

MAGNUS ENERGY GROUP LTD.

(Incorporated in Singapore)

(Registration No. 198301375M)

RESPONSE TO SGX-ST QUERIES – ADDITIONAL CLARIFICATION ISSUES IN RELATION TO THE CESSATION OF INDEPENDENT NON-EXECUTIVE DIRECTOR AND NON-EXECUTIVE CHAIRMAN, MR. KUEK ENG CHYE ANTHONY, AND BOARD CHANGES

Unless otherwise specified, all capitalised terms shall have the same meaning ascribed to them in the Previous Announcements (as defined below).

The Board of Directors of Magnus Energy Group Ltd (the “**Company**” and, together with its subsidiaries, the “**Group**”) refers to the cessation and “Response to SGX Queries” announcements dated 15 June 2020, 24 June 2020, 25 June 2020, 26 June 2020 and 30 June 2020 (“**Previous Announcements**”).

The Company wishes to inform its shareholders (“**Shareholders**”) that further to the Previous Announcements, it has received the following queries dated 30 June 2020 from the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) pertaining to additional clarification issues on the cessation of Independent Non-Executive Director and Non-Executive Chairman, Mr. Kuek Eng Chye Anthony, as well as changes to the Board:

No.	<u>SGX Queries</u>	<u>Responses</u>
<u>Additional clarification issues in relation to the cessation of Independent Non-Executive Director and Non-Executive Chairman, Mr. Kuek Eng Chye Anthony, and Board changes</u>		
1	<p>On the one time lump sum of S\$30,000 to former Independent and Non-Executive Director Mr. Christopher O’Connor, Mr. Kuek is concerned that it had not been disclosed to him and Mr. Ong previously, and they were authorised by Mr. Madhavan and former AC Chairman without his knowledge, Mr. O’Connor.</p> <p>He was only made aware when he became acting AC Chairman upon Mr. O’Connor’s cessation, and which he subsequently brought to the attention of Sponsor and the rest of the Board on 14 May 2020.</p> <p>Mr. Madhavan would like to clarify that Mr. Kuek was in the Company’s office at Paya Lebar from January to February 2020 together with Mr. O’Connor and Mr. Madhavan and was privy to all conversations on the matters above and never voiced his objections.</p>	
	i. Please disclose the NC and RC members that approved the lump sum payment	<p>There was a discussion during a Remuneration Committee (“RC”) meeting held on 10 January 2020 to pay professional fees for Mr. Kuek and Mr. O’Connor for the anticipated additional work to be done after they had taken over from the previous board of directors.</p> <p>It was a verbal agreement between Mr. Kuek, Mr. O’Connor and Mr. Madhavan, pursuant to discussions between the three (3) persons during the months of January and February 2020 when they were working together in the Paya Lebar office (“Verbal Discussions”) to discuss paying Mr. O’Connor S\$30,000 as professional fees as well as S\$50,000 as professional fees to Mr. Kuek for work to be done since their appointment as Directors on 9 January 2020. There is no board resolution for the lump sum amount that was paid to Mr. O’Connor. The agenda for the meeting to be held on 13 March 2020 was sent out to the Board on 9 March 2020</p>

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		<p>which included an item on payment of advisory fees to Mr. Kuek and Mr. O'Connor. On 13 March 2020 during the Remuneration Committee ("RC") meeting ("RC Meeting"), Mr. Ong Chin Yew ("Mr. Ong"), who was a member of the Nominating Committee ("NC") and RC at the time, did not raise any objections nor comments during the discussion on the payments.</p>
	<p>ii. Did Mr Christopher O'Connor approve the lump sum payment paid to himself? Is that allowed under the SOP of the Company? What is Mr. Madhavan and Sponsor's views as to whether this is adequate?</p>	<p><u>Company's Response</u></p> <p>No, Mr. O'Connor did not approve the payment paid to himself. The cheque for the lump sum payment was signed by Mr. Ong Chin Yew and Mr. Madhavan.</p> <p>There are currently no standard operating procedures ("SOPs") in the Company which relate specifically to payment to directors for services rendered, other than compensation for board services. In addition, there is no SOP in the Company that stipulates that directors cannot be paid for their advisory work outside the work scope of director duties other than their directors' fees approved by shareholders during general meetings.</p> <p>During the RC Meeting with, among others, Mr. Madhavan in attendance, the matter of advisory fees for Mr. O'Connor and Mr. Kuek in relation to their work done in the day to day affairs of the Company was brought up and discussed with the Company's then Sponsors, Stamford Corporate Services Pte. Ltd. (the "Previous Sponsor"). It was noted during the RC Meeting that the Previous Sponsor had stated that it would require the specific scope to be defined along with the fees proposed by the RC and Board, following which, it would then be able to provide their comments and recommendations in relation to compliance with the Catalist Rules. The Previous Sponsor had also subsequently sent across the relevant rules and code of corporate governance for the then Board to review pursuant to the meeting.</p> <p>As explained in the announcement on 25 June 2020, the lump sum payment was to be paid upon completion of all work to be handled upon the takeover of the Company on 9 January 2020. There were a lot of travelling to be done, accounts to familiarise and sort out, and the daily finances of the Company to oversee. Mr. Madhavan is of view that</p>

