



The Observer

16.08.2019

CEO'S MESSAGE

Genting Malaysia Bhd (GenM) – the Role of Directors

Genting Malaysia Bhd's (GenM) proposed acquisition of a 46% stake in loss-making Empire Resorts Inc (Empire), resulting in a sell-down of GenM shares last week, saw renewed selling interest on last Tuesday (August 13) following news that Empire's liquidity problem is prompting it to consider filing for voluntary bankruptcy in the US.

However, GenM later in a reply to Bursa Malaysia's query dated August 15 stated that it played no part in the preparation of Empire's Form 10-Q. And thus, it is unable to provide any view on Empire's deliberations regarding the contents of its Form 10-Q. The Form 10-Q is an unaudited report submitted quarterly by all publicly-traded companies to the Securities and Exchange Commission (SEC).

Notwithstanding this, GenM said the acquisition of Empire by the Company and Kien Huat Realty III Limited (KH), is expected to provide Empire the opportunity to complete its projects and embark on a path to stability and growth for the benefit of all stakeholders.

Consensus Opinion – the Jury is In

According to Bloomberg, as of 13 August, GenM had a 12-month consensus target price (TP) of RM3.76, with 5 "buy", 7 "hold" and 7 "sell" calls. GenM before the announcement of the related party transaction (RPT), had a 12-month consensus TP of RM7.94, with 12 "buy", 4 "hold" and 1 "sell".

Thus, according to the research-analyst community, the TP has decreased from RM7.94 to RM3.76, the "sells" had increased from 1 to 7 and the buys had fallen from 12 to 5. This corroborates the shareholders views, as

evidenced by the massive sell-down of GenM, that the RPT is more value-destructive than value-accretive.

The Role of Independent Directors

Based on the GenM Annual Report 2018, the Board comprises two executive directors and seven independent non-executive directors (INEDs) – a commendable 78% of independent directors – well above the over-50% prescribed under the Practice 4.1 of the Malaysian Code on Corporate Governance (MCCG

Some of the Independent Directors are illustrious personalities in the corporate circles. We are unsure as to the type of discussions that would have taken place prior to the Board approving the RPT, but surely it must have been robust and passionate. We are unsure as to how many directors objected, but are sure it was either a unanimous or majority decision to undertake the RPT. If it was not unanimous, the opposing minority of directors are bound by 'collective responsibility' to speak with one voice. But what we do know is that none of the Directors thought that the RPT was significant enough for them to speak out against the RPT publicly or to resign because of the RPT.

As an aside, there exists a paradoxical position when majority shareholders can elect independent directors (who are often relied upon to watch out for the minority shareholders' interest). Such a situation often begs the cynical question as to how independent these independent directors can be. In such situations, there is a risk that the independent directors would be patronising to the major shareholders at the expense of minority shareholders.

And that is why, the 'two-tier' voting Practice 4.2 under the MCCG must be made into a rule-based Listing Requirement as opposed to being a principle-based Practice under the MCCG, which can be explained away by a cleverly drafted 'alternative practice'. The 'two-tier' voting does not actually cure the cynicism on the role of the independent directors as the 'two-tier' Practice only kicks in from the 12th year of an independent director's tenure – better late than never.

The Presence of an Executive Chairman

While the number of independent directors on the Board was commendable, the presence of an Executive Chairman was not.

This is because Practice 1.3 of the MCCG clearly states that the positions of the Chairman and CEO should be held by different individuals – which was not the case with GenM.

Such separation of positions of the Chairman and CEO promotes accountability and facilitates division of responsibilities between them. In this regard, no one individual will be able to influence the board's discussion and decision-making. The responsibilities of Chairman include leading the Board in its collective oversight of management, while the CEO focuses on the business and day-to-day management of the company.

Continuing Risk

In view of Empire's dire financial position, further capital injections may be needed after the privatisation by GenM and KH meet Empire's financial obligations. This is a continuing risk, going forward that minority shareholders should be mindful of.

