MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia . Registration No. 200001022382 (524989-M))

The Observer

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❖ Warning Signs in Financial Statements

The importance of financial statements cannot be overstated. It provides a comprehensive snapshot of a company's financial well-being and performance, unveiling both its strengths and weaknesses.

As the adage goes, the devil is in the details; financial statements harbor indicators that could adversely affect a company. Some may stem from transient external factors beyond the company's control, while others may burgeon into significant threats if left unchecked. Therefore, prudence and keen scrutiny are imperative when confronting these warning signs.

Much like traffic warning signs forewarn us of hazardous road conditions ahead, financial statements act as early indicators of potential risks ahead. Investors must remain vigilant and ready to react promptly upon encountering these indicators.

Below are some common warning signs that may manifest within financial statements:

1. Inconsistent financial performance

Accounting irregularities such as growing revenues without corresponding growth in cash flows, consistent sales growth amid industry-wide downturns, or inexplicable surges in financial performance can indicate potential fraudulent practices.

Meanwhile, a protracted downtrend in financial performance suggests underlying weakness in the company, often unbeknown to retail investors. Factors such as dwindling demand or stiff market competition could deteriorate financial performance.

While cost-saving measures such as restructuring or rationalisation may mitigate downturns, sustained recovery remains slippery if without fundamental improvements.

Investors should conduct thorough investigations, seeking consistency in financial performance or valid explanations for erratic financial performance.

2. **Shrinking profit margin**

   Due to the market supply and demand dynamic, businesses often find themselves unable to pass on the increased costs to the customers through higher selling prices, leading to a squeeze on profit margins. If the trend of diminishing profit margins persists, this will inevitably erode a company's bottomline, posing a significant threat to its financial health.

3. **Rising gearing level**

   When a company's debt escalates beyond an optimal threshold—such as a debt-to-equity ratio surpassing 1, it signals a reliance on debt financing rather than internal cash flow generation.

   Moreover, mounting debt levels elevate the weighted average cost of capital (WACC), thereby diminishing the net present value of investments and dampening expected future cash flows and prospects of new projects.

4. **Rising receivables**

   When a company's receivables outpace its sales growth, it signals the need for better receivables collection and tighter credit risk management practices. Inefficient collection efforts and lax credit policies are among the primary factors of rapidly rising receivables.

   The burgeoning receivables adversely affect cash reserves and can impede the company's ability to fulfill short-term obligations. If left unchecked, this trend heightens the risk of receivables impairment or even write-offs.

5. **High inventory level**

   A higher-than-optimal inventory level suggests overstocking, raising concerns about slow-moving or obsolete stocks over time.

   The surplus inventory ties up cash flow, as working capital is illiquid in the form of unsold goods. Moreover, increased inventory levels escalated overall carrying costs.

   However, certain industries may require elevated inventory levels to accommodate fluctuating or seasonal demand patterns.

6. **Low current ratio**

   A low current ratio indicates higher risks of financial distress and default. Shareholders and investors may question the company's ability to meet impending financial obligations within the next twelve months, necessitating enhanced cash flow management.

   External auditors typically address this discrepancy in their independent auditors' report, assessing the company's financial viability based on the going concern principle.

7. Volatile cash flow

While occasional negative cash flows may be tolerable, a persistent trend of negative operating cash flow (OCF) poses significant risks and doubts the business's sustainability.

Consistent negative OCF indicates an inability to generate adequate cash from core operations to cover daily operational expenses. This predicament, often stemming from declining revenues or escalating operating costs, undermines investor confidence and deters potential investors.

Conclusion

Investors must exercise vigilance when these warning signs emerge in their invested companies. Critical analysis of financial statements, including multi-year data comparisons within the industry, is imperative for informed and timely decision-making.

Disclosures such as meeting minutes can provide insights into shareholder concerns and management strategies to address emerging issues. By staying proactive and informed, stakeholders can mitigate risks and safeguard their investment portfolios effectively.

