



The Observer

21.09.2018

MSWG'S QUICK TAKE ON-ONGOING CORPORATE DEVELOPMENTS

KIM TECK CHEONG CONSOLIDATED BERHAD ("KTC")

KTC announced the resignation of its Independent Director, Mr Wee Hock Kee who is Chairman of the Audit and Risk Management Committee as well as a member of the Nomination Committee on 12 September 2018.

In his resignation letter to the Chairman of the Board, the Independent Director had stated the following:

"I feel I have no choice but to step down, due to the recent development in the boardroom wherein my role as the Chairman of the Audit and Risk Management Committee has been undermined.

The Board had rejected the advice of the Audit and Risk Management Committee on a significant accounting matter (a significant audit finding on impairment reported by our external auditors in their Audit Review Memorandum) that my Committee considers it cannot compromise over; and all means to resolve the disagreement had been exhausted. It is irresolvable concern about disclosure and financial reporting of the fourth quarter 2018 unaudited results. This breakdown of trust and confidence on us (collectively as members of the Audit and Risk Management Committee) has diminished our effective contribution as an oversight board for financial reporting.

Hence, I as the Chairman of the Audit and Risk Management Committee take full responsibility for this impasse and the best way is to resign as a board member and pave the way for the appointment of a new Chairman of this board financial oversight committee. I believe I have served the board to my best ability and exercise my fiduciary duties in good faith taking into account the interest of ALL shareholders."

[Source: KTC's announcement on Bursa Malaysia's website on 12 September 2018]

MSWG's Comments:

We note with concern the reason given by the Chairman of the Audit and Risk Management Committee ("ARMC"), Mr Wee Hock Kee, for his resignation. The reason given is very rare in corporate Malaysia. It is a very commendable action taken by an Independent Director to state his 'real' reason for resigning as compared to the boilerplate reasons often given by independent directors e.g. for health reasons, to pursue other interests.

The Chairman of the ARMC, Mr Wee Hock Kee, is the only qualified accountant on the Board. The majority Board members rejected the advice of the ARMC on a significant accounting matter (a significant audit finding on impairment reported by the external auditors in their Audit Review Memorandum).

Subsequent to the announcement on the resignation of the Chairman of the ARMC, Bursa Malaysia Securities Berhad ("Bursa") had queried the Company on the matter.

Based on KTC's reply to Bursa on 19 September 2018, we note that the Company's third party's receivables for more than 270 days in the Audit Review Memorandum was RM4,926,961. The Board also announced that they have recovered RM1,047,550 to date (approximately 21%). The Board concluded by stating that they, and the management, were confident that the trade receivables were recoverable. [Source: KTC's announcement on Bursa Malaysia's website on 19 September 2018].

The announcement refers to trade receivables that are more than 270 days but we are not told how much more than 270 days they are. Are there trade receivables aged more than a year? If so, perhaps it may have been more prudent to provide for impairment for some portion of the said trade receivables, say those aged over a year, as a prudent financial discipline. And if the said trade receivables have been successfully collected later, such impairment provisions can be written back. Obviously, the Board felt confident that all the trade receivables more than 270 days can be recovered and hence did not provide for any impairment.

Since the Board has stated in their announcement that they 'are confident that these trade receivables are recoverable', it will be good if the Board can announce when all these trade receivables have been recovered, as it is an issue over which the Chairman of the ARMC had resigned.

The Board should take cognisance of the risk of the variance between audited and unaudited results being more than 10%. The external auditors may insist on impairments being made on the said trade receivables as a precondition to a clean audit opinion in relation to the audited financial statements. Meanwhile, we await the audited financial statements of the Company.

It is indeed good for corporate Malaysia if more Independent Directors can be brave enough to announce their real reasons for resigning from the board of directors.

MULTI SPORTS HOLDINGS LTD

The Securities Commission Malaysia (SC) issued a public statement today to express its opinion that the retention of office by two Executive Directors of Multi Sports Holdings Limited (Multi Sports), Lin Huozhi and Lin Liying, is prejudicial to public interest.

