

The logo for MSWG (Minority Shareholder Watch Group) features the letters 'MSWG' in white on a dark blue background.

MINORITY SHAREHOLDER WATCH GROUP

Badan Pengawas Pemegang Saham Minoriti Berhad

Incorporated in Malaysia * Company No. 524898-M

The Observer

18 May 2018

MESSAGE FROM THE CEO

It has been an eventful two weeks.

Active politicians as directors of listed companies

Bank Negara Malaysia (BNM) is clear with its Corporate Governance requirement that a director of a financial institution must not be an active politician.

An active politician refers to an individual who is a member of any national or state legislative body, or who is an office bearer of, or holds any similar office or position in a political party.

In fact, when it comes to Anti Money Laundering requirements, Politically Exposed Persons (PEPs) are to be subjected to Enhanced Customer Due Diligence as opposed to normal Customer Due Diligence.

These requirements are testament to the fact that there is an increased risk when politics mixes with business and when we have politicians on the board of listed companies.

Even now, we can think of two or three listed companies, which have politicians or politically linked persons on their board, which are suffering negative publicity on allegations of fraud or malpractices.

Such negative news affects the reputation of the listed company negatively. Such negative news is bad news for minority shareholders as the share price will suffer due to such negative news.

The Malaysian Code on Corporate Governance (MCCG) does not make any reference to active politicians as directors of listed companies.

The MCCG expects boards to determine their own risk appetite and their own board composition through the Nominating Committee.

Having said that, shareholders play an even more important part in that it is they who elect directors onto the board of listed companies. Therefore, shareholder activism becomes an important means of achieving desired outcomes when it comes to listed company behaviour.

But if we are to borrow a page from the BNM corporate governance requirements, as a matter of risk management from the board's perspective, a board may wish to avoid active politicians from board membership.

A case of erring on the side of caution perhaps.

Directors personal political leanings and the listed company

Managing Directors, CEOs and other directors are entitled to their personal political party preferences.

But this should not be imposed on the listed company, either explicitly or implicitly, as the listed company is a legal person and not a natural person - devoid of political party preferences.

Listed companies must remember that the government of the day is a legitimate stakeholder as there is only one government. Political parties are not stakeholders as there are many of them and they are the personal choice of an individual.

As such, listed companies should remain apolitical as there is no way they can fathom the collective interest of all shareholders when it comes to supporting political parties - leave alone the fact that political parties should not be considered as stakeholders of a listed company.

Sometimes listed companies end up spending listed company money supporting political parties - in cash or in kind. Minority shareholders should then hold the listed company accountable as listed companies exist to enhance shareholder value and to act responsibly when it comes to other stakeholder interests. As mentioned earlier, it will be difficult to convince ourselves that a political party is a legitimate stakeholder when there are many political parties and many shareholders with many preferences.

Chairman, Managing Directors and CEOs who become the face of the listed company are at greater risk of subjecting their listed companies to share price fluctuations by their behaviours as their personal views may be construed as the corporate view/preference.

We have noticed in the past that there is a correlation between their political party preferences and the share price movement - this is unfair to the minority shareholders when share prices tank due to explicit political patronage.

Probity

One of the criterion for the fit and proper test for directors is that directors should have probity.

One definition of probity is moral principles, honesty and decency - much more than merely complying with laws, rules and codes.

Probity is a good moral compass for all directors and indeed for all of us. It is not an easy compass to follow and there will be intense pressure on us when it comes to doing the right thing.

Right is right and wrong is wrong.

As mortals, we will fail and fall, but arise we must, to aspire probity.

Regards,

Devanesan

17 May 2018

MSWG'S QUICK TAKE ON ONGOING CORPORATE DEVELOPMENTS

ES CERAMICS TECHNOLOGY BERHAD ("ES CERAMICS")

The Board of Directors of ES Ceramics announced that the shareholders of the company had at the Extraordinary General Meeting held on 16 May 2018, approved all the ordinary resolutions in relation to the proposed establishment of a long term incentive plan of up to 30% of the total number of issued shares of ES Ceramics (excluding treasury shares) at any point in time during the duration of such plan, for the eligible persons ("Proposed LTIP").