Norhisam Sidek
Manager, Corporate Monitoring

MSWG AGM/EGM Weekly Watch 26 February – 1 March 2024

For this week, the following are the AGMs/EGMs of companies 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	Quick-take
26.02.24 (Mon) 11.00 am	EITA Resources Berhad (AGM)	The Group's revenue decreased by RM46.7 million to RM316.9 million for FY2023 (FY2022: RM363.6 million). In line with the lower revenue recorded, its profit before tax (PBT) decreased by RM11.8 million to RM13.1 million compared to RM24.9 million for the year before. The lower PBT was due to the High Voltage System segment which registered a LBT of RM8.1 million as a result of higher project costs and higher provision for liquidated ascertained damages.
27.02.24 (Tue) 10.00 am	Melati Ehsan Holdings Berhad (AGM)	In FY2023, the Group achieved a marginal increase of 1% in revenue to RM102.6 million (FY2022: RM101.4 million) while recording a lower net profit of RM16.8 million compared to RM19.0 million in the previous corresponding period.

		The lower net profit was mainly attributed to lower revenue contribution from the property development segment. Nevertheless, the performance of the Group was mitigated by other income arising from a one-off gain on the disposal of a joint venture, namely B.H.O. Melati Sdn Bhd. amounting to RM11.7 million.
27.02.24 (Tue) 10.00 am	JCY International Berhad (AGM)	JCY saw its revenue plunge 42.8% in FYE2023 (RM475.4 million) due to slowing market demand for digital storage, particularly the HDD segment. Additionally, the Group recorded net loss of RM90.3 million in the FYE2023 (FYE2022: RM89.2 million). With that in mind, JCY now prioritises cash preservation by scaling down operations, delaying non-essential investments, and converting high inventory to cash. Despite challenges, JCY received over 26 new product inquiries and continues exploring opportunities in the automotive sector, demonstrating a remarkable 340% revenue increase in FYE2023.
27.02.24 (Tue) 10.30 am	Scanwolf Corporation Berhad (EGM)	Scanwolf proposes to terminate its existing employees' share issuance scheme and establish a new employees' share scheme (Proposed ESS), which entails an employees' share option scheme (Proposed ESOS) and an employee share grant plan (Proposed ESGP). The Proposed ESS involves issuing up to 15% of Scanwolf's total number of issued Shares for the Eligible Persons over five years with an extension of up to another five years.
27.02.24 (Tue) 12.30 pm	Cyberjaya Education Group Berhad (EGM)	Cyberjaya Education Group is seeking shareholders' approval for the Proposed Share Consolidation entails the consolidation of every 10 existing Shares into 1 Consolidated Share. Upon completion of the Proposed Share Consolidation, the resultant issued share capital of Cyber shall be RM413,129,122 comprising 167,904,864 Consolidated Shares.

28.02.24 (Wed) 10.00 am	KUB Malaysia Berhad (EGM)	KUB is seeking shareholders' approval for the resolutions below: (i) Proposed acquisition of approximately 86.65% equity interest in Central Cables Berhad (CCB) by KUB from JAG Capital Holdings Sdn Bhd for RM119.42 million to be satisfied wholly via the issuance of 199.035 million new Redeemable Convertible Preference Shares (RCPS) in KUB (Consideration RCPS) at 60 sen per Consideration RCPS (collectively referred to as Proposed Acquisition); and Proposed Diversification in operations into the Cables Manufacturing Business. (ii) Proposed Mandatory Take-Over Offer by KUB for all the remaining ordinary shares in CCB not already owned by KUB after the Proposed Acquisition (Proposed CCB MGO) (iii) Proposed Amendments to the Constitution of KUB to facilitate the issuance of the RCPS pursuant to the Proposed Acquisition and the Proposed CCB MGO.
28.02.24 (Wed) 11.00 am	CEKD Berhad (AGM)	CEKD recorded a 6.9% increase in revenue to RM32.6 million in FY2023 mainly attributable to the acquisitions of Worldwide and Kit Technology. However, profit before tax fell 7.2% to RM6.8 million mainly due to one-off expenses incurred relating to the consolidation of Hotstar's factory operations and higher professional fees and stamp duties incurred for the acquisitions of Worldwide and Kit Technology.
01.03.24 (Fri) 09.30 am	Notion VTEC Berhad (AGM)	In FY2023, Notion reported a 3.3% increase in revenue to RM345.26 million but posted a significant net loss of RM45.02 million, primarily attributed to a major RM30.7 million impairment in PPE assets. The HDD segment experienced lower orders, with an expected recovery in FY2024, while growth prospects for the PPE segment remain intact. In contrast, the Automotive and EMS segments thrived, contributing almost