On 27 June 2018, the SC had reprimanded Multi Sports for furnishing false or misleading financial statements to Bursa Malaysia, a breach of section 369 of the Capital Markets and Services Act 2007 (CMSA).

In addition, Lin HuoZhi and Lin Liying, as well as Multi Sports' former Independent Non-Executive Director, Wong Wang Lam, were reprimanded for knowingly authorising the furnishing of the false or misleading financial statements.

[Source: https://www.sc.com.my/post_archive/scs-public-statement-multi-sports-retention-of-lin-huozhi-and-lin-liying-as-executive-directors-prejudicial-to-public-interest/]

MSWG's Comments:

These are the challenges that regulators face with listed companies which are foreign incorporated companies, with foreign nationals as directors and with businesses in foreign countries. There are several jurisdictional issues that arise. In fact, the two foreign executive directors cannot be located. Minority shareholders are reminded of these jurisdictional issues in such companies and should make their investment fully aware of the jurisdictional challenges. Many of the listed companies that are incorporated outside Malaysia have a plethora of problems and issues. Caveat Emptor. Let the (minority shareholder) buyer beware.

In a public listed company, directors are appointed by the shareholders of the Company at the Company's general meeting (AGM/EGM). We note that on 12 June 2018, the Company announced its amended Annual Report and CG Report-2017. As such, we expect the AGM to be convened soon. We encourage all shareholders to attend the AGM and exercise their rights especially in the appointment and re-election of directors.

PLS PLANTATIONS BERHAD ("PLS" OR "THE COMPANY")

MSWG's representatives attended the 31st Annual General Meeting (AGM) of PLS on 13 September 2018. As the Chairman position in the Company is still vacant, the meeting was chaired by an Independent Non-Executive Director. Only six out of nine Directors were present at the AGM.

We note that the Company's 30th AGM was chaired by the Senior Independent Director. We also note that the three directors who were not present at the Company's 31st AGM were also absent from the Company's 30th AGM.

MSWG's Comments:

The Chairman's position in the Company has been vacant since the resignation of the former Chairman of the Company in August 2013.

In a company, especially a public listed company, the Chairman plays an important leadership role in the conduct of the Board, including the board meetings, and plays a pivotal role in ensuring the integrity of the governance processes in the Company. Rotating the chairmanship at board meetings will not provide the requisite continuity nor predictability as each chairman will have a different way of approaching things.

There also seems to be a lack of commitment from the three directors who have not attended the AGMs for two years consecutively. If there was a permanent Chairman, perhaps the Chairman may have advised these directors to attend the AGMs.

We hope the Board will be more aggressive in identifying from their members a suitable candidate for the Chairman's position.

We hope that the three directors will find the time to attend the next AGM - the only formal annual opportunity to address the shareholders.

MSWG'S AGM WEEKLY WATCH 24 September - 28 September 2018

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
25.09.18 (Tue), 11.30 am	Hai-O Enterprise Bhd (AGM)	The Federal Hotel Kuala Lumpur, No. 35, Jalan Bukit Bintang, KL
26.09.18 (Wed), 10.00 am	Olympia Industries Bhd (EGM)	Hotel Istana Kuala Lumpur City Centre
28.09.18 (Fri), 11.30 am	Lay Hong Bhd	Premiere Hotel, Bandar Bukit Tinggi 1/KS6, Jalan Langat, Klang

Some of the points of interest to be raised:	
Company	Points/Issues to Be Raised
Hai-O Enterprise Bhd (AGM)	As disclosed in the Group's Cash Flow Statement on page 105 of the Annual Report, the Company has disposed treasury shares and repurchased treasury shares within the FY 2018. (a) Please explain the rationale for the disposal and repurchase? (b) What was the average price for both the disposed treasury shares and the repurchased treasury shares?
Olympia Industries Bhd (EGM)	We wish to refer to the valuation considerations as stated on page 22 of the Independent Advise Letter in the Circular to shareholders dated 30 August 2018.

