



MINORITY SHAREHOLDERS WATCH GROUP
Shareholder Activism and Protection of Minority Interest

8 July 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: Extraordinary General Meeting (EGM) of XingHe Holdings Berhad ("XingHe")
to be held on Wednesday, 17 July 2019**

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

Ordinary Resolution 1

- 1) The valuer Raine & Horne has adopted the comparison approach and the cost approach to determine the value of the Assets (Farm Land and Farm Assets, page 5 of the Circular). What are the recent transactions the valuer had referred to compare the value of the Assets?
- 2) What is the current production yield of the Assets? How is the yield compared to industry standard?
- 3) The Proposed Acquisition involved the Assets which is revenue generating (page 47 of the Circular). What is the revenue and profit track record of the Assets for the past five years?
- 4) The marine shrimp aquaculture market in Malaysia is likely to experience cyclical growth and continues to be exposed to the threat of diseases in the medium to long term (page 45 of the Circular). Due to the cyclical nature of the industry, why did the Company not enter into terms such as profit guarantee with Pegagau Aquaculture Sdn Bhd to protect the interest of the Company in times of volatility?

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

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Ordinary Resolution 2

- 1) The subscription of the subsequent sub-tranches of Tranche 1 is dependent on the Subscriber, Advance Opportunities Fund (AOF) converting preceding sub-tranche of Tranche 1 notes into shares (page 19 of the Circular).

Notwithstanding the acceptance of Advance Opportunities Fund (AOF) subscribing up to RM120 million of the Notes (page 18 of the circular), what are the mitigation measures to ensure viability of funding to acquire the Assets if the Subscriber defaults or terminates the Subscription Agreement?

- 2) The Conversion Price of the Notes is priced at 80% of the average closing price per share on any three consecutive business days as selected by the Noteholder during the 45 business days immediately preceding the relevant Conversion Date (page 20 of the Circular).

The discount represents an attractive spread for the Noteholder to dispose the converted shares in the open market right after the conversion. Consequently, the Company may experience increased levels of volatility in share price and trading.

In addition, the increase in number of shares to as much as 921.77 million shares assuming the full conversion of Tranche 1 and Tranche 2 Notes (page 53 of the Circular) will also cause substantial dilution on the Company's share price and earnings per share.

What are the steps to be taken to reduce the impact arising from the Notes issuance?

- 3) The discount rates in relation to the Conversion Price are negotiated and accepted by the Company and the Subscriber from a commercial perspective after the parties have taken into consideration their respective commercial and financial requirements (page 30 of the Circular).

What considerations are applied in fixing the conversion price at 80% of the average closing price per share on any three consecutive business days as selected by the Noteholder (page 20 of the Circular)?

XINGHE HOLDINGS BERHAD

EGM, 17 July 2019

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- 4) The Company will redeem all the outstanding notes at 118% of the nominal value together with an accrued interest at the rate of 1% per annum on the Notes if the Subscriber defaults or terminates the Subscription Agreement (page 29 of the Circular). What is the basis in deriving the redemption value?

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

Thank you.

Yours sincerely



Devanesan Evanson
Chief Executive Officer
DE/QBA/LCY/XINGHE/EGM 2019

Reply to MSWG's letter of 8 July 2019

Unless otherwise stated or otherwise defined in this reply, the terms used herein shall have the same meanings as those defined in the Circular to Shareholders of 24 June 2019.

Ordinary Resolution 1

(1) To reiterate, the bases of valuations used by Raine & Horne in their report were as follows:

- Land, buildings and improvements – Comparison and Cost Approaches
- Plant, machinery, equipment and motor vehicles – Depreciation Replacement Cost Approach

The comparable transactions and detailed computation of the above valuations are detailed in Appendix J of Raine & Horne's valuation report. For ease of reference, a copy of the said Appendix is attached with this reply.

(2) The current yield of the Assets is approximately 2,000 metric tonnes ("MT") of white vannamei shrimps per annum. This is based on 2.5 cycles per annum and translates to an average of 8 MT per average pond size of 0.51 hectares.

There are no authoritative sources of industry standards for shrimp aquaculture in Malaysia. However, based on a paper titled *Malaysian white shrimp (P. vannamei) aquaculture: an application of stochastic frontier analysis on technical efficiency* published in the International Food Research Journal in 2015 by Dr. Lim Ghee Thean of Universiti Sains Malaysia, the mean yield per annum is 8.26 MT/hectare of pond.

