



The Observer

15 February 2019

MSWG'S QUICK TAKE ON-ONGOING CORPORATE DEVELOPMENTS

PERMAJU INDUSTRIES BERHAD ("PERMAJU")

RESIGNATION OF AUDITORS

The Board of Directors of Permaju had on 11 February 2019 announced that the Company had on that day received a notice in writing dated 8 February 2019 ("Notice") from Messrs. Ernst & Young ("the Auditors") of their intention to resign as Auditors of the Company.

The reason for the resignation was due to the Company's wish to appoint another auditor.

Save for the above, the Board of Directors informed that the Company is not aware of any other matters that need to be brought to the attention of the shareholders of Permaju.

[Source: <http://www.bursamalaysia.com/market/listed-companies/company-announcements/6060781>]

MSWG's Comments

The reason for the resignation due to the Company's wish to appoint another auditor is puzzling. We are unsure whether the current auditor has been 'forced to resign' to give way to another new auditor whom the Company wishes to appoint. What are the reasons for appointing another auditor to replace the existing auditor?

In the spirit of transparency and to avoid any untoward speculations, the Board should disclose the reason why they wish to appoint another auditor.

SCANWOLF CORPORATION BERHAD ("SCANWOLF" or "The Company")

BURSA MALAYSIA SECURITIES PUBLICLY REPRIMANDS SCANWOLF CORPORATION BERHAD AND ITS DIRECTORS AND FINES 4 EXECUTIVE DIRECTORS

SCANWOLF was publicly reprimanded for committing the following breaches of the Main LR:-

- (a) Paragraph 10.07(1) of the Main LR read together with paragraphs 10.02(l)(i), 10.02(g)(iii) and 8.29(1) of the Main LR for failing to issue a circular to the Company's shareholders and seek the shareholders' approval in a general meeting before the Joint Venture Agreement dated 30 July 2012 ("JVA") entered into between Scanwolf Properties Sdn. Bhd. ("SPSB") and Scanwolf Development Sdn. Bhd. ("SDSB").
- (b) Paragraph 9.16(1)(a) of the Main LR in respect of the Company's announcement dated 30 July 2012 on the JVA ("the Announcement") which was inaccurate, particularly with regard to the following representations:
 - the JVA was not subject to the approval of SCANWOLF's shareholders; and

- the highest percentage ratio applicable to the transaction pursuant to paragraph 10.02(g) of the Main LR was 1%.
- (c) Paragraph 10.06(1) of the Main LR for failing to ensure that the Announcement contained the following required information set out in Appendix 10A of the Main LR:-
- i. paragraphs 3(a) and (b) of Part A of Appendix 10A - the basis of arriving at the consideration and the justification for the consideration; and
 - ii. paragraph 8 of Part B of Appendix 10A - if no joint venture corporation will be set up, the terms of cost and profit sharing and the estimated total cost of project.

7 Directors of SCWOLF at the material time had breached paragraph 16.13(b) of the Main LR for permitting SCNWOLF to commit the breach of paragraph 10.07(1) of the Main LR as set out at paragraph (a) above and the have been reprimanded or fined for an amount ranging from RM25,000 to RM50,000.

The finding of breach and imposition of the above penalties on SCNWOLF and its directors were made pursuant to paragraph 16.19 of the Main LR upon completion of due process and after taking into consideration all facts and circumstances of the matter including the materiality/impact of the breaches to SCNWOLF and shareholders/investors and the directors' roles, responsibilities, knowledge/involvement in the JVA and conduct of the directors.

Bursa Malaysia Securities views the contraventions seriously particularly as Chapter 10 of the Main LR serves to protect the interest of shareholders on material transactions of a listed issuer.

Bursa Malaysia Securities has also reminded SCNWOLF and its board of directors of their responsibility to maintain the appropriate standards of corporate responsibility and accountability to its shareholders and the investing public.

BACKGROUND

(I) PUBLIC REPRIMAND ON SCNWOLF

SCNWOLF had on 30 July 2012 announced that its wholly-owned subsidiary, SPSB has signed the JVA with SDSB, a 51% owned subsidiary of SPSB (at the material time), to undertake a mixed development project on 511 leasehold vacant development plots of land all within the mukim and district of Kampar, State of Perak ("JV Plots") known as "Kampar Putra II".

The JVA was a transaction under paragraph 10.02(l)(i) of the Main Market LR as pursuant to the JVA, SCNWOLF or its wholly-owned subsidiary, SPSB had disposed of the developmental rights and/or substantially all the right, benefits or control over the JV Plots ("the Disposal") to SDSB. The JVA was not subjected to/conditional upon the shareholders' approval being obtained and hence, the Disposal had been completed upon the parties entering into the JVA which was already effective and binding on the parties.