Some of the points of interest to be raised:

	<p>a) Is the premium factor of 2.5% per floor for every floor higher than level 1 in accordance with industry norm taking into consideration the location and type of development of the property?</p> <p>b) Given the prime location and the low density ratio, why is a bulk discount of 10% deemed appropriate in this deal?</p> <p>Was such a discount offered when offering the assets for sale to third parties?</p> <p>Can the Board explain the rationale for this discount?</p> <p>c) The settlement includes a 5% Bumiputera discount for 4 units out of the total 12 units.</p> <p>Why is it necessary to provide an additional discount of 5% (Bumiputera discount) to KH Estates Sdn Bhd, a wholly-owned subsidiary of Dutaland Berhad, given that this was a debt settlement deal and not a direct sale to individual Bumiputera buyers as per the restrictive condition by the authorities?</p>
Lay Hong Bhd (AGM)	<p>1. On page 6 of the Annual Report, under the Management Discussion and Analysis (MD&A), it was stated that the retail operation is concentrated only in the state of Sabah. Retail operation registered higher losses in FY2018 (FY2018: loss of RM1. 6 million; FY2017: loss of RM1.4 million) despite higher revenue (FY2018: RM140.4 million; FY2017: RM124. million).</p> <p>(i) Why is the retail operation concentrated only in Sabah and are there any plans to expand geographically?</p> <p>(ii) How will the Group strategise to turnaround the operations and when is it expected to be profitable?</p> <p>(iii) To what extent will the abolishment of GST impact the business going forward?</p> <p>2. Under the Pasteurised Liquid Egg Division, to meet rising demand especially from the confectionaries and food caterers in the Southern Region and Singapore, the Company has acquired a newly built factory in Iskander Halal Park, Pasir Gudang, Johor, to set up its second egg processing facility.</p> <p>(i) What is the capacity of the second egg processing facility?</p> <p>(ii) With two facilities, would the Group be able to cope with the current demand or would there be temporary overcapacity?</p> <p>(iii) Is there a plan to build another facility in the north to cater for the demand in the northern region and/or to cater for more exports?</p>

MSWG'S WATCHLIST

WESTPORTS HOLDINGS BERHAD ("WHB")

QUERY LETTER CONTENTS OF THE PROPOSED ACQUISITION OF A PIECE OF LEASEHOLD LAND BELOW THE SEA IN PULAU INDAH

Refer to the Company's announcement dated 13 September 2018 and the query from Bursa Malaysia Securities Berhad dated 14 September 2018 ("Query") in relation to the same.

[Source: WHB's announcement on Bursa Malaysia's website on 18 September 2018]

PARKSON HOLDINGS BERHAD ("Parkson or the Company")

ANNOUNCEMENT BY PARKSON RETAIL GROUP LIMITED ("PRGL") - CONNECTED TRANSACTION: ACQUISITION OF 70% OF A COMPANY ENGAGED IN THE BUSINESS OF PROVIDING HIRE PURCHASE/CREDIT SALE SCHEME

PRGL had announced [to The Stock Exchange of Hong Kong Limited] that Oroleon (Hong Kong) Limited ("Oroleon"), a wholly-owned subsidiary of PRGL, had on 13 September 2018 entered into an agreement with Parkson Credit Holdings Sdn Bhd ("Parkson Credit Holdings"), a wholly-owned subsidiary of the Company, for the acquisition by Oroleon from Parkson Credit Holdings of 70% of the equity interest comprising 21,000,000 ordinary shares in the capital of Parkson Credit Sdn Bhd at a consideration of RM49,000,000 ("Acquisition").