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		<p>the lump sum amount paid is justifiable and adequate for the work Mr. O'Connor had done before his cessation on 8 May 2020.</p> <p>The Company understands that discussions should have been conducted with the RC and Board, with proper documentation including any resolutions that should have been made to approve such payment made to directors, notwithstanding that it is for work performed for the Company outside of their directorial services. The Company is aware of its failure on proper corporate governance pertaining to Mr. O'Connor's lump sum payment.</p> <p>Mr. Madhavan is of the view that the current SOPs in general and pertaining to such payments are inadequate, and the Company will work with the Internal Audit to implement a full set of SOPs on, among others, IPTs future out-of-scope payments to directors who may be assisting the Company beyond their directors' duties.</p> <p><u>Sponsor's Response</u></p> <p>Based on the Company's and Mr. Madhavan's responses above, we note that (a) it appears that there are no specific restrictions under the Company's SOPs on payments to directors for professional services or work rendered outside of the scope of their director duties, and (b) the lump sum payment paid to Mr. O'Connor is not considered to be director's fees or remunerations given that it is for professional services rendered which are not part of his director duties.</p> <p>On this basis, while we note that it appears that such payment may be permitted under the current SOPs or procedures of the Company, we as the Sponsor are of the view that this is not adequate given that (a) the lump sum payment to Mr O'Connor appears to have already been made on 4 March 2020 as reflected in the Letter (as defined in the response to Question 1(iii) below) which was prior to the RC Meeting, (b) there was no proper deliberation / approval process by the RC and Board members in respect of the lump sum payment to a fellow Director, and (c) there was no proper documentation with regards to the approval of such matter.</p>
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		<p>As the Sponsor, we have also carried out or are in the midst of carrying out the following:</p> <ul style="list-style-type: none">(a) we had, on 14 May 2020 upon being first informed about the relevant transactions that had taken place, reminded and highlighted to the Company of the requirements under Chapter 9 of the Catalist Rules, including but not limited to, proper documentation, adherence to the Company's internal control procedures in respect of IPTs, as well as the Company disclosure and review obligations under the relevant Catalist Rules;(b) we have directed Mr. Madhavan to register for and re-undergo training at the upcoming LED Programme Core Modules 1-4 to be conducted by the Singapore Institute of Directors in July 2020, in order to re-familiarise himself with the roles and responsibilities expected of him as a Director of the Company;(c) we are in the midst of working with the Company and Nexia, to finalize the scope of Nexia's engagement as the proposed Internal Auditor, which would include but not limited to:<ul style="list-style-type: none">i. a review of the existing operational and financial policies and procedures, and subsequent revisions/updates to be made based on the recommendations of the Internal Auditor;ii. a review of the transactions highlighted in the Provenance Report, and which would form the basis for the Internal Auditor making recommendations on designing operationally effective internal controls in line with paragraph (a) above; andiii. a review of all transactions (including all IPTs) conducted by the new Board since the date that they took over up to the end of the
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		<p>financial audit period As part of the review, the Internal Auditor shall also (aa) review whether the Company has adhered to the relevant guidelines and procedures in entering into the abovementioned transactions (including the IPTs) and to make the necessary recommendations based on its findings; and (bb) check that the relevant policies and procedures (including roles and responsibilities) on compliance with Catalist Rules and the Code of Corporate Governance 2018 are established and adhered to.</p>
	<p>iii. Please explain how the quantum of S\$30,000 was derived and how this amount compares to directors' fees/remuneration historically.</p>	<p>It was a verbal agreement between Mr. Kuek, Mr. O'Connor and Mr. Madhavan to pay Mr. O'Connor a lump sum of S\$30,000 for work to be done. The quantum of S\$30,000 was suggested by Mr. Kuek and Mr. Madhavan and Mr. O'Connor had no objections to the amount. It was not known how Mr. Kuek derived the amount.</p> <p>Mr. Madhavan had intended for most work to be completed by June 2020. Regardless of the duration taken to complete the work, the amount would have remained at S\$30,000 as long as the work was completed within six (6) months.</p> <p>The Company notes that the previous board of directors (prior to 9 January 2020) ("Previous Board") had paid directors' fees which was also based on their attendances at meetings (i.e. payment for attendance in each general, board and committee meetings) and also taking into account, among others, the contribution and performance of each Director.</p> <p>In comparison, the Company notes that under the Previous Board, Mr. Ong Chin Chuan, the former Independent Director and AC Chairman was paid a total amount of approximately \$36,000 director's fees alone for the financial year 2018. The Company is of the view that Mr. Ong Chin Chuan would not have been involved in the same amount of work as compared to Mr. O'Connor, on the basis that the work performed by Mr. O'Connor was not part of his directorial duties and services. A letter from the</p>

