

**MSWG****MINORITY SHAREHOLDER WATCHDOG GROUP****Badan Pengawas Pemegang Saham Minoriti Berhad**

Incorporated in Malaysia * Company No. 524898-M

The Observer

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MSWG'S VIEW ON INTERNATIONAL CORPORATE DEVELOPMENTS

VOLKSWAGEN AKTIENGESELLSCHAFT ("VOLKSWAGEN AG")

Volkswagen AG has recently admitted having manipulated in the diesel emission tests in the United States. The company has plans to refit 11 million cars which were affected and 6.5 billion euros have been set aside to deal with the cost of the scandal.

[Source: Press release on Volkswagen AG's website on 25 September 2015]

MSWG'S COMMENTS:

The company had been punished severely by shareholders dumping the shares resulting in 20 billion euros wiped out from market capitalisation, with a fall of 37% in share price.

Whilst we noted that the CEO of Volkswagen AG had rightfully stepped down taking accountability of the scandal, it was, nevertheless, shocking that such an incident could even happen considering the reputation of Volkswagen AG. If this can occur in such a reputed company, it begs the question whether such occurrence is prevalent in the motor industry. The scandal had indeed shaken the auto industry.

Our corporates must take valuable lesson from this incident of sidestepping corporate governance in the pursuit of growth and bottomline numbers. Growth and governance must always remain in sync.

MARKET AND REGULATORY UPDATE

MALAYSIAN ECONOMIC INDICATORS: LEADING, COINCIDENT & LAGGING INDEXES JULY 2015

The Leading Index (LI) which monitors the economic performance in advance showed an increase of 0.9% to 118.6 points in July 2015, compared with 117.6 points in the previous month. Two components that recorded the highest percentage increase were Expected Sales Value in the Manufacturing sector (0.8%) and Real Imports of Semi Conductors (0.3%). The annual change of LI grew at a slower pace of 0.3% in the reference month as against 0.8% in June 2015.

The Coincident Index (CI) which measures the current economic activity, declined 1.2% in July 2015. Capacity Utilisation in the Manufacturing sector (-0.5%) is one of the components that significantly attributed to the decrease. The annual change of CI grew at 0.4%, lower than 1.4% in the previous month.

The annual change of LI and CI recorded a slower growth as compared to the preceding month. The Diffusion Index for LI showed an improvement even though it remains below 50.0%. Based on this scenario, the Malaysian economy is expected to continue growing at a slower rate in the months ahead.

[Source: Press release on Department of Statistics Malaysia's website on 23 September 2015]

MSWG'S QUICK TAKE ON ONGOING CORPORATE TRANSACTIONS

XINGQUAN INTERNATIONAL SPORTS HOLDINGS LIMITED ("XINGQUAN")

The Board of Directors of Xingquan announced that the company proposes to undertake the following corporate proposals:-

1. Proposed reorganisation of the share capital of the company which involves, among other things, the reduction of the issued and paid-up share capital of Xingquan via the cancellation of United States Dollar ("US\$") 0.09 on each of the existing ordinary issued and paid-up shares of US\$0.10 in Xingquan pursuant to Section 46 of the Companies Act 1981 of Bermuda (the "Proposed Par Value Reduction"), to be effective on such date as may be determined by the Board ("Par Value Reduction Effective Date") ("Proposed Capital Reorganisation"); and
2. Proposed renounceable rights issue of up to 253,547,250 new ordinary shares of US\$0.01 in the Company ("Rights Shares") on the basis of one (1) Rights Share for every two (2) existing shares held in Xingquan after the Proposed Par Value Reduction Effective Date, together with up to 84,515,750 free detachable warrants ("Warrant(s) B") on the basis of one (1) Warrant B for every three (3) Rights Shares subscribed, on an entitlement date to be determined later by the Board ("Proposed Rights Issue with Warrants").

[Source: Xingquan's announcement on Bursa Malaysia's website on 25 September 2015]

MSWG'S COMMENTS:

Minority shareholders are growing impatient of the under-utilisation of the Xingquan Group's cashpile, which net cash position was approximately RM2.60 per share as compared to the share price of RM0.425 and only generated an interest rate of approximately 0.35% per annum from the savings accounts, and yet the company is asking for more funds from its shareholders.

Details of the analysis of the Group's cash position are shown below (based on the audited financial results as at 30 June 2015):

<u>Items</u>	<u>Amount (RM*) / Ratio</u>
Cash	RM888,591,975
Interest bearing Loans	RM10,978,200
Net cash	RM877,613,775
Net asset value	RM1,230,573,274
Net cash per share	RM2.60
Net asset value per share	RM3.64

<u>Items</u>	<u>Amount (RM*) / Ratio</u>
Inventories turnover	29.35x
Trade receivables turnover	4.24x
Trade payables turnover	13.08x
Cash conversion cycle	17.80 days
Net cash to revenue	1.11x

Note:

* Based on the currency exchange rate of RMB1:RM0.6099 (as at 30 June 2015).

