



The Observer

15.03.2019

MSWG'S QUICK TAKE ON-ONGOING CORPORATE DEVELOPMENTS

PLS PLANTATIONS BERHAD (“PLS” or “the Company”)

The Company had on 4 March 2019 issued the Notice of the Extraordinary General Meeting (EGM) for the proposed diversification of the existing principal activities of PLS Plantations Bhd and its subsidiaries to include durian plantation, production, distribution and related activities.

[Source: <http://www.bursamalaysia.com/market/listed-companies/company-announcements/6086265>
<http://www.bursamalaysia.com/market/listed-companies/company-announcements/5937145>

MSWG's Comments

Based on the Circular to the Shareholders dated 5 March 2019 (“Circular”) and the attachment to the Company’s announcement on 9 October 2018 (“Attachment”), pertaining to the proposed diversification, we noted several issues and concerns that require further clarifications. We have, therefore, raised the following questions to the Board of PLS via our letter dated 11 March 2019:-

1) The attachment in the Company’s announcement on 9 October 2018 (“Attachment”), under the share subscription agreement (“Subscription Agreement”), states that the subscription consideration for 600,000 new ordinary shares in Dulai Fruits Enterprise Sdn Bhd (“Dulai”) amounts to RM3 million. This translates to RM5 per share.

Under the share Sale and Purchase Agreement (“SPA”), the purchase consideration for the acquisition of 800,000 Dulai shares from the vendor (the Managing Director of Dulai) amounts to RM18,000,000. This translates to RM22.50 per share.

Why is the price per share paid to the Vendor under the SPA significantly higher than the price under the Subscription Agreement?

2) The aggregate consideration for the proposed transaction amounts to RM21 million. As disclosed on page 2 of the Circular to Shareholders dated 5 March 2019 (“Circular”), the net assets of Dulai stood at RM1.45 million based on the latest financial statements for FYE 30 June 2018. Dulai does not own any durian estates/plantations. It relies on durian suppliers, farmers, smallholders for the supply of durians.

As explained in the Attachment, the consideration was arrived at after taking into consideration, amongst others, the financial performance and earnings potential of Dulai, the Profit Guarantee and the outlook of the durian industry.

(a) With regard to the financial performance and earnings potential of Dulai, what is the projected profit after taxation (PAT) for the next 5 years? What are the contributing factors, both internal and external, that have been taken into consideration in the profit projection?

(b) With regard to the outlook of the durian industry, as explained on page 4 of the Circular, one of the factors that has been taken into consideration is that Malaysia had on 20 August 2018, received the approval for the export of frozen durian in whole fruit form to China. This provides a huge potential for the Malaysian durian industry as China is currently the world's largest durian consumer.

What is Dulai's current annual export (in terms of the amount and the percentage to the total sales by Dulai) to China and what is the projected export in the next three years?

(c) As stated on page 3 of the Attachment, based on the agreed financial cut-off date for proforma financials as at 31 August 2018 and the due diligence review, the proforma net asset value of Dulai shall not be less than RM2.282 million.

(i) What was the actual net asset value of Dulai as at the financial cut-off date?

(ii) Given that Dulai does not own any durian estates/plantations, what are the major assets that Dulai owns?

(d) What is the expected payback period for the investment?

3) As disclosed on page 12 of the Attachment, the Vendor agrees and covenants to guarantee that the audited PATAMI of Dulai for FYE 2019, 2020 and 2021 shall not be less than RM10 million. The security for the performance by the Vendor is 10,666,667 consideration shares, valued at RM0.75 per share, amounting to RM8 million.

With the consideration shares valued even at RM0.75 per share, the security value is also not sufficient to cover the guaranteed audited PATAMI.

Furthermore, given that the value of the security will change with the changes in the price of the consideration shares, how will the Company ensure that the security value is sufficient to cover any shortfall in the profit guarantee in the event that the price of the consideration shares falls below RM0.75 per share?

4) Page 13 of the Attachment reports that Dulai recorded a loss after taxation (LAT) of RM13,578 and capital deficiency was RM13,478 for financial period from 10 June 2016 (date of incorporation) to 30 June 2017. For financial year ended 30 June 2018, Dulai achieved a profit after taxation of RM1.96 million and the net assets stood at RM1.45 million

What are the contributing factors to the significant improvement in the profitability and the net asset value of Dulai over the last one year?

5) Page 3 of the Circular states that the Board of PLS anticipates that the durian business may, in the future, contribute 25% or more of the net profits of the Group?

What is the expected timeframe for the durian business to achieve the 25% contribution to the net profit of the Group?

6) On page 11 of the Circular, it was stated that "The proposed Diversification will not have any effects on the share capital and substantial shareholders' shareholdings of PLS as **it does not involve any issuance of new PLS shares.**"

Please provide further explanation on the highlighted statement in relation to the share Sale and Purchase Agreement with the Vendor which involves issuance of 24 million new ordinary shares of PLS.

MSWG's Representative will attend the EGM on 19 March 2019 to seek further clarification from the Board of PLS.

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

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

Date & Time	Company	Venue
19.03.19 (Tue) 10.30 am	PLS Plantations Bhd (EGM)	Sri Damansara Club, Lot 23304, Persiaran Perdana, Bandar Sri Damansara

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

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

Malaysia to decide fate of Malaysia Airlines soon, PM says

<https://www.thestar.com.my/business/business-news/2019/03/12/malaysia-to-decide-fate-of-malaysia-airlines-soon-pm-says>

Norwegian fund may exit O&G exploration firms

<https://www.thestar.com.my/business/business-news/2019/03/13/norwegian-fund-may-exit-oandg-exploration-firms>

Economy to shrink 0.11% on every 1% slowdown in China

<https://www.theedgemarkets.com/article/economy-shrink-011-every-1-slowdown-china>

Shortage of corporate talent in Malaysia

<https://www.thestar.com.my/business/business-news/2019/03/14/shortage-of-corporate-talent/>

GLOBAL NEWS AND DEVELOPMENTS

Asian shares subdued, sterling awaits its fate

<https://www.reuters.com/article/us-global-markets/asian-shares-subdued-sterling-awaits-its-fate-idUSKBN1QU02K>

China's World-Beating Stock Rally Puts Hong Kong in the Dust

<https://www.bloomberg.com/news/articles/2019-03-12/china-s-world-beating-stock-rally-leaves-hong-kong-in-the-dust?srnd=all>

Business 'exasperated' after Brexit vote

<https://www.bbc.com/news/business-47546925>

IMF: Greece among best performers in eurozone

<https://www.bbc.com/news/business-47547065>

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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.*

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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