[Source: Parkson's announcement on Bursa Malaysia's website on 13 September 2018]

MSWG'S VIGILANCE

Listing of PN17 and GN3 companies

PN17 Companies

1. AMTEK HOLDINGS BERHAD
2. APFT BERHAD
3. ASIA KNIGHT BERHAD
4. BERJAYA MEDIA BERHAD
5. BERTAM ALLIANCE 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. PETROL ONE RESOURCES BERHAD
18. STONE MASTER CORPORATION BERHAD
19. SUMATEC RESOURCES BERHAD
20. TH HEAVY ENGINEERING BERHAD
21. UTUSAN MELAYU (MALAYSIA) BHD
22. YFG BERHAD

GN3 Companies

1. G NEPTUNE BERHAD
2. 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

Local equity extends gains on mounting optimism

<https://www.thestar.com.my/business/business-news/2018/09/21/local-equity-extends-gains-on-mounting-optimism/>

New stream of money inflow for Malaysian Govt

<https://www.thestar.com.my/business/business-news/2018/09/20/new-stream-of-money-inflow/>

Rubber to surpass palm oil contribution to economy

<https://www.thestar.com.my/business/business-news/2018/09/19/rubber-to-surpass-palm-oil-contribution-to-economy/>

Zakaria resigns from FGV Holdings

<https://www.thestar.com.my/business/business-news/2018/09/18/fgv-announces-resignation-of-its-chief-executive/>

Malaysia's household spending to remain the key driver of GDP growth

<https://www.thestar.com.my/business/business-news/2018/09/18/malysias-household-spending-to-remain-the-key-driver-of-gdp-growth/>

Malaysian economy supported by strong fundamentals, says Lim

<https://www.thestar.com.my/business/business-news/2018/09/17/malaysian-economy-supported-by-strong-fundamentals/>

GLOBAL NEWS AND DEVELOPMENTS

China Really Wants You To Know Financial Opening Is Happening

<https://www.bloomberg.com/news/articles/2018-09-21/china-really-wants-you-to-know-financial-opening-is-happening?srnd=markets-vp>

What Happened This Week in the World Economy and What It Means

<https://www.bloomberg.com/news/articles/2018-09-20/what-happened-this-week-in-the-world-economy-and-what-it-means?srnd=markets-vp>

Asean listed companies' debt burden at all-time high

<https://www.thestar.com.my/business/business-news/2018/09/18/asean-listed-companies-debt-burden-at-all-time-high/>

This Indian Bank Merger Must Put Strategy Before Size

<https://www.bloomberg.com/view/articles/2018-09-18/this-indian-bank-merger-must-put-strategy-before-size?srnd=premium-asia>

US and China ramp up trade threats

<https://www.thestar.com.my/business/business-news/2018/09/17/us-and-china-ramp-up-trade-threats/>

Live Now: U.S. China Trade War: Analysis of Latest Developments

<https://www.bloomberg.com/news/live-blog/2018-09-17/u-s-china-trade-war-analysis-of-latest-developments?srnd=markets-vp>

MSWG TEAM

Devanesan Evanson, Chief Executive Officer, devanesan@mswg.org.my

Lya Rahman, General Manager, lyarahman@mswg.org.my

Rebecca Yap, Head, Corporate Monitoring, rebecca.yap@mswg.org.my

Quah Ban Aik, Head, Corporate Monitoring, banaik.quah@mswg.org.my

Norhisam Sidek, Manager, Corporate Monitoring, norhisam@mswg.org.my

Hoo Ley Beng, Manager, Corporate Monitoring, linnert.hoo@mswg.org.my

Elaine Choo, Manager, Corporate Monitoring, elaine.choo@mswg.org.my

Lee Chee Meng, Manager, Corporate Monitoring, cheemeng@mswg.org.my

Abdul Halim Alias, Manager, Corporate Monitoring, halim.alias@mswg.org.my

Mustaqim Yusof, Senior Analyst, Corporate Services, mustaqim.yusof@mswg.org.my

DISCLOSURE OF INTERESTS

- *With regard to the companies mentioned, MSWG holds a minimum number of shares in all these companies covered in this newsletter, save for Kim Teck Cheong Consolidated 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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