

**MAGNUM BERHAD**

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**41<sup>st</sup> Annual General Meeting  
26 May 2017**

# MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017

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## ***REVIEW OF OPERATIONS***

- **2016 had been a challenging year for the Malaysian economy**
  - **Decline in growth rate from 5.0% to 4.3%**
  - **Sustained low commodity prices**
  - **Depreciating Ringgit**
  - **Dampened consumer sentiment**

**Consumers' disposable income and spending power adversely impacted.**

- **Illegal gaming activities continue to pull customers from the legal NFO players**

# MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017

## REVIEW OF OPERATIONS (cont'd)

### Proliferation of illegal operators – Illegal Prize Structure in Penang

**Kedai Plastic Ah Huat**  
阿發塑料袋零售商

**BAYAR PENUH / 賠滿 / PAY FULL**

M-K-T-S PRIZE	Big	Small	A	C	PA
1st Prize	RM2800	RM4350	RM900	RM300	RM98
2nd Prize	RM1300	RM2700		RM300	
3rd Prize	RM650	RM1350		RM300	
Special Prize	RM325				
Consolation Prize	RM100				

  

A1	RM8400	5D	RM21000
A2	RM8400	6D	RM140000
A3	RM8400		
D4	RM840		
E4	RM840		

**高賠率 Highest Payout!!**

SMJK (C) CHUNG HWA PUSAT  
Kedai Kasut Keong Huat  
Jalan Telaga Air  
Kompleks Bagan  
Crystal Music 水晶  
Weng Foon Optics  
Kenny Haus Coffee Professional Pharmacy  
Patched Bakery  
Kedai Ubat Lay Aun Thong  
Kampung Benggali  
Mei Ta Trading  
南兴金舖  
华庆金舖  
Waking Kedai Emas

**WE ARE HERE**  
阿發  
塑料袋零售商  
Kedai Plastic Ah Huat

**營業時間**  
Operating Hours 8.30am - 9.00pm  
Masa Operasi

**沒字期**  
No Word Period 10.00am - 4.00pm  
Masa Tiada Perkataan

**168 發神料行**  
PAYFULL / 賠滿 / BAYAR PENUH

TUE/WED/SAT/SUN 10.00AM-9.00PM  
MON & THU 12.00PM-3.00PM  
CLOSED ON FRIDAY

聘請男女員工 19-30 岁  
有意者請聯絡 **017-428 4907**

	大 B	小 S	單 A	ABC	4S ABCDE	4C	5D	6D
头獎 1st	2800	4350	900	300	8400	2800	21000	140000
二獎 2nd	1300	2700		300	8400	2800	7000	4200
三獎 3rd	650	1350		300	8400	2800	4200	420
入圍 4Sta	325				840		700	42
安慰獎 5Con	100				840		28	5.6
2个字	98						7	

**WE ARE HERE**  
168 發神料行

Jalan Kampung Benggali

GOLDEN ORIENTAL HOTEL  
出名豆水 羅門 RAYMOND  
MAH SEAFOOD  
KEWOOD  
北海龍牌球 聯邦 FEDERAL HOTEL  
CAR PARK 空地 魚店  
SUPER ART 超藝 普爾奴

TELUK TAJER BANGSI  
TOTO  
da ma cai  
MAH SEAFOOD  
WONG JIN YEN  
WONG JIN YEN  
WONG JIN YEN

# MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017

## REVIEW OF OPERATIONS (cont'd)

### Proliferation of illegal operators

### Newspaper Cutting on Illegal Gambling Operators



EM Sarawak Tribune  
03.05.17



EM Sin Chew Daily  
03.05.2017

# MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017

## REVIEW OF OPERATIONS (cont'd)

### QUARTERLY DIVIDEND PAYOUT

		Dividends Recognised in year			
		2016		2015	
Paid in		%	RM'000	%	RM'000
Q1 2015	4 <sup>th</sup> interim for FYE 2014			5.0	71,228
Q2 2015	1 <sup>st</sup> interim for FYE 2015			5.0	71,218
Q3 2015	2 <sup>nd</sup> interim for FYE 2015			5.0	71,166
Q4 2015	3 <sup>rd</sup> interim for FYE 2015			2.5	35,577
Q1 2016	4 <sup>th</sup> interim for FYE 2015	3.5	49,805		
Q2 2016	1 <sup>st</sup> interim for FYE 2016	4.0	56,921		
Q3 2016	2 <sup>nd</sup> interim for FYE 2016	3.0	42,689		
Q4 2016	3 <sup>rd</sup> interim for FYE 2016	3.0	42,689		
		<b>13.5</b>	<b>192,104</b>	<b>17.5</b>	<b>249,189</b>

# MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017

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## *REVIEW OF OPERATIONS (cont'd)*

- **Strategies implemented by Magnum**
  - **Introduction of a new game called 4D Powerball in January 2016**
  - **Launched 4D Jackpot M System Bet in Aug 2016 – more affordable option to play the Jackpot game**
  - **Hardware update & Software enhancement to improve operational efficiencies**
  - **Launched new website in Apr 2017 with easy to learn video tutorials – more interactive and appealing to younger generation with emphasis on youth and fun**





# MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017

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## ***STRATEGIES GOING FORWARD***

- **Continue to innovate & improve on our products – newly launch mGold – System bet for Jackpot Gold**
- **Engage the next generation**  
→ **leveraging on technology which is their preferred communication and e-commerce tools**  
**e.g. Magnum Mobile App**
- **Continue to work with the Government to create a “win-win” position, especially against the illegal operators**
- **Project Rebranding & Reimaging**

# MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017

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## SHARE BUY-BACK SINCE LAST SHAREHOLDERS' MANDATE

Date of Purchase	Total No. of shares Purchased	Lowest Price Paid (RM)	Highest Price Paid (RM)	Average Price Paid (RM)	Total Purchase Consideration (RM)
22.8.16	50,000	2.37	2.39	2.38	<u>119,608.74</u>



**Queries from  
Minority Shareholder  
Watchdog Group**

# MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017

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## Strategic & Financial Matters

### Q1.

We refer to the announcement dated 19 May 2017 pertaining to the additional total tax penalty of RM476.5 million by the Director General of Inland Revenue (“DGIR”):

- i. Please enlighten shareholders on the assessment applied by DGIR which rendered the disallowance of the Group’s deduction of interest expenses for investments.
- ii. Other than the years of assessment 2008, 2009, 2010 and 2011 were highlighted by DGIR, were there any other years of assessment where deduction of interest expenses and loan stock interest expenses were incurred?
- iii. What measures have been taken by the management to avoid any retrospective tax penalties, if any in the future?

# MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017

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## A1.

- i) The bulk of the assessments is in relation to Magnum Holdings Sdn Bhd for YA 2008 to 2013 pursuant to a court sanctioned Selective Capital Repayment and Privatisation of Magnum Corporation Berhad.

For Magnum Berhad, the additional assessments are in relation to YA 2008, 2011 to 2015. IRB has disallowed the interest expenses incurred to be deducted against dividend income and interest income.

We are not at a liberty to disclose more as the legal case is ongoing.

- ii) Since 2014, all companies can only declare single tier dividend which is tax exempt. Hence, interest expenses can no longer be deducted against dividend income.
- iii. The management has always acted prudently and obtained professional advice in managing its tax affairs and the filing of its tax returns. As a law abiding and socially responsible corporate citizen, the Group has always been paying its taxes.

# MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017

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## Q2.

While one of the Company's strong competitors has since diversified its portfolio geographically, it appears that Magnum's growth has been impacted by challenging local business environment and competitions resulting in declining its top line and profit after tax for the past 5 years.

- i. How would the Board address the Company's deteriorating financial performance taking into consideration the full impact of GST imposed by Royal Malaysian Customs?
- ii. Would the Board consider expanding its business overseas to mitigate the risk and impact from any possible policy changed by the licensing authorities?

## A2.

The deteriorating financial performance of the Company for the past 5 years were more impacted by the massive proliferation of illegal gaming operators where they can sell the illegal lottery openly and sell everywhere.

# MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017

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## A2. (contd)

The relevant Authorities are being informed on the huge amount of tax losses that the Government is suffering due to the rampant activities of such illegal operators.

To mitigate the impact of the illegal operations, we have introduced new games with Jackpot element where the illegal operators cannot emulate. We have also launched various marketing programmes to entice the customers to play with us.