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		<p>Company dated 4 March 2020 had outlined the work that Mr. O'Connor had handled during his tenure as a director of the Company.</p>
	<p>iv. Please provide substantiation and documentation on the considerations that led to the approval, and indicate if there are any resolutions/correspondence to that effect.</p>	<p>It was a verbal agreement between Mr. Kuek, Mr. O'Connor and Mr. Madhavan to pay Mr. O'Connor S\$30,000 as professional fees for work to be done since the takeover on 9th January 2020. There were no resolutions for the lump sum amount. The Company had issued a letter dated 4 March 2020 to Mr. O'Connor on the payment.</p>
	<p>v. Is the S\$30,000 one-time lump sum payment required to be approved by shareholders? Please quote the relevant SOPs in the Company that govern such payments to directors of the company and state if the payment is a circumvention (and by whom) or a failure of the control.</p>	<p>The Company admits that the payment is a failure due to the lack of any proper SOPs or controls to govern such payments to directors. Furthermore, the Company did not maintain any proper documentation pertaining to the discussions and deliberation process nor obtain proper RC and Board approvals via resolutions.</p> <p>While the payment does not require shareholder's approval given that this is not considered to be part of directors' fees or remuneration, the Company is aware of the lack of control and proper procedures that it should have taken with regard to such payment.</p> <p>As per the above explanation, there is currently no SOP which relates specifically to payment to directors for services rendered, other than compensation for board services. There is also no SOP in the Company that stipulates that directors cannot be paid for their advisory work outside of their director duties other than their directors' fees approved by shareholders during general meetings.</p> <p>As explained in the announcement on the Company's responses to SGX-ST queries dated 25 June 2020, Mr. Madhavan felt that to hire another full-time management personnel of higher calibre to handle the immediate matters would take time and that it would be a short-term position. Hiring such an additional staff for just a few months would also be difficult and expensive.</p> <p>Furthermore, hiring an external consultant would also not be cheaper than the professional fees paid to Mr. O'Connor. Mr. Madhavan felt that the existing team was not experienced enough to handle all the challenges during the takeover of the Board.</p>