As the applicable percentage ratio of the transaction based on paragraph 10.02(g)(iii) of the Main Market LR was more than 25%, SCNWOLF must issue a circular to the Company's shareholders and seek the shareholders' approval in a general meeting before entering into the JVA pursuant to paragraph 10.07(1) of the Main LR read together with paragraph 8.29(1) of the Main LR. However, SCNWOLF had failed to do so as the Company's main representation, was that the highest percentage ratio applicable to the transaction pursuant to paragraph 10.02(g) of the Main LR was 1% and hence, shareholders' prior approval of the JVA was not required.

In arriving at the computation of the percentage ratio of 1%, the Company had taken into account the amount of RM500,000 as the value of consideration. However, this was wrong and unreasonable as the amount of RM500,000 was only a deposit payment by SDSB and could/did not reflect the entire value of the assets or the aggregate value of the consideration for the JVA/Disposal. Pursuant to the JVA, the consideration was clearly premised on the 'sales proceeds of the JV units' and SPSB's entitlement would be 20% of 'the gross development value' (which was approximately RM180 million as disclosed in the Company's earlier announcement and circular on SPSB's acquisition of the JV Plots).

SCNWOLF had only obtained shareholders' ratification of the JVA on 30 March 2017 and this was despite Bursa Securities' engagement with/reminders to the Company since 14 April 2016 that the percentage ratio of the JVA was more than 25% (which would trigger the requirement for shareholders' approval/ratification) ("Bursa's Engagements").

(II) PUBLIC REPRIMAND ON 7 DIRECTORS AND TOTAL FINES OF RM175,000 IMPOSED ON 4 EXECUTIVE DIRECTORS

All the directors were and/or should be aware of the JVA including the terms and conditions therein and the materiality of the JVA/Disposal.

However, there was inaction and no evidence that the directors had demonstrated/taken reasonable efforts to discharge their duties particularly to undertake proper deliberation, reasonable enquiries and assessment on the JVA/Disposal including the necessity of shareholders' approval to ensure the Company's compliance with the Main Market LR during the Board of Directors ("BOD") meetings on 26 November 2011, 25 February 2012 and 26 May 2012. Other than the notation in the Board papers that the Company was in the process of preparing the JVA between SPSB and SDSB for execution upon completion of the sale, there was no evidence of draft agreement or other related documents pertaining to the proposed JVA being circulated during the BOD meetings. Further, despite the materiality of the JVA, all the directors had proceeded to approve the JVA vide a Directors' Circular Resolution dated 30 July 2012.

The purported reliance on the company secretary/chief financial officer by the directors with regard to compliance with the Main Market LR was unsubstantiated and did not absolve the directors particularly in the absence of any evidence of reasonable enquiry/assessment being undertaken.

The higher penalty imposed on the executive directors was in view of their roles, responsibilities, knowledge/involvement in the JVA and the subsidiaries i.e. SPSB and/or SDSB. Further, Dato' Loo Bin Keong, Dato' Tan Sin Keat and Mr Teoh Teik Kean had failed to demonstrate reasonable steps taken to ensure that the shareholders' ratification of the JVA was procured expeditiously upon/despite Bursa's Engagements.

MSWG's Comments

We are of the view that the contravention which was triggered by the incorrect computation of the percentage ratio of the transaction based on paragraph 10.02(g) of the Main Market LR reflects on the Board's lack of diligence and is surely unacceptable. This is because every director is given the right to have access to the necessary resources, including independent professional advice, for the performance of his duties, under the provisions in the Companies Act 2016 (Section 215) and the Main Market LR (Paragraph 15.04). For matters involving special skills, expertise or knowledge, the Board is provided the rights under the laws to seek for advice from the professionals with the necessary expertise or knowledge. Besides, the Board also has access to the company secretaries who are supposed to be the experts in the Listing Requirements - unless they too got it wrong too.

However, as stated in the announcement, Bursa Malaysia Securities ("Bursa") finds no evidence that the Directors had demonstrated/taken reasonable efforts to discharge their duties particularly to undertake proper deliberation, reasonable enquiries and assessment on the JV/Disposal including the necessity of shareholders' approval to ensure the Company's compliance with the Main Market LR.

The fact that the shareholders' ratification on the JVA was only sought and obtained on 30 March 2017, one year after the reminder from Bursa, does not reflect well on the Board and also seems to indicate that the Board had not taken the issue seriously.