We are always on the look out for investment opportunities especially in the field of gaming.

# MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017

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## **Q3.**

Would there be a concern on the possible impairment loss of the Group's goodwill, which amounting up to RM901.5 million in FY 2016 and subject to an annual impairment test, given the fact that the Group's operating cashflows have been negatively affected by its deteriorating financial performance?

## **A3.**

We had performed some sensitivity analysis on sales projection based on current trend and with marginal negative growth and believes that the carrying amount of the asset exceed the recoverable amount.

# MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017

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## **Q4.**

Would the management consider transferring the GST charge to consumers in order to maintain the profit margin of the company?

## **A4.**

The GST Act 2014 has a prescribed formula for computing the value of gaming supply and this is based on the Inclusive method. Under the Inclusive method, GST cannot be passed on to punters.

However, there may be a case to be made for consideration by the authorities to avoid the duplicity of taxes.



# MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017

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## **Q5.**

Please enlighten shareholders on the method applied by Royal Malaysian Customs to estimate the Company's GST payments.

- i. Would the Company be penalised for the variation of GST payment?
- ii. What will be the forecasted GST payment for FY 2017?

## **A5.**

The interpretation of gaming supply by Customs and Company is explained in the next slide.

- i. The Company was not penalised in the previous directive by Customs.
- ii. The GST amount is dependent on the sales and prizes payout which is hard to forecast. Based on past trend, GST is expected to range from 1.5% to 1.8% of net sales.

# MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017

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## A5.

### Formulae for computing GST on Gaming Supply as per the GST Act 2014

Para. 8(1), Third Schedule - Value of betting and gaming supplies:

$$\frac{100}{100+C} \times (A-B) \quad \text{where}$$

- A total amount received for supply less any tax or duty under any written law except excise duties
- B monies **payable** to any person **participating successfully** in betting and gaming supplies
- C GST tax rate

Para. 8(1), Third Schedule:

Where the value of supply determined under para (1) is negative, such value shall be treated as **nil**.

### Difference in the interpretation of value B

Company	"payable" includes accrued prizes payable to the eventual Jackpot winner; "participating successfully" means able to participate successfully in a draw
Customs	"payable" means paid; "participating successfully" means the monetary prizes has been won

# MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017

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## Corporate Governance Matters

### Q1

According to the Malaysian Code of Corporate Governance 2017 under Practice 4.1, the Company is categorised as a Large Company and thus its Board should comprise a majority of independent directors. We note that the number of Independent Directors constitutes only 33% of the Board members. Please enlighten shareholders on the actions that the Board intends to take in adopting the Practice 4.1.

### A1

Your Board is aware and understand the spirit and intention behind the principles and practices of the Malaysian Code on Corporate Governance 2017 relating to the Board Composition and will strive to implement the guided practices to achieve the intended outcome of building and supporting a strong corporate governance culture throughout the Magnum Group.

# MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017

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## Q2

Under Resolution 2, the Company is seeking shareholders' approval for the payment of Directors' remuneration (excluding Directors' fees) to the Non-Executive Directors up to an amount of RM100,000 from 1 February 2017 until the next AGM of the Company.

Could the Board provide the breakdown of the Directors' allowances and other benefits payable to the Non-Executive Directors?

## A2

Pursuant to Section 230(1) of the Companies Act, 2016, the Company is seeking shareholders' approval for the payments of Directors' Fees (under Resolution 1) and other Benefits or Directors' remuneration excluding Directors' Fees (under Resolution 2) to its Non-Executive Directors.

In the latter motion (Resolution 2), your Directors through the Remuneration Committee had assessed and recommended the payment of up to RM100,000 in respect of other Benefits or Directors' remuneration for the period from 1 February 2017 until the next AGM of the Company.

# MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017

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## A2. (contd)

These benefits comprises the following estimations:-

• meeting allowances to Independent Directors	RM24,000
• other benefit-in-kinds to Non-Executive Directors	RM50,000
• allowances for additional new Non-Executive Directors	<u>RM26,000</u>
Total	<u>RM100,000</u>

# **MAGNUM BERHAD – 41<sup>st</sup> AGM on 26 MAY 2017**

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**END**