[Source: ES Ceramics' announcement on Bursa Malaysia's website on 16 May 2018]

MSWG'S COMMENTS:

The Proposed LTIP of up to 30% of the total number of issued shares of ES Ceramics is rather large compared to the norm in the local capital market. Shareholders may understand the need to retain talents via share grants and options, but there will be significant dilution in earnings per share (EPS) and net assets per share for the existing shareholders.

Some of the other concerns of the minority shareholders will be as follows:

- (i) The company's directors acquired 21.2 million shares, representing approximately 10.3% of the total shares from the secondary market on 15 May 2018, a day prior to the said EGM. The substantial acquisition of the company's shares by the insiders may send a signal to shareholders and investors that the company's performance could be at the verge of turning around;
 - (ii) In view of the above point (i), the Proposed LTIP could be issued at the expense of shareholders if the new shares are issued at a low price, especially since the share price of the company has corrected to a lower bound range recently. The company's share price has declined more than 60% from its peak of 63 sen in year 2016 to the current price of 20 sen to 22 sen;
 - (iii) Non-executive directors, including the independent directors, are entitled to the Proposed LTIP. MSWG does not encourage the practice of giving share grants and options to non-executive directors as they play the important governance role in the company and are responsible for monitoring the share grants and options allocation to the employees and the executive directors; and
 - (iv) The granting of share grants to independent directors may result in them becoming shareholders and this increases the potential for conflicts of interests in that they may become focused on the share price at the expense of financial reporting integrity.
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MSWG'S AGM WEEKLY WATCH 21 - 25 MAY 2018

For this week, the following are the AGMs/EGMs of companies which are in the Minority Shareholder 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
21.05.18 (Mon) 10.00 am	Malaysian Resources Corporation Bhd (AGM/EGM)	Hotel Istana, 73, Jalan Raja Chulan, KL
21.05.18 (Mon) 10.00 am	Berjaya Assets Bhd (EGM)	Berjaya Times Square Hotel, Kuala Lumpur
21.05.18 (Mon) 10.30 am	Pansar Bhd (EGM)	Tanahmas Hotel, Jalan Kampung Nyabor, Sibul, Sarawak
22.05.18 (Tue) 10.00 am	Allianz Malaysian Bhd (AGM)	Aloft Kuala Lumpur Sentral, Kuala Lumpur Sentral
22.05.18 (Tue) 10.00 am	Malayan Flour Mills Bhd (AGM)	Wisma MCA, 163 Jalan Ampang, KL
22.05.18 (Tue) 10.30 am	Kossan Rubber Industries Bhd (AGM/EGM)	Setia City Convention Centre, 1 Jalan Setia Dagang AG U13/AG Setia Alam
23.05.18 (Wed) 10.00 am	Axiata Group Bhd (AGM)	Connexion @ Nexus, No. 7, Jalan Kerinchi, Bangsar South City
23.05.18 (Wed) 10.00 am	UOA Development Bhd (AGM)	Connexion Conference & Event Centre (CCEC), Bangsar South City
23.05.18 (Wed) 11.00 am	Perdana Petroleum Bhd (AGM)	One World Hotel, First Avenue, Bandar Utama City Centre, PJ
23.05.18 (Wed) 02.00 pm	Lafarge Malaysia Bhd (AGM)	Sime Darby Convention Centre, No. 1A, Jalan Bukit Kiara 1
24.05.18 (Thur) 10.00 am	TSH RESOURCES BHD (AGM)	Eastin Hotel, Jalan Damansara, section 16/11, PJ
24.05.18 (Thur) 10.00 am	TDM Bhd (AGM)	Primula Beach Hotel, Jalan Persinggahan, Kuala Terengganu
24.05.18 (Thur) 10.00 am	Aeon Co. (M) Bhd (AGM)	Berjaya Times Square Hotel, Kuala Lumpur, Jalan Imbi
24.05.18 (Thur) 10.00 am	UMW Holdings Bhd (AGM)	UMW Auditorium, No. 3, Jalan Utas (15/7), Batu Tiga Industrial Estate, Shah Alam
24.05.18 (Thur) 10.00 am	Hengyuan Refining Company (AGM/EGM)	Sime Darby Convention Centre, No. 1A, Jalan Bukit Kiara 1
24.05.18 (Thur) 10.00 am	Kumpulan Perangsang Selangor Bhd (AGM)	Shah Alam 2, SACC Convec, No. 4, Jalan Perbadanan 14/9, Shah Alam
24.05.18 (Thur) 10.30 am	Tan Chong Motor Holdings Bhd (AGM)	Sunway Putra Hotel, 100, Jalan Putra, KL
24.05.18 (Thur) 10.30 am	MBM Resources Bhd (AGM)	Bukit Kiara Equestrian & Country Resort, Dewan Berjaya, Jalan Bukit Kiara

