



MINORITY SHAREHOLDERS WATCH GROUP
Badan Pengawas Pemegang Saham Minoriti Berhad (524989-M)

The Observer

12.10.2018

MESSAGE FROM THE CEO

Increasing Free Float Through Government Divestments

The government has indicated that it will consider downsizing its stakes in GLCs which are held by Government-Related Institutions such as Khazanah Nasional Bhd, Employees Provident Fund, Lembaga Tabung Angkatan Tentera, Kumpulan Wang Persaraan (Diperbadankan) and Permodalan Nasional Bhd, (currently held via GLICs and Khazanah). The collateral benefit is increased free float...more shares floating in the market which allows investors to buy these GLC shares without causing share price spikes. The foreign institutional investors love increased free float too...very much. Foreign institutional investors buy in bulk and if there is not enough free float such bulk buying often sends share prices spiraling because of limited supply. Moreover, it may be harder for them to buy in large quantities and the spread in share prices may be pretty wide too.

It is no secret that the Government-Related Institutions can influence the market and the stock market indices due to their sheer size of shareholdings. Some say that the higher PE (price earnings ratio) enjoyed by companies listed on the Malaysian stock exchange, compared to its regional peers, is due to the heavy involvement of the Government-Related Institutions.

We cannot blame the Government-Related Institutions for buying-up these good GLCs and hanging on to them for the long term as that is what long-term investment is all about.

The Government-Related Institutions also often end up as cornerstone investors in good IPOs and further shrink the free float of the shares of these good IPOs when listed. The Government-Related Institutions too must pay returns to their own stakeholders. Such divestments by Government-Related Institutions GLICs will motivate the Government-Related Institutions to look at international investment opportunities. But then again, what is there to stop a foreign institutional investor from buying the shares that the Government-Related Institutions sold and locking these shares up and thereby going back to the original scenario of low free float.

The challenge for the stock exchange is to be big enough so that despite these locking up of shares, there will still be enough free float. That is why there must be a steady pipeline of big IPOs to increase the breadth and depth of the stock market.

Some have speculated a portion of Petronas being listed - a thoroughly salivating thought. It is big enough and good enough to be listed. I can just imagine the investors lining up (both local and international) to get a piece of Petronas.

On 11 October 2018, Petronas Gas Berhad closed at RM17.24 and Petronas Dagangan Bhd closed at RM26.00 and Petronas Chemicals Group Berhad at RM9.22, all decent prices, just to provide some context and perspective as to how attractive the very thought of an IPO of Petronas can be. I only hope that when it comes to future good IPOs, enough is set aside for the minority shareholders. Often, just about everything is mopped up by the cornerstone investors and other institutional investors.

Talking about future IPOs, minority shareholders must be aware that they must do their due diligence when it comes to IPOs. There is no guarantee you will make money. This is a consequence of the disclosure-based regime. The regulators are moving away from the paternalistic approach to an informed decision-making approach. Some of you may remember the good old days when it was a given that you will make money in an IPO - the question then was how much you will make.

‘Let the buyer beware’ and ‘Let the buyer do the due diligence’ are the orders of the day for minority shareholders.

Regards,

Devanesan

12 October 2018

MSWG'S QUICK TAKE ON-ONGOING CORPORATE DEVELOPMENTS

RESIGNATION OF EXTERNAL AUDITORS

DIVERSIFIED GATEWAY SOLUTIONS BERHAD (“DGSB”)

The Board of Directors of DGSB announced that Messrs BDO (“BDO”) has tendered its resignation as auditors and BDO’s term of office as auditors of the Company shall end on 24 October 2018. The Board is not aware of any matters relating to the resignation of BDO as auditors that need to be brought to the attention of the shareholders of DGSB.

The Board of DGSB then announced that Messrs Grant Thornton Malaysia (“GT”) has given its written consent to act and accordingly, the Board has appointed GT as auditors of the Company to fill the casual vacancy and the appointment of GT as auditors shall take effect from 24 October 2018 until the conclusion of the next Annual General Meeting of the Company.

DGSB also announced on 8 October 2018 that the Company has changed its financial year end from 31 March to 30 June. Following the change of financial year end, the next financial statements will be made up from 1 April 2018 to 30 June 2019 covering a period of 15 months. Thereafter, the financial year end of the Company shall end on 30 June for each subsequent year.

[Source: DGSB’s announcement on Bursa Malaysia’s website on 8 October 2018]

VISDYNAMICS HOLDINGS BERHAD ("VHB")

The Board of Directors of VHB ("the Board") announced that the Company has on 8 October 2018, received a notice in writing given pursuant to Section 281 of the Companies Act 2016 from Messrs Adam & Co. ("Adam & Co.") on their resignation as Auditors of the Company with effect from 4 October 2018.