Considering that Chapter 10 of the Main Market LR serves to protect the interests of shareholders on material transactions of a listed company, the Board should take the requirements seriously and make sure that they are complied with in a timely manner.

MSWG'S AGM WEEKLY WATCH 18 February - 22 February 2019

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
19.02.19 (Tues) 11.00 am	Kuala Lumpur Kepong Bhd (AGM)	WEIL Hotel, 292 Jalan Sultan Idris Shah, Ipoh, Perak
19.02.19 (Tues) 10.30 am	Batu Kawan Bhd (AGM)	WEIL Hotel, 292 Jalan Sultan Idris Shah, Ipoh, Perak
20.02.19 (Wed) 10.00 am	CCM Duopharma Biotech Bhd (EGM)	Setia City Convention Centre, Setia Alam, Seksyen 13, Shah Alam.

One of the points of interest to be raised:	
Company	Points/Issues to Be Raised
Kuala Lumpur Kepong Bhd (AGM)	<p>As highlighted on page 146 of the Annual Report, it has never been the Group's policy to carry out regular revaluation of its property, plant and equipment. However, certain freehold land, leasehold land and buildings were revalued by the Directors between 1966 and 1991.</p> <p>Given that there has been no revaluation on the land and the buildings for a long period of time, the current value of these properties may be significantly different from the carrying amount. Will the Board consider engaging an independent valuer to revalue these land and buildings?</p>
Batu Kawan Bhd (AGM)	<p>A further impairment loss of RM21.625 million (FY2017: RM30.94 million) in respect of a specialised oleochemical plant was charged to other operating expenses in FY2018 (Note 12 to the Financial Statements on page 102 of the Annual Report).</p> <p>The reply to our letter dated 7 February 2018 states that the technology related issues was one of the factors that had triggered the impairment loss provision in FY2017 and that these issues have largely been addressed and product sales had since improved.</p> <p>(a) Given that the product sales had improved, what then are the factors that triggered further impairment in FY2018?</p> <p>(b) Does the Board anticipate any further impairment in respect of the oleochemical plant in FY2019?</p>

MSWG'S WATCHLIST

CAHYA MATA SARAWAK BERHAD ("CMSB" or "The Company")

The Board of Directors of CMSB had on 4 February announced that the Company has adjusted its dividend policy to a minimum of 30% of its annual consolidated profit after tax and non-controlling interests (PATNCI) to shareholders or subject to a minimum of 2 sen per share.

(Source: <http://www.bursamalaysia.com/market/listed-companies/company-announcements/6057897>)

Note: The current dividend policy is 40% of its consolidated PATNCI to shareholders, subject to a minimum of 2 sen per share,

[Source: Company's 2017 annual report page 15]

SCOMI GROUP BHD ("SGB" OR "THE COMPANY")

DEFAULT IN PAYMENT TO MALAYAN BANKING BERHAD ("MBB")

The Company had on 13 February announced that its indirect subsidiary, Scomi Rail Bhd ("SRB"), has on 8 February 2019 received a notice of demand ("Default") dated 25 January 2019 from MBB for a sum of RM 201,906,795.15. The Default arose due to failure by SRB to pay the amount due to MBB under the bank facilities ("Bank Facilities") granted to SRB.

SGB has also on 8 February 2019 received a notice of demand dated 31 January 2019 for the sum of RM113,957,000.00 due to failure by SRB to pay the Default, pursuant to which MBB reserves the right to take steps to dispose the shares of a subsidiary that was secured against the Bank Facilities in the event the amount demanded is not paid.

SRB and SGB are presently in the process of negotiating a resolution with MBB.

As stated in the announcement, currently, there are no business, financial and operational impact of the Default on SGB.

The Default will give rise to an event of default by virtue of the cross-default provision under the financing documents ("Financing Documents") in respect of a leasing facility amounting to RM1,292,000 and an overdraft and foreign exchange contract facility with total outstanding of RM Nil granted to certain subsidiaries of SGB. By virtue of the cross default provision of the Financing Documents, the respective financiers ("Financiers") shall have the right to declare the financing facilities therein be cancelled and shall become due and payable immediately. Following thereto, the Financiers may enforce on the securities created under the respective Financing Documents, if any.

MBB has the right to proceed with legal proceedings against SRB, provided leave of the Court is obtained in view of the pending application for judicial management.