		75% to the Group's revenue, up from 56% in FYE2022. Despite challenges, Notion continues to invest in CNC machines to support its HDD, Automotive, and EMS businesses. The Company anticipates substantial growth in the EMS sector in Notion Johor through expanded product lines and manufacturing capabilities.
01.03.24 (Fri) 11.00 am	mtouche Technology Berhad (AGM)	mTouche's revenue declined by 32% in FY2023 mainly due to the dip in revenue from COVID-19 test kits projects. Moving forward, it will undertake initiatives such as brand-rebuilding for its mobile value-added services and mobile content provisioning solution and continue to release new apps to meet consumer demand. For the Group's long term sustainable recurring income business, it purchased two commercial properties at Troika KLCC to set up a lifestyle wellness and recovery services centre. The said properties are currently under renovation.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
EITA Resources Berhad (AGM)	1. The decrease in the Group's profit before tax was mainly due to the high voltage system segment which registered a loss before tax of RM8.1 million. This was a result of lower revenues, higher project costs, especially for the underground cable projects and a higher provision for liquidated ascertained damages ("LAD"). a) Has the underground cable project been completed? If not, please provide the expected completion date. b) How does the provision of liquidated ascertained damages arise? c) Is the Group expecting additional provision for the LAD? 2. How do the uncertainties in major economies, weakening trade dynamics against a backdrop of supply chain disruptions and the ongoing trade tensions affect the margin of the Group in view that the PAT margin decreased from 5.19% for the FYE 2022 to 2.31% for the FYE 2023. Please quantify the impact, where applicable. To

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<tr><td></td><td>also provide the specific measures taken to address the aforementioned challenges.</td></tr>
<tr><td>Melati Ehsan Holdings Berhad
(AGM)</td><td>1. As at 31 August 2023, the trade receivables of the Group net of impairment losses amounted to RM148.4 million which represented 37% of the Group's total assets. Of the trade receivables, 90% have already past due the credit terms of more than 120 days and 81% are due from one major customer. (Pages 69 to 72 of AR2023)

a) Is this major customer an ongoing customer or a past customer; and related to which project?

b) If this major customer is an ongoing customer, how much longer until the project is completed?

c) What is the range of trade credit terms that are granted to this customer and what is the average payment period (i.e., number of days between issuance of payment certificate and receipt of payment)?

d) Given that the Group has already recorded negative operating cashflow in the past two consecutive years, does the Group plan to negotiate a shorter payment term with this major customer?

2. The revenue of the Construction Segment increased 147% to RM64.3 million as compared to FY2022. However, the gross profit margin of the Construction Segment had fallen to 18% from 55% in FY2022. (Pages 81 and 82 of AR2023)

a) Which construction project contributed to the increase in revenue?

