafood processing plant. The said tenancy was terminated in September 2018 and until now, the Group together with its joint venture partners are still sourcing for new premises to be rented for the said processing plant. The obstacles faced in the search for premises are (i) the long period of tenancy required; (ii) approval of the local authorities for waste disposal; and (iii) food certifications requirements.
- (3)(a) The actual trade receivables as of 31 March 2019 is RM425.1 million. The figure of RM440.8 million quoted by you includes other receivables of RM15.7 million, the major portion of which is the deposit of RM10 million paid for the proposed acquisition of a prawn farm (announced on 2 January 2019) and expenses incurred for the on-going corporate exercise undertaken by the Group (announced on 6 May 2019).

The increase in trade receivables in the period between 31 December 2018 and 31 March 2019 was attributed to raw peanuts trading. These debts are due from other edible oil producers in Shandong Province with whom the Group and the Managing Director has long standing business relationships. As of 31 December 2018, the Group was selling raw peanuts to only 5 customers.

Notwithstanding the above, Group's management monitors these receivables closely and ensure that receivables which have exceeded the agreed credit terms are collected. The higher level of trade receivables was also due to the Lunar New Year festivities during the financial quarter ended 31 March 2019.

- (b) The advances for peanut purchases were made to secure adequate raw peanuts for the Group's peanut trading activities and are progressively set-off against the delivery of raw peanuts. This is a normal practice for companies in Mainland China needing to secure agricultural produce and this practice is also practised in Malaysia especially for companies solely involved in timber downstream activities to secure adequate supply of timber logs. In any case, these advances are not new to the Group as it has made the same type of advances in prior years for its edible oil production, that is, RM79.4 million and RM71.0 million as of 31 December 2015 and 2016 respectively (see 2015 and 2016 Annual Reports). There were no such advances as of 31 December 2017 due to scaling down of its edible oil operations and the Group only renewed making these advances at the end of the 3rd quarter of 2018. In connection thereto, the Group wishes to highlight that the ramping-up of peanuts trading was at the behest of Henan Finance Bureau in furtherance of poverty alleviation, the details of are set out in the

Sustainability Statement on page 24 of the 2018 Annual Report. For easy reference, the pertinent paragraphs are reproduced below:

*The annual Central Economic Work Conference held in mid-December 2018 chaired by President Xi Jinping has reiterated that PRC will continue to pursue President Xi's top 3 areas of concern, namely debt-cutting, pollution reduction and poverty alleviation. At the behest of Henan Finance Bureau, the strategic investment arm of the Henan Province People's Government, and in furtherance of poverty alleviation, the Group increased its peanut trading activities in spite of the fact that the margin concerned is very thin.*

*This was the Group's contribution to its home base in Neihuang County, Henan Province as a sizeable portion of these peanuts are sourced from the local farmers. Peanut is a seasonal crop and to assure the peanut farmers that the Group is a ready buyer for their crop after harvest, it has been the Group's practice for many years to pay them in advance for their peanuts.*

As for management of non-delivery risk, Group's management has long-standing relationships with the said peanut suppliers who are essentially farmer co-operatives and based on the past record, there were no or minimal non-deliveries. In any case, if there are non-deliveries, they will most likely be due to natural causes and the Group has accepted this as an inherent business risk.

In respect of the drawdown schedule for raw peanuts, it must be noted that peanut is an agricultural produce and as such, there is no fixed drawdown schedule. Nevertheless, the amount of advances paid is based on Group's management's experience and discussions with the suppliers as to the expected peanut harvests. As of 31 December 2018, the Group was only dealing with 4 raw peanut suppliers.

- (4)(a) The increase in short term borrowings was due to loans of RM196.7 million (as of 31 December 2018) taken solely to finance the peanut trading activities.
- (b) As the above loans were taken for peanut trading, the above loans are managed in accordance with the levels of the said trading activities.