Based on the above analysis, it appears that the working capital management needs to be further scrutinised. In addition, most of the cash of about RM889 million is generating only 0.35% per annum from the savings accounts. Minority shareholders should thus seek more explanation from the Board on the cash call and the reasons for the cash call exercise given the huge cashpile in the Group as well as the working capital management. The Group should also look into leveraging more on borrowings due to its insignificant gearing.

If these concerns are not addressed appropriately, minority shareholders should consider rejecting the Proposed Rights Issue at the EGM.

KUMPULAN EUROPLUS BERHAD (“KEB”)

During the company’s AGM held recently, a shareholder was questioned on querying into the company’s operations and performance by an Independent Non-Executive Director who stated that the queries raised were too detailed and unnecessary.

MSWG’S COMMENTS:

This prompted MSWG’s representative to explain the rights of the shareholders in the meeting. Subsequently the Chair of the Board had responded appropriately to the questions raised by the shareholders. MSWG wishes to reiterate that Boards should encourage shareholders’ engagement instead of restricting questions at AGMs, especially when such questions are related to the company’s AGM matters.

MSWG’S WATCHLIST

OCTAGON CONSOLIDATED BERHAD (“OCTAGON”)

The board of directors of Octagon announced that the company had appealed to Bursa Malaysia against the decision of Bursa Securities on 25 September 2015 to delist the securities of Octagon from the Main Market of Bursa Malaysia as well as seek the approval of Bursa Malaysia for an extension of time of up to sixty (60) days from the date of the letter of appeal for Octagon to submit its proposed regularisation plan, premised on the explanations, reasons and status or developments as set out in the said letter of appeal.

However, Bursa Malaysia has on even date written to the company stating that the decision of the Listing Committee is final and reiterated that the securities of the company will be removed from the Official List of Bursa Malaysia on 29 September 2015.

[Source: Octagon's announcement on Bursa Malaysia's website on 25 September 2015 and 28 September 2015]

LOCAL NEWS AND DEVELOPMENTS

IFCA MSC unaware of reasons for UMA

<http://www.thestar.com.my/Business/Business-News/2015/09/28/IFCA-MSC-unaware-of-reasons-for-UMA/?style=biz>

Why the secrecy on Aabar's restriction?

<http://www.thestar.com.my/Business/Business-News/2015/09/26/Why-the-secrecy-on-Aabars-restriction/?style=biz>

Court of Appeal upholds SC law to be Constitutional

http://www.sc.com.my/post_archive/court-of-appeal-upholds-sc-law-to-be-constitutional/

CPI rises to 3.1pc in August

<http://www.nst.com.my/news/2015/09/cpi-rises-31pc-august>

Asdion shareholders voice concern after 3 directors resign

<http://www.thesundaily.my/news/1566178>

Xingquan slumps 14.81% on renounceable rights issue plan

<http://www.theedgemarkets.com/my/article/xingquan-slumps-1481-renounceable-rights-issue-plan?type=Corporate>

New admission into Practice Note 17 - YFG Berhad

<http://www.bursamalaysia.com/corporate/media-centre/media-releases/3617>

Change of name: Harvest Court Industries Berhad to Anzo Holdings Berhad

<http://www.bursamalaysia.com/corporate/media-centre/media-releases/3613>

GLOBAL NEWS AND DEVELOPMENTS

U.S. companies quicker to give board seats to activists

<http://www.reuters.com/article/2015/09/25/us-hedgefunds-activists-insight-idUSKCN0RP0D020150925>

U.S. Consumer Spending Up 0.4% in August

<http://www.wsj.com/articles/u-s-consumer-spending-up-0-4-in-august-1443443658>

Saudi Arabia withdraws overseas funds

<http://www.ft.com/intl/cms/s/0/8f2eb94c-62ac-11e5-a28b-50226830d644.html>

EU watchdog finalizes biggest securities reform in a decade

<http://www.reuters.com/article/2015/09/28/us-eu-markets-regulations-idUSKCN0RS1XG20150928>

Wolfsburg shocked by Volkswagen gamble

<http://www.cnbc.com/2015/09/28/vw-diesel-wolfsburg-shocked-by-volkswagen-gamble.html>

China Sept official factory PMI seen shrinking for second month

<http://www.reuters.com/article/2015/09/28/us-china-economy-pmi-idUSKCN0RSOX820150928>

Could gender equality boost global GDP by trillions?

<http://www.cnbc.com/2015/09/24/could-gender-equality-boost-global-gdp-by-trillions.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 safe for Volkswagen Aktiengesellschaft.*

Feedback

We welcome your feedback on our newsletter and our work. Email us at mswg.ceo@mswg.org.my with your comments and suggestions.

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