24.05.18 (Thur) 10.30 am	Vitrox Corporation Bhd (AGM)	Auditorium of ViTrox Corporation Berhad, 85A, Lintang Bayan Lepas, Penang
24.05.18 (Thur) 11.00 am	Petra Energy Bhd (AGM)	The Royale Chulan Damansara, 2, Jalan PJU 7/3, Mutiara Damansara, PJ
24.05.18 (Thur) 11.00 am	TA ANN Holdings Bhd (AGM)	Tanahmas Hotel, Lot 277, Block 5, Jalan Kampong Nyabor, Sibul, Sarawak
24.05.18 (Thur) 11.00 am	Dayang Enterprise Holdings Bhd (AGM)	Imperial Hotel, Lot 827, Jalan Pos, Miri, Sarawak
24.05.18 (Thur) 02.30 pm	OSK Holdings Bhd (AGM/EGM)	Swiss-Garden Hotel & Residences Kuala Lumpur
24.05.18 (Thur) 02.30 pm	Syarikat Takaful Malaysia Bhd (EGM)	Menara Takaful Malaysia, No.4, Jalan Sultan Sulaiman, KL
24.05.18 (Thur) 03.00 pm	Uchi Technologies Bhd (AGM/EGM)	Evergreen Laurel Hotel, 53 Persiaran Gurney, Georgetown, Penang
24.05.18 (Thur) 03.00 pm	Pelikan International Corporation Bhd (AGM)	The Saujana Hotel Kuala Lumpur, Saujana Resort, Jalan Lapangan Terbang SAAS
25.05.18 (Fri) 09.00 am	Evergreen Fibreboard Bhd (AGM)	Phoenix Hotel, Jalan Forest City 1, Pulau Satu, Gelang Patah, Johor
25.05.18 (Fri) 10.00 am	Sarawak Plantations Bhd (AGM)	Riverside Majestic Hotel, Sarawak
25.05.18 (Fri) 10.00 am	Bonia Corporation Bhd (EGM)	Le Quadri Hotel, Jalan Menara Gading 1, UCSI Heights, Taman Connaught, Cheras
25.05.18 (Fri) 12.00 pm	Rimbunan Sawit Bhd (AGM)	Menara Rimbunan Hijau, 101, Pusat Suria ermata, Jalan Upper Lanang, Sibul, Sarawak

