



The Observer

01.03.2019

MSWG'S QUICK TAKE ON-ONGOING CORPORATE DEVELOPMENTS

LONDON BISCUITS BERHAD ("LBB" or "The Company")

QUALIFICATION IN EXTERNAL AUDITORS' REPORT FOR THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2018.

Pursuant to Paragraph 9.19(37) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, LBB made an announcement that Messrs Nexia SSY, the Company's External Auditors, have expressed a qualified opinion in their report.

Basis for Qualified Opinion (Extract of the Auditors' Report)

"We were appointed as auditors of the Company on 20 December 2018 and therefore did not observe the counting of physical inventories at the end of the financial year ended 30 September 2018. We were unable to satisfy ourselves by alternative means concerning those inventory quantities held at 30 September 2018, which are stated in the statements of financial position of the Group and the Company at RM26.891 million and RM20.794 million respectively. Since inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the profit for the year reported in the statement of comprehensive income and the net cash flows from operating activities reported in the statement of cash flows.

We wish to draw attention to the following matters where pursuant to ISA 510 concerning Initial Audit Engagements - Opening Balances, we carried out audit procedures to ascertain the existence, accuracy, presentation and completeness of opening balances and it was determined that certain opening balances contain misstatements that materially affect the current period's financial statements. Consequently, the items in opening balances as described in detail in Note 39 to the financial statements, were adjusted and restated in the financial statements.

We noted that there were significant and material transactions between the Group and a customer and as explained in Note 29 to the financial statements, the operations were indicative of a related party relationship despite the absence of a legal nexus. Consequently, the inter-company transactions were adjusted and treated as related party transactions to reflect the operational arrangements described in Note 29 to the financial statements. The management are of the opinion that related party transactions disclosure would not apply due to the legal status of the said company.

As disclosed in Note 12 to the financial statements, the Group recognised an impairment of trade receivables of RM1.994 million for the year ended 30 September 2018, and RM60.392 million were adjusted retrospectively to comply with the impact of the Group's early adoption of MFRS 9. In the computation of the expected credit loss ("ECL"), we were unable to ascertain the correctness of the ageing data of trade receivables as well as the related information utilized to calculate and to

measure the ECL. Consequently, we are unable to determine whether adjustments are necessary in respect of the ECL and the ageing disclosure in Note 12 to the financial statements.

As described in Note 38 to the financial statements, opening balances for plant and machinery-in-progress has been adjusted to reflect the acquisition of a production line made on behalf of an associated company.

During the current financial year, acquisition of plant and machinery totalling RM52.467 million was made. We were unable to obtain sufficient appropriate audit evidence in respect of these acquisitions.

Notwithstanding, the Company has provided an external valuation report for the Group's major plant and machinery from a professional valuer. Be that as it may, we are unable to determine whether adjustments are necessary to restate the value of the plant and machinery"

In relation to the above, the Board of Directors of LBB announced that the Board has resolved to do an interim limited re-audit/assessment on the key audit matters raised in the Auditors' Report before the end of the current financial year ending 30th September 2019.

[Source: <http://www.bursamalaysia.com/market/listed-companies/company-announcements/6072429>]

MSWG's Comments

The Independent Auditors highlighted five issues which has led to the qualified opinion on the Financial Statements of the Company for financial year ended 30 September 2018. Shareholders will definitely be disturbed to hear of so many negative issues being raised; encompassing not only major assets (including inventory, trade receivables and plant & machinery) but also misstatements of opening balances.

Restatements of the opening balances have significant impact on the financial results of the Company for the last financial period ended 30 September 2017. The Group Profit After Taxation (PAT) has been revised from RM17.2 million to RM1.7 million, the total assets have been revised from RM875.4 million to RM702.3 million and the negative net operating cash flow has been revised from RM30.9 million to RM109.3 million.

As reported in the Independent Auditors' Report, it has been determined that certain opening balances contain misstatements that materially affect the current period's Financial Statements. There is no further explanation on the nature of the misstatements and whether the misstatements have been accumulated over a number of years. This is certainly a concern.

With five issues, including the misstatements of certain opening balances, as the basis for the qualified opinion on the Financial Statements, credibility of the Financial Statements for both the current year as well as prior year/s are questionable.