In fact, in our previous Newsletter we have also highlighted the risk and questioned how one could reconcile with the acquisition considering that in its letter, the vendor, KH had also painted a negative picture of the financial position of Empire including its inability to become financially self-sustaining from revenues from its operations and does not appear to have any reasonable prospect for becoming financially self-sustaining in the future. This by itself is already a red flag!

MSWG AGM/EGM Weekly Watch 19-23 August 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
22.08.19 (Thur) 11.00 am	G3 Global Bhd (EGM)	Glenmarie Golf & Country Club, No. 3 Jalan Usahawan U1/8, Shah Alam
22.08.19 (Thur) 11.30 am	G3 Global Bhd (EGM)	Glenmarie Golf & Country Club, No. 3 Jalan Usahawan U1/8, Shah Alam

One of the points of interest to be raised:

Company	Points/Issues to Be Raised
G3 Global Bhd (EGM)	With the disposal of entire interest in the three subsidiaries involved in the apparel business, the Group is left with only two subsidiaries in the Apparel Division. The reply to our letter dated 14 June 2019 stated that disposal of the three subsidiaries will enable the Group to streamline its operation and allocate its resources to focus and grow its ICT Division. a) What is the Company's plan for the remaining two subsidiaries involved in the apparel business, moving forward? b) Are these two remaining subsidiaries also loss-making?

MSWG'S WATCHLIST

SUSPENSION AND DE-LISTING

MAXWELL INTERNATIONAL HOLDINGS BERHAD

Bursa Malaysia Securities Berhad ("Bursa Securities") has rejected the application of Maxwell International Holdings Berhad ("MAXWELL") for an extension of time to submit its regularisation plan. Hence, the Company has failed to comply with its obligation to regularise its condition to submit its regularisation plan and obtain Bursa Securities approval of its regularisation plan within the stipulated timeframe.

In the circumstances and pursuant to paragraph 8.04(5) of the Main LR, please be informed that:-

the trading in the securities of MAXWELL will be and/or remain suspended with effect from **20 August 2019**; and

1. the securities of the Company will be de-listed on **22 August 2019** unless an appeal against the de-listing is submitted to Bursa Securities on or before **19 August 2019** ("the Appeal Timeframe"). Any appeal submitted after the Appeal Timeframe will not be considered by Bursa Securities.

In the event the Company submits an appeal to Bursa Securities within the Appeal Timeframe, the removal of the securities of the Company from the Official List of Bursa Securities on **22 August 2019** shall be deferred pending the decision on the Company's appeal.

With respect to the securities of the Company which are currently deposited with Bursa Malaysia Depository Sdn Bhd ("Bursa Depository"), the securities may remain deposited with Bursa Depository notwithstanding the de-listing of the securities from the Official List of Bursa Securities. It is not mandatory for the securities of a company which has been de-listed to be withdrawn from Bursa Depository.

Alternatively, shareholders of the Company who intend to hold their securities in the form of physical certificates, can withdraw these securities from their Central Depository System (CDS) accounts maintained with Bursa Depository at anytime after the securities of the Company have been de-listed from the Official List of Bursa Securities. This can be effected by the shareholders submitting an application form for withdrawal in accordance with the procedures prescribed by Bursa Depository. These shareholders can contact any Participating Organisation of Bursa Securities and/or Bursa Securities' General Line at 03-2034 7000 for further information on the withdrawal procedures.