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	vi. Please elaborate and provide correspondence on Mr Kuek's request for professional fees himself.	As mentioned above, this was discussed at the RC meeting on 13 March 2020 in the presence of Previous Sponsor. The payment to Mr. Kuek was brought up during the Verbal Discussions and subsequently again at a Zoom meeting held on 12 June 2020 between Mr. Madhavan, Mr. Kuek and Mr. Ong. However, no records were made.
	vii. Please disclose if there are anymore other 'professional fees' or any other fees/payments made to the directors since Jan 2020 other than directors fees which are approved/due to be approved by shareholders.	The Company confirms that there are no other 'professional fees' or any other fees/payments made to the directors since January 2020 other than directors fees which are approved/due to be approved by shareholders.
2	<p>Mr. Madhavan had tasked the director of MEG Management Sdn. Bhd. ("MMSB"), Mr. Anthony Reudavey ("Mr. Reudavey"), to dispose the remaining assets and wind down MMSB which comprise the microalgae plant project that was undertaken by the previous Board of Directors and management.</p> <p>Mr. Reudavey is also the director of Blue Water Engineering (M) Sdn. Bhd. ("Blue Water Malaysia"), of which Mr. Madhavan has repeatedly clarified that he has no interest in. Mr. Madhavan has also confirmed that Blue Water Malaysia and BWEPL are two separate entitles and are not affiliated.</p> <p>Mr. Kuek also noted that both Blue Water Malaysia and BWEPL bore the same name and was not convinced that Blue Water Malaysia and BWEPL were not associated with each other. He also disagreed on paying Mr. Reudavey for the work to dispose the remaining assets and wind down MMSB.</p>	
	i. Please confirm all relationships and business affiliation between Mr. Madhavan and Mr. Reudavey.	<p>Please refer to Appendix 1 to the responses for the list of relationships and business affiliations between Mr. Madhavan and Mr. Reudavey.</p> <p>Saved for the Service Agreement entered into between the Company and BWEPL, as well as the provision of office rental and admin services from Blue Water Blue Water Engineering (Malaysia) Sdn Bhd to MMSB, Mr. Madhavan confirms that the Company does not have dealings with any of the other companies listed in Appendix 1.</p> <p>As stated in the announcement made by the Company on 30 June 2020, from 1 July 2020 onwards, the agreements for the abovementioned have been terminated as per the Company's announcement dated 30 June 2020. Notwithstanding, the provision of office facilities by BWEPL for the Company's employees will continue at no charge to the Company for the employees'</p>

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		<p>conveniences. In addition, the office space and admin services by Blue Water Malaysia will still be provided at no cost to the Company until the completion of MMSB’s winding down and disposal process.</p> <p>Save as disclosed, Mr. Madhavan confirms that there are no other relationships and/or business affiliations with Mr. Reudavey.</p>
	<p>ii. To the Sponsor – please obtain Blue Water Malaysia’s and BWEPL’s corporate (ACRA equivalent) records and confirm Mr. Madhavan’s associations.</p>	<p>The relevant Suruhanjaya Syarikat Malaysia company profile of Blue Water Malaysia (“SSM Profile”) and the business company profile of BWEPL as extracted from ACRA (“ACRA Profile”) are attached as Appendices 2 and 3 to the responses respectively.</p> <p>Based on the SSM Profile, we note that Blue Water Asia Pacific Group Ltd (“Blue Water BVI”) is the sole shareholder of Blue Water Malaysia. Pursuant to queries that we had subsequently made of Mr. Madhavan and having sighted a copy of the share certificates of Blue Water BVI that Mr. Madhavan had provided to us, we note that he holds a 50% shareholding interest in Blue Water BVI. Mr. Madhavan has represented to us that he had resigned as a director of Blue Water BVI on 12 December 2019.</p> <p>Based on the ACRA Profile, we note that Mr. Madhavan is a director of BWEPL and he holds an approximately 50% shareholding interest in BWEPL. This is consistent with Mr. Madhavan’s earlier representations to us and which was set out in the responses in the Previous Announcements. Mr. Reudavey holds the remaining 50% shareholding interest.</p>
3	<p>What are the Sponsor’s views and justifications as to whether the three said payments (Service Agreement, S\$30,000 professional fees paid to Mr. O’Connor, and monthly fees to MMSB) are IPT transactions of the Company and whether they are discloseable / require shareholders’ approval. In computing the quantum, please ensure that the monthly payments are aggregated.</p>	<p>We refer to the recent announcement made by the Company on 30 June 2020 (the “Clarification Announcement”) with regards to the payment made by the Company of S\$2,000 on a monthly basis to Blue Water Malaysia for the rental of its office premises, rental of director’s accommodations for Mr. Reudavey, and the provision of administrative services until the winding down of MMSB is completed (“BWM Payment”).</p> <p>In respect of the aforementioned payments, the Sponsor has considered the following:</p>