Adam & Co., who had been the Auditors of the Company were re-appointed as the Auditors of the Company at the last annual general meeting ("AGM") of the Company held on 23 March 2018 to hold office until the conclusion of the next AGM of the Company. The resignation is on a voluntary basis as the Company could not reach a consensus on the proposed increase to the audit fees for the financial year ending 31 October 2018 with Adam & Co.

[Source: VHB's announcement on Bursa Malaysia's website on 8 October 2018]

MSWG'S COMMENTS:

In the case of DGSB, it is rather surprising and perplexing that BDO tendered its resignation as auditors of DGSB merely about 1 month after their re-appointment by shareholders at the Company's AGM on 5 September 2018. There were no reasons given for the external auditor's resignation. Although DGSB has found a replacement external auditor, for good governance purposes, the reason for BDO's resignation should be made known to DGSB's shareholders. This is especially so given that external auditors are appointed at the AGM by the shareholders to safeguard shareholders' interest in relation to the integrity of financial statements - they are the watchdogs of shareholders.

It will also be good if the company can make an announcement of the reasons for the resignation of the external auditor as the company has the ability to make announcements on Bursa Malaysia's website.

In VHB's case, VHB has announced the reason for its external auditors' resignation i.e. due to increase in audit fees by the external auditor. Although the reason for the resignation was made known, what was also perplexing was the timing of events and the logic which would raise further questions.

The re-appointment of the external auditors was tabled for shareholders' approval at VHB's AGM on 23 March 2018 and the re-appointment was approved by the shareholders. The question is whether the fees were agreed upon before the consent was given to act as the Auditors of the Company. Why did the external auditors propose for an increase in their fees only about 6 months after their re-appointment? Could it be due to substantial increase in the workload or had the risk of the audit increased substantially or were there some other reasons?

In the interest of transparency, and better governance, it would be good if the company can announce the proposed increase of the external auditor's fees that resulted in the parting of ways.

COUNTRY HEIGHTS HOLDINGS BERHAD (“CHHB”)

The Board announced that it will be taking very patient and prudent steps in the matter of issuing its own Asset-Backed Cryptocurrency. As this is a very new field in the country, and with CHHB being the first public-listed company to come up with such initiative, this may be very sensitive to those who do not understand blockchain technology and are confused on too many cryptocurrencies.

The Company will be convening its Extraordinary General Meeting scheduled on Thursday, 8 November 2018 to provide an avenue to discuss with its shareholders on the Proposed Initial Coin Offering (“ICO”) and to seek their support and endorsement to proceed with the appointments of reputable and the best technology partner(s) and other external consultants to give back-end support to this exercise especially in its implementation.

Once the Board has decided to proceed with the ICO, the Company will seek the shareholders’ approval and convene another General Meeting for the final endorsement for the launching of the ICO, its structure, mechanism and the exchange centre which will be used.

[Source: CHHB’s announcement on Bursa Malaysia’s website on 3 October 2018].

MSWG’S COMMENTS:

There are no rules or regulations on the issuance of cryptocurrencies by listed companies in Malaysia.

It is commendable that the Board is engaging with the shareholders to explain the proposed ICO issuance prior to seeking shareholders’ approval at another general meeting for final endorsement by shareholders. This should serve as a very useful educational event which will also equip shareholders in making a more informed decision when CHHB calls for another general meeting to seek shareholders’ approval.

Somewhere along the timeline, CHHB will be applying for regulatory approval.

MSWG representatives will be attending the forthcoming general meeting to better understand cryptocurrencies, ICOs and CHHB’s proposals and plans.

We urge all shareholders, especially the minority shareholders, to attend the forthcoming meeting for a better understanding of CHHB’s proposed ICO.

MSWG’S AGM WEEKLY WATCH 15 October- 19 October 2018

For this week, the following are the AGMs/EGMs of companies which are in the Minority Shareholders Watch Group’s (MSWG) watch list.

The summary of points of interest is highlighted here, while the details of the questions to the companies can be obtained via MSWG’s website at www.mswg.org.my.