The points of interest to be raised:	
Company	Points/Issues to Be Raised
Malaysian Resources Corporation Bhd (AGM/EGM)	The Group's Revenue increased to RM2.8 billion in FY2017 from RM2.4 billion in FY2016, an increase of RM0.4 billion or 17%. However, the gross profit margin had decreased from 24% in FY2016 to 19% in FY2017. (i) Please explain the reason for the decline in gross profit margin. (ii) Is the gross profit margin expected to improve in FY2018?
Allianz Malaysian Bhd (AGM)	We note on page 35 of the Annual Report of the Chairman's Statement that two disputes in the reinsurance contracts has increased the impairment amount for receivables in the general insurance and has impacted the profit before tax of the company. Please explain the nature of the disputes. What are the prospects of the recovery and measures taken to-date?
Malayan Flour Mills Bhd (AGM)	As stated on page 14 and 125 of the Annual Report, the Group's joint venture in Indonesia has delivered commendable growth in revenue to RM995 million in 2017 as compared to RM540 million in the previous financial year. (i) However, the Group's share of profit in 2017 was only higher at RM7.8 million as compared to the previous year's RM6.4 million. Please explain the

The points of interest to be raised:	
	<p>reasons for the share of profit in 2017 not growing in tandem with the revenue of the joint venture business in Indonesia.</p> <p>(ii) What is the current dividend policy of the joint venture business in Indonesia?</p>
Kossan Rubber Industries Bhd (AGM/EGM)	<p>As reported on page 107 of the Annual Report, the Group has recorded a substantial unrealised foreign exchange loss on receivables of RM6.4 million in FYE 2017 (FYE 2016: Nil).</p> <p>(i) What were the reasons for the foreign exchange loss on receivables?</p> <p>(ii) Is the loss expected to recur going forward?</p> <p>(iii) How will the Group manage the hedging risk?</p>
Axiata Group Bhd (AGM)	<p>As reported in the Governance & Audited Financial Statements 2017 under Additional Compliance Information on page 36, the amount of non-audit fees incurred for the services rendered to Axiata Group by its external auditors, PricewaterhouseCOopers PLT and its affiliated companies for FY2017 is RM18.772 million. This represents an approximately 45% increase from FY2016.</p> <p>(i) Please explain the reason for the significant increase in non-audit fees?</p> <p>(ii) How does Axiata ensure the independence of the auditors is upheld when non-audit fees are approximately 52% more than the group total audit fees for FY2017?</p>
UOA Development Bhd (AGM)	<p>The stock of completed development properties has increased from RM217 million in FY 2016 to RM969 million in FY2017, an increase of RM752 million or 347% as reported on page 103 of the Annual Report.</p> <p>(i) What was the reason for the high increase?</p> <p>(ii) What are the measures taken to clear the unsold completed development properties?</p>
Perdana Petroleum Bhd (AGM)	<p>As highlighted in the Key Audit Matters of the Independent Auditors' Report on page 134 of the Annual Report, the Group's and the Company's current liabilities exceeded the current assets by RM703.9 million and RM741 million respectively as at the end of FY2017. The Group has breached certain covenants of three term loans and the Sukuk with total carrying amount of RM601.6 million. As a result, the non-current portions of these term loans of RM34.5 million and Sukuk of RM438.5 million were reclassified to current liabilities as at reporting date. Further, the Group and the Company recorded net losses of RM186.1 million and RM76.1 million respectively for the financial year ended 31 December 2017. This has given rise to concerns whether the Group and the Company have sufficient cash flows to meet their obligations for the next 12 months from the end of the reporting period.</p> <p>It was also stated on page 104 of the Annual Report that the estimated repayment due in the next financial year according to the loan repayment schedules of respective borrowings amounts to RM147.7 million.</p> <p>How will the Board ensure that the Group and the Company has sufficient cash flows to meet their short term obligations?</p>