In view of the severity and nature of the issues highlighted, one may wonder whether it is really a case of mere misstatements, errors or even omissions or is it something more serious, bordering on wrongdoings? Did the board initiate any internal investigation when the issues were highlighted? If not, why has the Board not initiated such investigation?

Under both the Companies Act 2016 and the Listing Requirements, it is the responsibility of the Board, in general, and the Audit Committee in particular, to ensure that the financial statements of the Company are accurate, timely and give a true and fair view of the financial position of the Company. The highlighting of the aforesaid issues by the Independent Auditors, in their report which also has a qualified opinion, should trigger the need for the Board to assess the effectiveness

of the Audit Committee in relation to the financial reporting structure and process by the Company and to identify areas for improvement.

As stated in the announcement on 22 February 2019, the Board has resolved to do an interim limited re-audit/assessment on the Key Audit Matters raised in the Auditors' Report before the end of the current financial year ending 30th September 2019.

In view of the seriousness of the issues, setting the deadline till 30th September 2019 to carry out the interim limited re-audit/assessment is too long. This is because the unresolved issues may affect the accuracy and reliability of the quarterly reports for the financial year 2019. Financial statements, be it quarterly or annual, are essential tools for the shareholders to make informed investment decisions. It is therefore crucial for the Board to resolve the issues expediently and to update the shareholders as soon as possible.

MSWG'S AGM WEEKLY WATCH 4 March - 8 March 2019

For this week, there is no AGM/EGM companies which are in the Minority Shareholders Watch Group's (MSWG) watch list.

MSWG'S WATCHLIST

APEX EQUITY HOLDINGS BERHAD ("APEX" or "The Company")

(I) MATERIAL LITIGATION

The Board of Directors of Apex Equity Holdings Berhad ("APEX") announced that the Company, had on 25 February 2019 been served with an Originating Summons in the High Court of Kuala Lumpur at Wilayah Persekutuan Kuala Lumpur along with 15 others including JF Apex Securities Berhad, a wholly-owned subsidiary of APEX, the Board of Directors of APEX, Mercury Securities Sdn Bhd and 7 individuals ("Placees") (jointly referred to as "Defendants") by Concrete Parade Sdn Bhd ("Plaintiff"), a shareholder of the Company.

The Plaintiff in their Originating Summons sought the following reliefs:-

Share Buy-Back

1. A declaration that the Board of Directors of APEX had managed and conducted the affairs of the Company and/or exercised their powers oppressively and/or disregarded and/or acted in a manner unfair and prejudicial to the interest of the Plaintiff as a member of the Company;
2. A declaration that all share buy-back transactions carried out by the Company are null and void;
3. A declaration that one Kuala Lumpur High Court Originating Summons No. WA-24NCC-382-07/2018 and the Order dated 30 August 2018 obtained therein are invalid and/or illegal and in consequence thereof, an order that the said Order dated 30 August 2018 be set aside;
4. An order that the Current Directors be required to reverse all share buy-back transactions carried out by the Company and to return the said shares to the original holders or to deal with the said shares in such manner as directed by the Court;

5. An order that the Current Defendants are liable, jointly and/or severally, for cost and expenses incurred for reversing all share buy-back transactions carried out by the Company;
6. An injunction to restrain the Company from holding any general meeting of shareholders pending the completion of the exercise as set out in prayers 2 to 5;

Proposed Merger

7. A declaration that the Heads of Agreement entered into between the Company and Mercury Securities on 21 September 2018 ("HOA") is illegal and/or unlawful and null and void;
8. A declaration that the Business Merger Agreement entered into between the Company, JF Apex and Mercury Securities on 18 December 2018 ("BMA") is illegal and/or unlawful and null and void;
9. Consequential to prayers 7 and 8, an order that the HOA and BMA be set aside;

Proposed Private Placement

10. 10.A declaration that the subscription agreements entered into between the Company with the Placees respectively on 18 December 2018 ("Subscription Agreement") are illegal and/or unlawful and null and void; and
11. Consequential to prayer 10, an order that the Subscription Agreements be set aside;
12. The costs and costs occasioned by the Originating Summons herein be borne by the Board of APEX, Placees and Mercury Securities, jointly and/or severally, and paid to the Plaintiff on an indemnity basis or on any basis deemed fit and proper by the Honorable Court;
- 13 Liberty to apply; and
14. Such further order or relief as the Honorable Court shall deem fit and proper.