b) What are the factors that lead to the lower gross profit margin of the Construction Segment in FY2023?</td></tr>
<tr><td>JCY International Berhad
(AGM)</td><td>The Group consistently faced a challenge where the cost of sales surpassed revenue, even before the onset of the Covid era (Annual Report (AR) 2019-2023)
<table>
<tr><th>FYE</th><th>2019</th><th>2020</th><th>2021</th><th>2022</th><th>2023</th></tr>
<tr><td>Revenue</td><td>1,037.10</td><td>1,076.00</td><td>1,055.30</td><td>830.60</td><td>475.40</td></tr>
<tr><td>COGS</td><td>1,066.60</td><td>1,034.10</td><td>1,069.70</td><td>873.60</td><td>561.16</td></tr>
<tr><td>Operating Profit/Loss</td><td>-29.50</td><td>41.90</td><td>-14.40</td><td>-43.00</td><td>-85.76</td></tr>
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What are the root causes of this high cost of sales, and what measures does the Group have to improve the cost structure, especially considering the positive trajectory for aluminium price?</td></tr>
<tr><td>Scanwolf Corporation Berhad
(EGM)</td><td>In conjunction with the Proposed ESS, Scanwolf wishes to seek shareholders' approval for an express waiver of their pre-emptive rights to be offered any new Scanwolf shares arising from the issuance of new Scanwolf shares to be issued pursuant to the Proposed ESS under Section 85 of Companies Act 2016</td></tr>
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	and Clause 57 of Scanwolf's Constitution (page 16 of the Circular dated 8 February 2024). Why was no distinct resolution tabled to waive pre-emptive rights, as this can be done concurrently when seeking shareholders' approval for the Proposed ESS?
KUB Malaysia Berhad (EGM)	Based on the Annual Report 2023, the Group reported net cash and bank balances less borrowings of RM364.5 million and had a low gearing ratio of 0.08 as at 30 June 2023, following the divestment of Kluang plantation asset in FPE 2021. The Group also generated a positive cash flow of RM14.1 million in FYE 2023. Why KUB did not utilise its available cash and bank balance or bank borrowings (or combination of both) to settle the Purchase Considerations instead of issuing Consideration RCPS at the expense of dilution to shareholding of the minority shareholders when the Consideration RCPS holders opt to convert their Consideration RCPS into new KUB Shares?
CEKD Berhad (AGM)	Despite recording a 6.9% increase in revenue to RM32.6 million in FY2023, profit before tax (PBT) fell 7.2% to RM6.8 million. The lower PBT was mainly due to one-off expenses incurred relating to the consolidation of Hotstar's factory operations as well as higher professional fees and stamp duties incurred for the acquisitions of Worldwide and Kit Technology. (page 12 of Annual Report (AR) 2023) a) How much were the one-off expenses incurred for the factory consolidation? b) What was the Group's total capacity as of 31 August 2023? c) What is the Group's targeted revenue growth for FY2024? d) What is the budgeted capex for FY2024?
Notion VTEC Berhad (AGM)	1. The HDD segment has been impacted by reduced orders, but the Group is expecting a steady recovery in this sector in FYE2024 (page 11 of AR2023). a) How is the order visibility in the HDD segment? Are there any substantial orders in the pipeline? b) What are the financial targets or expectations for this segment in FYE2024? How does the Group plan to mitigate the risk of prolonged setbacks in the HDD market? 2. The past due trade receivables of more than 120 days stood at RM4.4 million (FYE2023), a significant rise from RM1.1 million in FYE2022 (page 100 of AR2023). a) What were the challenges for the Group to collect the trade receivables that were past due of more than 120 days as the outstanding amount increased?

	b) What is the profile of the customers? To-date, how much of the overdue amount has been collected?
mtouche Technology Berhad (AGM)	Impairment losses on intangible assets (software license, intellectual property and development cost) increased substantially from RM4.12 million to RM43.99 million (page 112 of AR 2023). What are the main reasons for the substantial impairment charges for each item under the intangible assets? For each item, what is the likelihood of reversal or recoverability, where applicable, in FY2024?

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DISCLOSURE OF INTERESTS

- *With regard to the companies mentioned, MSWG holds a minimum number of shares in all* the companies covered in this newsletter.