We also wish to highlight the yield assumption used by us for the investment appraisal of the Assets was 1,450 MT per annum.

(3) The audited revenue and profit track record of the Assets are not extractable from Pegagau's latest available audited financial statements as the Assets is just one of the several prawn farms in Pegagau.

However, based on our due diligence and investment appraisal of the Assets, the Assets' maintainable annual revenue and pre-tax profit (based on the above annual yield of 1,450 MT and average selling of RM20/kilogram) are anticipated to be RM29 million and RM8.8 million respectively.

(4) If Section 4.2 on page 45 of the Circular is read in totality, the following conclusions can be drawn:

- there is a persistent increase in global and local demand for shrimps
- the slowdown in Malaysian's shrimp production and value was caused by diseases
- the Malaysian shrimp market is projected to grow at a CAGR of 9.4% from 2018 to 2022
- the Malaysian shrimp aquaculture will remain resilient in the long term

Premised on the above and all things being equal, it is obvious that the diseases is the main cause of the cyclical growth.

As the Assets will be managed by the Group and not Pegagau post acquisition, it does not make commercial sense for Pegagau to agree to a profit guarantee. In any case, even if they had agreed to provide a profit guarantee, the cost concerned will nevertheless be input into the Purchase Consideration.

From the Group's perspective, the Group had accepted diseases as an inherent risk for diversifying into the shrimp aquaculture industry.

Ordinary Resolution 2

- (1) The subscription of the subsequent sub-tranches of Tranche 1 is not solely dependent on the Subscriber converting preceding sub-tranche of Tranche 1 Notes into shares. The Subscriber is entitled (at its election) to subscribe for each such subsequent sub-tranche notwithstanding the last Note comprised in the immediately preceding sub-tranche has yet to be converted.

In the event of a delay or unsuccessful completion of the Proposed Notes Issue and/or in the event of non-subscription of the Notes by the Subscriber, the Company will look at other fund-raising options such as additional bank borrowings or fund raising via the 10% placement under Sections 75 and 76 of the Companies Act 2016 to complete the Proposed Acquisition (see last paragraph of Section 5.2(ii) on page 49 of the Circular).

- (2) The Company is fully aware that there will be a dilution risk in existing shareholders' shareholdings and the Company share price will be impacted due to the full conversion of all RM120 million Notes into shares. This has been disclosed as a risk factor in Section 5.2(i) on page 49 of the Circular.

At the same time, the Company has in Section 3.3.2 of the Circular set out the reasons as to why the Proposals which the Notes is a part, are necessary. In summary, the Group opined that the diversification of the revenue stream and the value created by the Proposals will strengthen the economic sustainability of the Group going forward (see also Section 4.5 *Prospects of XingHe* on page 47 of the Circular).

- (3) The discount rate of 20% in relation to the Conversion Price was negotiated and agreed upon by the Company and the Subscriber after both parties had taken into consideration their respective commercial and financial requirements, which amongst others, include the expediency and flexibility in draw-downing the Notes to finance the Proposed Acquisition, the low interest rates of the Notes; and the prevailing market price and trading history of XingHe Shares.
- (4) The redemption value of 118% was negotiated and agreed upon by XingHe and the Subscriber after taking into consideration, which amongst others, the low interest rates of the Notes, the terms of other Notes issued by the Subscriber in the past and the Subscriber's cost of funding. Moreover, this redemption value is also in line with recent Notes issued by other listed issuers such as Alam Maritim Resources Berhad, Eden Inc. Berhad, Hubline Berhad, and Tiger Synergy Berhad.

VALUATION OF THE SUBJECT PROPERTY (COMPARISON/COST METHOD - SUMMARY)

Ref No: VPG-L-12/16/2018
 Address: CL 105466466, located at Kampung Wakuba, Daerah Tawau, Sabah
 Property type: An aquaculture farm which is currently under operation, comprising of 102 shrimp ponds, buildings & structures erected thereon and plant, machinery, equipment & motor vehicles
 Age of the building: 8 - 20 years
 Tenure: 99-year leasehold (expiring on 31st December, 2088).
 Date of valuation: 10th December, 2018
 Title Land area: 97.90 hectares or
 241.9148 acres or
 10,537,809 square feet

COST METHOD

As our finding and market information based on Davis Longdon & Seah Construction Cost Handbook Malaysia, the construction cost is reasonable.