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		<p><u>Service Agreement and BWM Payment</u></p> <p>(a) We refer to our response to Question 2(ii) above. Accordingly, BWEPL is deemed to be an “interested person” and the transactions with BWEPL under the Service Agreement (the “Transactions”) are deemed to be IPTs under Chapter 9 of the Catalist Rules;</p> <p>(b) We refer to our response to Question 2(ii) above. Accordingly, Blue Water Malaysia is deemed to be an “interested person” because of Mr. Madhavan’s deemed interest through Blue Water BVI, and the BWM Transaction is deemed to be an IPT under Chapter 9 of the Catalist Rules;</p> <p>(c) As disclosed in the Clarification Announcement, the aggregated value of the Transactions and the BWM Payment, on the basis that they are entered with the same interested person, amounted to S\$43,876 as at the end of the financial year ended 30 June 2020 (“FY2020”). As the value is less than 3% of the Group’s latest net tangible assets as at 30 June 2019, being approximately S\$10.3 million (“NTA”), we are of the view that such transactions are not required to be disclosed or subject to shareholders’ approval pursuant to Chapter 9 of the Catalist Rules.</p> <p><u>Professional fees paid to Mr. O’Connor (“Professional Fees”)</u></p> <p>(a) We understand from the Company that the Professional Fees were reimbursed to Mr. O’Connor for corporate and finance consultancy work contributed to the Company which were not part of his directorial responsibilities and services. On this basis, the Professional Fees are not considered as director fees or remuneration, and do not require shareholders’ approval under the Companies Act;</p> <p>(b) While we note that Mr. O’Connor, in his capacity as a former Director, was deemed</p>
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		<p>to be an “interested person” and accordingly the Professional Fees is deemed to be an IPT, we note that the value of the Professional Fees of S\$30,000 is less than 3% of the NTA. As disclosed in the Clarification Announcement, the additional pro-rated director’s fees of S\$10,000 fall under the exemption of Rule 915(8) of the Catalist Rules, which states that “<i>Director’s fees and remuneration, and employment remuneration (excluding “golden parachute” payments)</i>” are not required to comply with Rules 905, 906 and 907 of the Catalist Rules. Based on this, we are of the view that the Professional Fees are not required to be disclosed or subject to shareholders’ approval under Chapter 9 of the Catalist Rules;</p> <p>(c) Notwithstanding the above, in accordance with Principle 8 of the Code of Corporate Governance 2018, we will work with the Company to ensure that the relevant details of the Professional Fees are disclosed in the corporate governance report, which will be published in the Company’s upcoming annual report for FY2020.</p> <p><u>Monthly fees to MMSB</u></p> <p>(a) To clarify and for the avoidance of doubt, the monthly fees comprise S\$5,000 paid to Mr. Reudavey. The accommodation and office/admin expenses refer to the BWM Payment which is made to Blue Water Malaysia in connection with the work performed by Mr. Reudavey to wind down the business of MMSB;</p> <p>(b) We note that Mr. Reudavey is only appointed as a director of MMSB, which is a subsidiary of the Company, solely for the purpose of handling the winding-down and disposal process. Mr. Madhavan has also confirmed to us that Mr. Reudavey is not an associate of his and, other than matters pertaining to MMSB, Mr Reudavey is not accustomed or under any obligation, whether formal or informal, to act in</p>
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		<p>accordance with Mr. Madhavan's directions, instructions or wishes;</p> <p>(c) Based on the above, we are of the view that Mr. Reudavey is not an "interested person" and the monthly fee paid to him as a director of MMSB is not an IPT under Chapter 9 of the Catalist Rules. Accordingly, it is not required to be disclosed or be subjected to shareholders' approval under Chapter 9 of the Catalist Rules.</p>
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Shareholders are advised to exercise caution when dealing with the Company's securities. Shareholders should seek advice from their stockbrokers, bankers, solicitors, accountants, tax advisers or other professional advisers if they have any doubt about the actions that they should take.

BY ORDER OF THE BOARD

Charles Madhavan
Executive Director and Chief Executive Officer
2 July 2020

This announcement has been prepared by the Company and reviewed by the sponsor, Novus Corporate Finance Pte. Ltd. (the "Sponsor"), in compliance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of Catalist.

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made, or reports contained in this announcement.

The contact person for the Sponsor is Mr Pong Chen Yih, Chief Operating Officer, at 9 Raffles Place, #17-05 Republic Plaza Tower 1, Singapore 048619, telephone (65) 6950 2188.