The points of interest to be raised:	
TSH Resources Bhd (AGM)	<p>As reported on page 11 of the Annual Report 2017, the new palm oil mill in Sumatera has started commercial run in early 2018, bringing the total number of mills operated by the Group to 7.</p> <p>i) What is the milling capacity of each mill operated by the Group and what was the utilisation rate of these mills in FY2017?</p> <p>ii) How will the new mill in Sumatera, that has started commercial run in early 2018 be expected to contribute to the revenue and profit of the Group in FYE2018?</p> <p>iii) As reported on page 12 of the annual report 2017, the FFB processed by the mills was 1,332,861 mt and the FFB production of the Group was 710,105 mt in FYE2017. Based on these data, at least 47% of the FFB processed by the mills of the Group were from third parties.</p> <p>What is the percentage of the FFB purchased from third parties relates to purchases from related parties?</p>
TDM Bhd (AGM)	<p>Financial Highlights on Page 16 of the Annual Report showed that over the last five years from 2013 to 2017, the return on average shareholders' equity (ROE) has declined from 3.76% in FY2013 to 1.34% in FY2017. The earnings per share (EPS) also dropped from 3.18 sen in FY2013 to 1.46 sen in FY2017.</p> <p>(i) What were the main factors that have caused the declining ROE and EPS over the last five years?</p> <p>(ii) What is the expected trend for the ROE and the EPS of the Group and the reasons for the expected trend, moving forward?</p> <p>(iii) Are there any internal KPI or targets for these financial indicators?</p> <p>(iv) What are the measures that could be taken by the Board to achieve better ROE and EPS?</p>
Hengyuan Refining Company (AGM/EGM)	<p>As stated on page 40 of the Annual Report, all the major projects of HRC are on track except for the Euro 4M Mogas Project. The project will not be completed as initially planned due to unexpected delays in the manufacturing and delivery of the main equipment. The Company stated that it is currently exploring options to minimise the impact of this delay on its production and revenue.</p> <p>What are the options that the Company is exploring and how confident is the Board that this project will be on track?</p>
OSK Holdings Bhd (AGM/EGM)	<p>As disclosed on page 62 of the Annual Report, the Hospitality segment recorded a much lower loss before tax of RM11.2 million in FY 2017 as compared to a loss before tax of RM23.4 million in FY 2016, a reduction of 52%. The revenue was much lower at RM106.6 million in FY 2017 as compared to RM120.7 million in FY 2016, a reduction of 12%.</p> <p>(i) What was the reason for this segment to record a reduced loss of 52% when revenue only decreased by 12%?</p>

The points of interest to be raised:	
	(ii) When will this segment be expected to become profitable?

LOCAL NEWS AND DEVELOPMENTS

Bursa freezes lower limit for George Kent, My EG

<https://www.thestar.com.my/business/business-news/2018/05/16/bursa-freezes-lower-limit-for-george-kent-my-eg/#6QAtSAyZQGUSr0A2.99>

Shahrir confirms he's exiting Felda

<http://www.theedgemarkets.com/article/shahrir-confirms-hes-exiting-felda>

Four directors resign at Utusan as part of restructuring plan

<http://www.theedgemarkets.com/article/four-directors-resign-utusan-part-restructuring-plan>

JCorp eyes November relisting for QSR Brands

<https://www.thestar.com.my/business/business-news/2018/05/16/jcorp-eyes-november-relisting-for-qsr-brands/#h6BusJiKPoaTg5wk.99>

AG's report highlights governance lapses in 1MDB

<http://www.theedgemarkets.com/article/ags-report-highlights-governance-lapses-1mdb>

SC says capital market near-term prospects largely unaffected by GE

<https://www.thestar.com.my/business/business-news/2018/05/15/sc-says-capital-market-nearterm-prospects-largely-unaffected-by-ge/#9dKvt4rSw0pChj5k.99>

Manufacturing sector sales up 3.9% to RM68.5bil in March

<https://www.thestar.com.my/business/business-news/2018/05/10/manufacturing-sector-sales-up-3pt9pct-to-rm68pt5bil-in-march/#IV08KskU4yL8tGWF.99>