Date & Time	Company	Venue
15.10.18 (Mon) 09.00 am	DRB-Hicom Bhd (EGM)	Holiday Inn Kuala Lumpur, Glenmarie, Shah Alam
15.10.18 (Mon) 11.30 am	DRB-Hicom Bhd (EGM)	Holiday Inn Kuala Lumpur, Glenmarie, Shah Alam
17.10.18 (Wed) 10.00 am	Berjaya Land Bhd (AGM)	Bukit Jalil Golf & Country Resort, Jalan Jalil Perkasa 3, Bukit Jalil, KL

Some of the points of interest to be raised:	
Company	Points/Issues to Be Raised
DRB-Hicom Bhd (EGM)	Under the terms of the Concession Agreement as mentioned in MIDF Investment's comments on page 35 of the Circular, tariff rates are expected to be reviewed twice throughout the Concession Period. To-date, what is the status of the tariff rates revision?
Berjaya Land Bhd (AGM)	We noted from Page 145 (Note 13) that a very significant portion of trade receivables was long past due and not impaired. The amounts past due from 91 to 365 days and more than 365 days were RM79.7 million and RM50.6 million respectively. (i) Please explain why these amounts which were very long overdue were not impaired. (ii) Are the amounts supported by any security/collateral and what actions have been taken to recover the amounts?

MSWG'S WATCHLIST

INTA BINA GROUP BERHAD ("IBGB")

On behalf of the Board, M&A Securities announces that the Securities Commission had, vide its letter dated 5 October 2018, approved IBGB's application for the proposed transfer of the listing of and quotation for the entire issued share capital of IBGB from the Ace Market to the Main Market of Bursa Malaysia Securities Berhad ("Proposed Transfer") under Section 214(1) of the Capital Markets and Services Act 2007 and under the equity requirement for public listed companies.

[Source: IBGB's announcement on Bursa Malaysia's website on 5 October 2018].

WEIDA (M) BERHAD ("WEIDA")

On behalf of the Board of Directors of Weida ("**Board**"), RHB Investment Bank Berhad announced that the Company had on 6 September 2018 received a letter from WMSB ("**Letter**") notifying the Board that WMSB is offering a cash compensation scheme to the registered shareholders of Weida whose names appear on the record of depositors of Weida as at 5.00 p.m. on 18 December 2015 and persons who purchased Weida shares between 9.00 a.m. on 16 December 2015 and 5.00 p.m. on 18 December 2015 (both dates inclusive) other than WMSB and its persons acting in concert, who sold their Weida shares partially or fully during the compensation period between 9.00 a.m. on 19 December 2015 and 5.00 p.m. on the date of despatch of the compensation document at a price lower than RM1.90 per Weida share, ("**Qualified Shareholders**") ("**Cash Compensation Scheme**"). WMSB intends to close the Cash Compensation Scheme on 5.00 p.m. on 6 November 2018.

[Source: WEIDA's announcement on Bursa Malaysia's website on 6 September 2018].

MSWG'S VIGILANCE

Listing of PN17 and GN3 companies

PN17 Companies

1. AMTEK HOLDINGS BERHAD
2. APFT BERHAD
3. ASIA KNIGHT BERHAD
4. BERJAYA MEDIA BERHAD
5. BERTAM ALLIANCE 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. PETROL ONE RESOURCES BERHAD
18. STONE MASTER CORPORATION BERHAD
19. SUMATEC RESOURCES BERHAD
20. TH HEAVY ENGINEERING BERHAD
21. UTUSAN MELAYU (MALAYSIA) BHD
22. YFG BERHAD

GN3 Companies

1. G NEPTUNE BERHAD
2. WINTONI GROUP BERHAD

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

Chinese tycoon to invest RM10b in Malaysia, signals vote of confidence

<https://www.thestar.com.my/business/business-news/2018/10/11/china-pacific-construction-group-to-invest-rm10b-in-malaysia/>

An Open Letter to MMC-Gamuda

<http://www.theedgemarkets.com/article/open-letter-mmcmgamuda>

Nestle to invest RM100mil in world's largest Milo plant in Negri Sembilan

<https://www.thestar.com.my/business/business-news/2018/10/09/nestle-malaysia-disposes-of-chilled-dairy-pj-factory-for-rm155pt3m/>

GLOBAL NEWS AND DEVELOPMENTS

IMF warns trade friction, market turmoil to hurt Asian growth

<https://www.thestar.com.my/business/business-news/2018/10/12/imf-warns-trade-friction-market-turmoil-to-hurt-asian-growth/>

Global financial stability risks rising with trade tensions, IMF says

<https://www.theedgemarkets.com/article/global-financial-stability-risks-rising-trade-tensions-imf-says>

IMF Cuts Forecast for Global Growth as Trade War Takes Toll

<https://www.bloomberg.com/news/articles/2018-10-09/imf-cuts-forecast-for-global-growth-as-trade-war-takes-its-toll?srnd=premium-asia>

China slashes banks' reserve requirements as trade war imperils growth

<https://www.thestar.com.my/business/business-news/2018/10/08/china-slashes-banks-reserve-requirements-as-trade-war-imperils-growth/>

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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 Diversified Gateway Solutions Berhad, Visdynamics Holdings Berhad, Inta Bina Group Berhad and Weida (M) Berhad.*

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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