<u>Valuation Computation</u>				Say
Land Area	10,537,809 sq. ft. @	RM 1.20 psf	RM 12,645,371.26	RM 12,500,000.00
Pond			RM 59,150,800.50	RM 59,160,000.00
Cultivation ponds (102 ponds)	617,304 m3 @	RM 93.30 per m3	RM 57,594,463.20	RM 57,600,000.00
Reservoir ponds (3 ponds)	16,681 m3 @	RM 93.30 per m3	RM 1,556,337.30	RM 1,560,000.00
Other Land Improvements			RM 16,000,000.00	RM 16,000,000.00
<i>Lightings & parameter infrastructure</i>				
<i>Jetty bridge to pump house</i>				
Building				
Admin office	1080 sq. ft. @	RM 100.00 psf	RM 108,000.00	
Staff quarters	1334 sq. ft. @	RM 100.00 psf	RM 133,400.00	
Staff quarters	725 sq. ft. @	RM 100.00 psf	RM 72,500.00	
Labour quarters (LQ1)	683 sq. ft. @	RM 80.00 psf	RM 54,640.00	
Labour quarters (LQ4)	960 sq. ft. @	RM 80.00 psf	RM 76,800.00	
Genset room	1650 sq. ft. @	RM 90.00 psf	RM 148,500.00	
Genset room	420 sq. ft. @	RM 90.00 psf	RM 37,800.00	
Genset room	896 sq. ft. @	RM 90.00 psf	RM 80,640.00	
Main store	8466 sq. ft. @	RM 90.00 psf	RM 761,940.00	
Sub-store	600 sq. ft. @	RM 40.00 psf	RM 24,000.00	
Sub-store	600 sq. ft. @	RM 40.00 psf	RM 24,000.00	
Sub-store	300 sq. ft. @	RM 40.00 psf	RM 12,000.00	
Sub-store	600 sq. ft. @	RM 40.00 psf	RM 24,000.00	
Chemical store	782 sq. ft. @	RM 50.00 psf	RM 39,100.00	
Chemical store	1980 sq. ft. @	RM 90.00 psf	RM 178,200.00	
Sub-Total	21076 sq. ft.		RM 1,775,520.00	
		Depreciation	8%	
			RM 142,041.60	
			RM 1,633,478.40	
Labour quarters (LQ2)	1628 sq. ft. @	RM 30.00 psf	RM 48,840.00	
Labour quarters (LQ3)	4134 sq. ft. @	RM 40.00 psf	RM 165,360.00	
Labour quarters (LQ5)	1290 sq. ft. @	RM 80.00 psf	RM 103,200.00	
Labour quarters (LQ6)	1860 sq. ft. @	RM 50.00 psf	RM 93,000.00	
Labour quarters (LQ7)	1794 sq. ft. @	RM 50.00 psf	RM 89,700.00	
Labour quarters (LQ8)	1656 sq. ft. @	RM 60.00 psf	RM 99,360.00	
Labour quarters (LQ9)	2712 sq. ft. @	RM 80.00 psf	RM 216,960.00	
Labour quarters (LQ10)	1728 sq. ft. @	RM 30.00 psf	RM 51,840.00	
Workshop	3300 sq. ft. @	RM 60.00 psf	RM 198,000.00	
Pump house	2756 sq. ft. @	RM 50.00 psf	RM 137,800.00	
Sub-Total	16802 sq. ft.		RM 1,204,060.00	
		Depreciation	20%	
			RM 240,812.00	
			RM 963,248.00	
		Total Building Value	RM 2,596,726.40	RM 2,500,000.00
			Market Value (Land & Building)	RM 90,160,000.00

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Age of the building:	8 - 20 years
Tenure:	99-year leasehold (expiring on 31st December, 2088).
Date of valuation:	10th December, 2018
Title Land area:	97.90 hectares or 241.9148 acres or 10,537,809 square feet

Remarks on adjustments

Time:	The comparables are transacted between December 2013 and September 2018, where the valuation date is on 10th December, 2018. POSITIVE adjustments made accordingly. The time factor adjustment is made on an average 2.5% for a year.
Size:	The size of the comparables No. 1 are smaller than the subject property. As such, we have made a NEGATIVE adjustment as the smaller land size could warrant higher rate psf.
Accessibility	Comparable No. 1 is facing the main road and having better accessibility compared to the subject property. As such, we have made a NEGATIVE adjustments.
Shape	The shape of all comparable are better than the subject property, NEGATIVE adjustments made accordingly
Lease Expiry Date / Balance Lease	The lease expiry date of all comparable are earlier than the subject property. Thus, we have made a POSITIVE adjustments

Raine & Horne[®]