Upon the de-listing of the Company, the Company will continue to exist but as an unlisted entity. The Company is still able to continue its operations and business and proceed with its corporate restructuring and its shareholders can still be rewarded by the Company's performance. However, the shareholders will be holding shares which are no longer quoted and traded on Bursa Securities

Source: <http://www.bursamalaysia.com/market/listed-companies/company-announcements/6249781>

PN17 Companies

1. APFT BERHAD
2. BARAKAH OFFSHORE PETROLEUM BERHAD
3. BERJAYA MEDIA BERHAD
4. BERTAM ALLIANCE BERHAD
5. BRAHIM'S HOLDINGS BERHAD
6. CHINA AUTOMOBILE PARTS HOLDINGS LIMITED
7. COMINTEL CORPORATION BHD
8. DAYA MATERIALS BERHAD
9. EKA NOODLES BERHAD
10. HB GLOBAL LIMITED
11. KINSTEEL BHD
12. KUANTAN FLOUR MILLS BERHAD
13. LONDON BISCUITS BERHAD
14. MAA GROUP BERHAD
15. MALAYSIA PACIFIC CORPORATION BERHAD
16. MAXWELL INTERNATIONAL HOLDINGS BERHAD
17. MULTI SPORTS HOLDINGS LTD
18. PERISAI PETROLEUM TEKNOLOGI BERHAD

19. SEACERA GROUP BERHAD
20. SUMATEC RESOURCES BERHAD
21. TH HEAVY ENGINEERING BERHAD
22. UTUSAN MELAYU (MALAYSIA) 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 companies.

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

LOCAL NEWS AND DEVELOPMENTS

GenM defends Empire stake buy

<https://www.theedgemarkets.com/article/genm-defends-empire-stake-buy>

Young investors shun Bursa Malaysia

<https://www.thestar.com.my/business/business-news/2019/08/15/young-investors-shun-bursa-malaysia>

July CPI up 1.4%, slightly below forecast

<https://www.thestar.com.my/business/business-news/2019/08/15/july-cpi-up-14-slightly-below-forecast#ruTHbGtLD31jhMl.99>

Public Bank 2Q net profit falls 4.5% on negative impact from OPR adjustment

<https://www.theedgemarkets.com/article/public-bank-2q-net-profit-falls-45-negative-impact-opr-adjustment>

Xin Hwa notes previous payments to substantial shareholders did not follow listing requirements

<https://www.theedgemarkets.com/article/xin-hwa-notes-previous-payments-substantial-shareholders-did-not-follow-listing-requirements>

GenM, Genting slip as Empire Resorts considers voluntary bankruptcy

<https://www.theedgemarkets.com/article/genting-genm-slip-empire-resorts-considers-filing-bankruptcy>

Malaysian palm oil price climbs to over 4-month high on bullish inventory data

<https://www.thestar.com.my/business/business-news/2019/08/14/malaysian-palm-oil-price-climbs-to-over-4-month-high-on-bullish-inventory-data#Fpw4Vh6zoYUjDslr.99>

GLOBAL NEWS AND DEVELOPMENT

Bonds Signal Growing Global Distress After Key Yield Curve Flips

<https://www.bloomberg.com/news/articles/2019-08-14/u-k-yield-curve-inverts-for-first-time-since-financial-crisis?srnd=premium-asia>

China's economy weakens on several fronts as trade war rages

<https://www.thestar.com.my/business/business-news/2019/08/15/chinas-economy-weakens-on-several-fronts-as-trade-war-rages#PbTRiviq8CddvtMC.99>

China July industrial output growth falls to 17-yr low as trade war escalates

<https://www.thestar.com.my/business/business-news/2019/08/14/china-july-industrial-output-growth-falls-to-17-yr-low-as-trade-war-escalates#huS0sMopLBuAmvVs.99>

EU imposes up to 18% duties on Indonesian biodiesel

<https://www.thestar.com.my/business/business-news/2019/08/14/eu-imposes-up-to-18-duties-on-indonesian-biodiesel#gTjasjobf26jAlek.99>

Trump delayed tariffs in part to avoid a recession during 2020 election, says US Chamber of Commerce president Donohue

<https://www.cnbc.com/2019/08/13/trump-delayed-tariffs-to-avoid-recession-in-2020-says-donohue.html>

Greenspan says 'there is no barrier' to negative yields in the US

<https://www.cnbc.com/2019/08/13/greenspan-says-there-is-no-barrier-to-negative-yields-in-the-us.html>

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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 except Maxwell International Holdings 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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