



**Queries from
Minority Shareholder
Watchdog Group**



Q1) As reported in the Chairman's Statement (Page 5), the Company maintained a steady turnover throughout the year, with a slight decline in the 2nd quarter, Gaming revenue strengthened in the 4th quarter of 2018, on the back of fresh enforcement efforts against illegal gaming activities, as well as strong sales bolstered by a long 4D Jackpot run that saw the Jackpot prize amount cross the RM30 million mark twice in a month.

Does the Board anticipate turnover to continue increasing in 2019 and what would be the likely determining factors?

A1) Although the number of Special Draws had been reduced from 22 to 11 for 2019, the Management is cautiously optimistic that the growth trend in per-draw revenues as reported in Q1 results will offset the downward pressure caused by the reduction of Special Draws. A sustained and effective enforcement by the Authorities on illegal operators would be the greatest determining factor whilst another long 4D JP run would definitely helps. The on-going rebranding and reimaging for all our outlets on a nationwide scale did assist in enticing more new players into our renovated outlets.



Q2) On Page 7 (Chairman’s Statement), it is stated that the Company has also continued with the replacement of the Point-of-Sales terminals at its outlets with the latest new generation terminals; this has helped to measurably reduce downtime and lower maintenance costs. The replacement exercise nationwide is expected to be completed by the 1st quarter of 2020.

- (a) What is the approximate capex incurred per year for the exercise and what is the remaining amount is to be incurred till 1st quarter 2020?

- (b) Please enlighten shareholders the extent of downtime reduced and the savings in maintenance cost?

- A2)** (a) The whole project costing approximately RM24 million will be implemented progressively from 2016 to 2020 and RM1.3 million had been incurred for 2018 with the remaining amount to be incurred till 1st quarter 2020 amounting to RM8.8 million.
- (b) The old terminals were bought in 2007 and is more than 10 years old already. As they are aged, these old terminals has started to fail on a random basis and to trouble shoot and address the problem will take 2 to 4 hours depending on the distance of the outlets. Maintenance cost will be subject to the actual parts that are replaced and the time taken to repair it. At the meantime, these outlets are down with lesser terminals to serve players and as such may affects the sales during peak hours.

With the new terminals in place, downtime and maintenance cost would be reduced significantly.



Q3) On Page 7, it is reported that to complement the revamp of its brand identity and re-imaging of its stores, MCSB introduced a new game, Magnum Life. This game is the first of its kind in Malaysia and introduces a unique prize structure whereby the Grand Prize winner will be rewarded with RM1,000 every day for 20 years. On Page 11, it is also stated that the game is expected to broaden the customer demographic by appealing to new casual players who value simplicity and a sense of responsible winning.

- (a) How has the new game performed to date in terms of sales compared to other games?
- (b) Would the game be sustainable if the eventual payout is not favorable to the Company?
- (c) Please elaborate on how the game would promote a sense of responsible winning and why are other games deemed as not being in line with responsible winning?

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- A3)** (a) The new game was introduced to replace Powerball game (which had performed weaker than projected), and to date in terms of sales compared to other games, it has definitely outperform the replaced Powerball game.
- (b) If the eventual payout is not favorable to the Company, it can only be temporary set back as these is all about gaming luck. Over a longer term, the eventual payout would be averaging back to the theoretical payout which are designed to be profitable.
- (c) Magnum Life's grand prize is designed to pay over 20 years' period and not a lumpsum Jackpot payment as provided in other Jackpot games. This itself had afforded the winner a 20 years period for income augmentation and to live his life the way he wished, in a responsible way.



Q4) As reported on Page 7, for FY 2018, the Board has declared four interim dividends of an aggregate of 15 sen per share as compared to 11 sen per share for FY 2017. As noted on Page 84, the Group's deposits, cash and bank balances rose significantly from RM334.6 million in FY2017 to RM503.9 million in FY2018. Total borrowings increased from RM822.0 million in FY2017 to RM937.9 million in FY2018. It is commendable that the Board has taken into consideration shareholders' interest by declaring higher dividends.

However, considering that the Group's deposits, cash and bank balances has increased very substantial, will the Board consider declaring much higher dividends? Alternatively, will the Board consider using the substantial cash to reduce the borrowings as the interest rates payable on the borrowings attract higher interest rates than the interest rates earned on deposits placed with the financial institutions?

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A4) The Company will maintain its dividend policy to distribute at least 80% of its gaming PAT subject to business prospects, growth or expansion and adequacy of reserves.

However, for 2018, the Company's cash and bank balances appear high though there are some accruals of unpaid tax instalments due to IRB as well as accrued roll over Jackpot prizes not paid as at year end.

The Board welcomes the suggestion to utilize the excess funds after the payment of dividends, to retire some of the borrowings going forward.

CORPORATE GOVERNANCE MATTERS



Q1) Based on the Corporate Governance (“CG”) report of the Company on the application of the Practices under the Malaysian Code on Corporate Governance (“MCCG”) 2017, please provide clarification on the following:

- a) Practice 3.1 – The Board establishes a Code of Conduct and Ethics for the company, and together with management implements its policies and procedures, which include managing conflicts of interest, preventing the abuse of power, corruption, insider trading and money laundering.

The Code of Conduct and Ethics is published on the company’s website.

The Guidance notes of MCCG, further state that the Code of Conduct and Ethics should articulate acceptable practices and guide the behavior of directors, management and employees.

MAGNUM’s response: Applied

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Q1) MSWG's comment:-

However, the Directors' Code of Business Conduct and Ethics as mentioned in the Company's Corporate Governance Report as well as published in the Company's website, states that it is applicable to directors only.

In this regard, we are of the view that the Company does not apply Practice 3.1 as the Code must apply to both employees as well as directors.

A1) a) In addition to the Directors' Code of Business Conduct and Ethics which is accessible by the public on the Company's website, the Company, since May 2013, has in place a Code of Conduct which sets out the standards on ethical conduct and responsibility for all employees of Magnum Group. The scope of this employees' Code of Conduct includes confidentiality, conflict of interest, gifts and entertainment and, the use of the company's assets. All employees including management must comply with this employees' Code and a non-disclosure agreement therein. This Code of Conduct is accessible only by employees of the Magnum Group on its intranet created for the Company's Information Security Policies and Procedures.

CORPORATE GOVERNANCE MATTERS



Q1) Based on the Corporate Governance (“CG”) report of the Company on the application of the Practices under the Malaysian Code on Corporate Governance (“MCCG”) 2017, please provide clarification on the following:

- b) Practice 7.2 – The board discloses on a named basis the top five senior management’s remuneration component including salary, bonus, benefits-in-kind and other emoluments in bands of RM50,000.

MAGNUM’s response: Departure

MSWG’s Comment:-

There is no time frame set, for adoption of Practice 7.2

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A1)b) The detailed remuneration of a Senior Management member who is an Executive Director has been disclosed in the 2018 Annual Report.

However, the Remuneration Committee and the Board are of the view that the disclosures of other senior management's remuneration on a named basis is not to the Group's advantage and will be detrimental to its commercial interest due to the small niche industry where the gaming specific talent pool is very limited especially at the senior levels of management.

Your Board has decided not to disclose this confidential information for the other senior management's remuneration and will not set any time frame to apply this prescribed practice. The Company has provided its explanation for the departure and has disclosed the alternative practice it has adopted in the CG report of the Company.