[Source: <http://www.bursamalaysia.com/market/listed-companies/company-announcements/6063005>]

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. CHINA AUTOMOBILE PARTS HOLDINGS LIMITED
6. DAYA MATERIALS BERHAD
7. EKA NOODLES BERHAD
8. HB GLOBAL LIMITED
9. KINSTEEL BHD
10. KUANTAN FLOUR MILLS BERHAD
11. MAA GROUP BERHAD
12. MALAYSIA PACIFIC CORPORATION BERHAD
13. MAXWELL INTERNATIONAL HOLDINGS BERHAD
14. MULTI SPORTS HOLDINGS LTD
15. PERISAI PETROLEUM TEKNOLOGI BERHAD
16. RGT BERHAD (fka ASIA KNIGHT 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

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/>

REGULATORY NEWS

SC INTRODUCES FRAMEWORK TO FACILITATE TRADING OF DIGITAL ASSETS IN MALAYSIA

The Securities Commission Malaysia (SC), on amended its Guidelines on Recognized Markets to introduce new requirements for electronic platforms that facilitate the trading of digital assets.

Under the revised guidelines, any person who is interested in operating a digital asset platform is required to apply to the SC to be registered as a recognized market operator.

“The new framework is part of the SC’s efforts to promote innovation while ensuring investor protection in the trading of digital assets,” said Datuk Syed Zaid Albar, SC Chairman. He added that while there is a framework to facilitate the trading of digital assets, investors are reminded to be mindful of the risks when dealing in digital assets such as sudden price fluctuations and liquidity risks.

The amended guidelines follows the coming into force of the Capital Markets and Services (Prescription of Securities) (Digital Currency and Digital Token) Order 2019 on 15 January 2019.

Any person who is interested to operate a digital asset platform, including those operating within the current transitional period, have to submit an application to the SC by 1 March 2019.

The revised guidelines can be accessed at <https://www.sc.com.my/regulation/guidelines/recognizedmarkets>, while queries can be directed to rmo@seccom.com.my

LOCAL NEWS AND DEVELOPMENTS

Higher Malaysian GDP growth seen in Q4

<https://www.thestar.com.my/business/business-news/2019/02/13/higher-gdp-growth-seen-in-q4/#XzXhw9y8lqT8jo7z.99>

Bank Negara records higher foreign reserves at Jan 31

<https://www.thestar.com.my/business/business-news/2019/02/12/bank-negara-records-higher-foreign-reserves-at-jan-31/#zpH50P4qOT9ytCIO.99>

Malaysia's first 200b yen Samurai bond to be issued in March

<https://www.thestar.com.my/business/business-news/2019/02/12/malysias-first-200b-yen-samurai-bond-to-be-issued-in-march/#0UIHtmLoTMUKGLkp.99>

Services PPI rises 0.6% in Q4 2018

<https://www.thestar.com.my/business/business-news/2019/02/12/services-ppi-rises-0pt6pct-in-q4-2018/#EmH5DHB6M2HSOWFm.99>

Malaysia wholesale and retail trade index up 8.1% y-o-y in 4Q18

<https://www.theedgemarkets.com/article/malaysia-wholesale-and-retail-trade-index-81-yoy-4q18>

Malaysia mulls biodiesel stabilisation fund

<https://www.theedgemarkets.com/article/malaysia-mulls-biodiesel-stabilisation-fund>

GLOBAL NEWS AND DEVELOPMENTS

Credit Suisse cuts Indonesia stocks, a move that burned JPMorgan

<https://www.thestar.com.my/business/business-news/2019/02/13/credit-suisse-cuts-indonesia-stocks-a-move-that-burned-jpmorgan/#McyboFVQVCveRP4z.99>

China's 2018 tourism revenue growth slowest in a decade

<https://www.thestar.com.my/business/business-news/2019/02/13/chinas-2018-tourism-revenue-growth-slowest-in-a-decade/#dSdhmSqyE5yqSYXV.99>

China's private firms hit by default contagion

<https://www.thestar.com.my/business/business-news/2019/02/13/chinas-private-firms-hit-by-default-contagion/#j7hvPg5pWRU02Hcs.99>

Taiwan trims 2019 GDP outlook amid trade war worries

<https://www.theedgemarkets.com/article/taiwan-trims-2019-gdp-outlook-amid-trade-war-worries>

Asia Pacific expecting rise in 2019 hotel transactions

<https://www.theedgemarkets.com/article/asia-pacific-expecting-rise-2019-hotel-transactions>

NZ central bank holds rates, signals accommodative policy through 2020

<https://www.theedgemarkets.com/article/nz-central-bank-holds-rates-signals-accommodative-policy-through-2020>

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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 saved for Scanwolf Corporation Bhd*

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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