Financial and operational impact to the Group

As at the date of this announcement, there is no material financial and operational impact arising from the Originating Summons on APEX Group.

The steps taken or proposed to be taken by APEX in respect of the Litigation

The Board of APEX is currently reviewing the relevant cause papers and shall engage solicitors to defend the said Litigation.

The Court has fixed 15 March 2019 for case management.

[Source: <http://www.bursamalaysia.com/market/listed-companies/company-announcements/6073973>

(II) PROPOSED MERGER; AND (II) PROPOSED PRIVATE PLACEMENT

The Board of Director of the Company ("Board"), announced that SC had, vide its letter dated 21 February 2019, approved the following applications:-

- i. The Proposed Merger of JF Apex and Mercury Securities through the transfer of the Business of Mercury Securities to JF Apex;
- ii. Change in controller of JF Apex as a result of the Proposed Merger;

- iii. Variation of the licence of JF Apex to include advising on corporate finance; and
- iv. Appointment of Chew Sing Guan as Chief Executive and Licensed Director of JF Apex.

In reply to the queries from Bursa Securities Bhd, the Company announced the details of the conditions imposed by SC as follows:-

- (a) Representatives of ACE Investment Bank Limited ("ACE") shall cease to be members on the Board of Apex on completion of the Proposed Merger;
- (b) ACE to sell down its shareholdings in Apex to below 15% within one month from the date of completion of the Proposed Merger;
- (c) ACE to fully dispose of its shareholding in Apex within six months from the date of completion of the Proposed Merger; and
- (d) There being no adverse record from the vetting which is currently pending.

ACE is not agreeable to the above conditions (a), (b) and (c) imposed by the SC.

In view of the above, the Board will engage with the relevant parties before deciding on the next course of action and will make the necessary announcement in due course.

[Source: <http://www.bursamalaysia.com/market/listed-companies/company-announcements/6072405>
<http://www.bursamalaysia.com/market/listed-companies/company-announcements/6072405>]

MAA GROUP BERHAD ("MAA" or "The Company")

PROPOSED SELECTIVE CAPITAL REDUCTION AND REPAYMENT EXERCISE PURSUANT TO SECTION 116 OF THE COMPANIES ACT, 2016

The Board of Directors of the Company announced that the Company has on 27 February 2019 received a letter from Melewar Acquisitions Limited and Melewar Equities (BVI) Ltd (collectively, "Non-Entitled Shareholders"), in their capacity as major shareholders of the Company, requesting the Company to undertake a selective capital reduction and repayment exercise pursuant to Section 116 of the Companies Act, 2016 ("SCR Offer Letter").

The Proposed SCR entails a selective capital reduction and a corresponding capital repayment of a proposed cash amount of RM1.10 for each ordinary share in MAAG held by all the shareholders of MAAG (other than the Non-Entitled Shareholders) whose names appear in the Record of Depositors of the Company as at the close of business on an entitlement date to be determined and announced later by the Board ("Entitled Shareholders").

The Board, except for Tunku Dato' Yaacob Khyra and Tunku Yahaya @ Yahya Bin Tunku Tan Sri Abdullah ("Interested Directors"), who are deemed to be interested in the Proposed SCR, will deliberate on the Proposed SCR and decide on the next course of action.

In this regard, the Board has appointed Affin Hwang Investment Bank Berhad as the Principal Adviser in relation to the Proposed SCR, and will appoint an independent adviser to provide comments, opinions, information and recommendations to the Board (except for the Interested Directors) and to the Entitled Shareholders in respect of the Proposed SCR.

Further announcements will be made in due course after the Board's deliberations.