Statement by Financial Markets Committee

http://www.bnm.gov.my/index.php?ch=en_press&pg=en_press&ac=4677&lang=en

Auction properties on the rise

<https://www.thestar.com.my/business/business-news/2018/05/14/auction-properties-on-the-rise/>

IHH fails in bid for Fortis Healthcare

<https://www.thestar.com.my/business/business-news/2018/05/11/ihh-fails-in-bid-for-fortis-healthcare/#TZ5OgBvtHs9OGW8D.99>

Mavcom refutes claims made by AirAsia boss Tony Fernandes, lodges police report

<http://www.theedgemarkets.com/article/mavcom-refutes-claims-made-airasia-boss-tony-fernandes-lodges-police-report>

Malaysia may renegotiate some deals with China- Mahathir

<http://www.thesundaily.my/news/2018/05/10/malaysia-may-renegotiate-some-deals-china-mahathir>

Destini slapped with IRB lawsuit over RM6.58m tax bill

<http://www.thesundaily.my/news/2018/05/08/destini-slapped-irb-lawsuit-over-rm658m-tax-bill>

SC-World Bank-IOSCO Conference 2018: Malaysia Leads in Advocating Convergence of Islamic and Green Financing

https://www.sc.com.my/post_archive/sc-world-bank-iosco-conference-2018-malaysia-leads-in-advocating-convergence-of-islamic-and-green-financing/

UMW's Perodua pursuit sparks legal tussle

<http://www.theedgemarkets.com/article/umws-perodua-pursuit-sparks-legal-tussle>

GLOBAL NEWS AND DEVELOPMENTS

China data shows a hint of slowdown

<https://www.thestar.com.my/business/business-news/2018/05/16/china-data-shows-a-hint-of-slowdown/#uufsv4EKd5J2B2om.99>

China Jan-April property investment up 10.3 percent year on year

<http://www.theedgemarkets.com/article/china-janapril-property-investment-103-percent-year-year>

US homebuilders set for gains in the week ahead but face interest-rate fears

<https://www.thestar.com.my/business/business-news/2018/05/14/us-homebuilders-set-for-gains-in-the-week-ahead-but-face-interestrates-fears/#0icCpFem0bTFjOoW.99>

US consumer spending picking up, gasoline prices a burden

<http://www.theedgemarkets.com/article/higher-gasoline-prices-restrain-us-retail-sales-april>

US 10-year yield reaches highest since 2011 as rout deepens

<http://www.theedgemarkets.com/article/us-10year-yield-reaches-highest-2011-rout-deepens>

US government posts US\$214b surplus in April

<https://www.malaymail.com/s/1629604/us-government-posts-us214b-surplus-in-april>

Surging April imports produce Indonesia's biggest trade deficit in four years

<https://www.malaymail.com/s/1631111/surging-april-imports-produce-indonesias-biggest-trade-deficit-in-four-year>

MSCI lists 234 Chinese stocks for index inclusion in boost to capital markets

<https://www.thestar.com.my/business/business-news/2018/05/15/msci-lists-234-chinese-stocks-for-index-inclusion-in-boost-to-capital-markets/#20lFYbPmKjomT1D4.99>

US, China still 'very far apart' on trade, says US envoy

<https://www.malaymail.com/s/1631066/us-china-still-very-far-apart-on-trade-says-us-envoy>

US activist fund Elliott to vote against Hyundai revamp

<https://www.thestar.com.my/business/business-news/2018/05/11/us-activist-fund-elliott-to-vote-against-hyundai-revamp/#vOPUSZFIkTFtBC7D.99>

Japan's two-year growth streak set for speed bump in GDP report

<https://www.malaymail.com/s/1629216/japans-two-year-growth-streak-set-for-speed-bump-in-gdp-report>

Thai regulator to issue rules on cryptocurrencies, initial coin offerings by end of June

<http://www.thesundaily.my/news/2018/05/15/thai-regulator-issue-rules-cryptocurrencies-initial-coin-offerings-end-june>

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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.*
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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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