[Source: <http://www.bursamalaysia.com/market/listed-companies/company-announcements/6077553>]

MSWG'S VIGILANCE

Listing of PN17 and GN3 companies

PN17 Companies

1. AMTEK HOLDINGS BERHAD
2. APFT BERHAD
3. BERJAYA MEDIA BERHAD
4. BERTAM ALLIANCE BERHAD
5. BRAHIM'S HOLDINGS BERHAD
6. CHINA AUTOMOBILE PARTS HOLDINGS LIMITED
7. DAYA MATERIALS BERHAD
8. EKA NOODLES BERHAD
9. HB GLOBAL LIMITED
10. KINSTEEL BHD
11. KUANTAN FLOUR MILLS BERHAD
12. MAA GROUP BERHAD
13. MALAYSIA PACIFIC CORPORATION BERHAD
14. MAXWELL INTERNATIONAL HOLDINGS BERHAD
15. MULTI SPORTS HOLDINGS LTD
16. PERISAI PETROLEUM TEKNOLOGI BERHAD
17. STONE MASTER CORPORATION BERHAD
18. SUMATEC RESOURCES BERHAD
19. TH HEAVY ENGINEERING BERHAD
20. UTUSAN MELAYU (MALAYSIA) BERHAD
21. YFG BERHAD

GN3 Companies

1. G NEPTUNE BERHAD
2. IDIMENSION CONSOLIDATED BERHAD
3. WINTONI GROUP BERHAD

Update

RGT Bhd has been uplifted from the PN17 list with effect from 25 February 2019

Brahim's Holdings Bhd entered the PN17 List effective 28 February 2019

[Source: <http://www.bursamalaysia.com/market/listed-companies/company-announcements/6072365>
<http://www.bursamalaysia.com/market/listed-companies/company-announcements/6083189>]

Please refer to the link below for the latest status of the company.

<http://www.bursamalaysia.com/market/listed-companies/list-of-companies/pn17-and-gn3-companies/>

LOCAL NEWS AND DEVELOPMENTS

Gamuda to ensure highway takeover is based on 'market valuation norms'

<https://www.theedgemarkets.com/article/gamuda-ensure-highway-takeover-based-market-valuation-norms>

Business activities to slow down in 1H19 – FMM-MIER survey

<https://www.theedgemarkets.com/article/business-activities-slow-down-1h19-%E2%80%94-fmm-mier-survey>

No immediate need to recalibrate Budget – Dr Mahathir

<https://www.theedgemarkets.com/article/no-immediate-need-recalibrate-budget-%E2%80%94-dr-mahathir>

Road Tax fees in Sabah and Sarawak to be standardised from April 1

<https://www.theedgemarkets.com/article/road-tax-fees-sabah-and-sarawak-be-standardised-april-1>

Tourism contributed RM84.1 billion in 2018

<https://www.thedgemarkets.com/article/tourism-contributed-rm841-billion-2018>

Manufacturers have started receiving GST refunds, says FMM

<https://www.thedgemarkets.com/article/manufacturers-have-started-receiving-gst-refunds-says-fmm>

GLOBAL NEWS AND DEVELOPMENTS

EU weighs new rules on payments in challenge to Visa, Mastercard

<https://www.thedgemarkets.com/article/eu-weighs-new-rules-payments-challenge-visa-mastercard>

Trump says 'signing summit' with Xi for U.S.-China deal possible soon

<https://www.thedgemarkets.com/article/trump-says-signing-summit-xi-uschina-deal-possible-soon>

Huawei security row overshadows annual telecoms gathering

<https://www.thedgemarkets.com/article/huawei-security-row-overshadows-annual-telecoms-gathering>

U.S. goods trade deficit deteriorates; factory orders edge up

<https://www.thedgemarkets.com/article/us-goods-trade-deficit-deteriorates-factory-orders-edge>

U.K. approved to rejoin US\$1.7 tril WTO procurement deal

<https://www.thedgemarkets.com/article/uk-approved-rejoin-us17-tril-wto-procurement-deal>

City of London faces new hurdles to EU markets after Brexit

<https://www.thedgemarkets.com/article/city-london-faces-new-hurdles-eu-markets-after-brexit>

Euro zone business lending growth slows sharply: ECB

<https://www.thedgemarkets.com/article/euro-zone-business-lending-growth-slows-sharply/ecb>

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DISCLOSURE OF INTERESTS

- With regard to the companies mentioned, MSWG holds a minimum number of shares in all these companies covered in this newsletter save for London Biscuits Bhd and Apex Equity Holdings Bhd
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Feedback

We welcome your feedback on our newsletter and our work. Email us at corporateservices@mswg.org.my with your comments and suggestions.

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