



MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

(Incorporated in Malaysia . Registration No. 200001022382 (524989-M))

The Observer

01.04.2022

MSWG has published a document titled "Report on 2020 Annual General Meeting of Public Listed Companies" on our website. The report is a collaborative effort between MSWG and Universiti Kebangsaan Malaysia whereby the study focuses on analysing the AGM conduct of selected PLCs against the best practices and proposes ways of improving its effectiveness. Please visit <https://www.mswg.org.my/publications> for more info.

❖ SC: RPTs sway share price and pose potential detrimental effect on minority shareholders

An assessment mooted by the Securities Commission (SC) to examine the regulatory regime and practices of related-party transactions (RPTs) by PLCs revealed that such corporate exercise poses a significant effect on share price movement on the day after RPT announcements were made.

In SC's Annual Report 2021, the regulator observed that there were above-average price movements on the day leading up to the RPT announcements. This suggested that there could be some leakages of price-sensitive information before RPT announcements were made publicly.

For the uninitiated, RPT is a transaction entered into by a PLC which involves the interest of a director, major shareholder or person connected with such director or major shareholder.

In addition, the SC's assessment on several large RPTs – ranging from RM250 million to more than RM3 billion – suggested that RPTs involving PLCs within family groups and those with long-serving independent directors may require closer monitoring to ensure that the transactions are not detrimental to minority shareholders. There were also instances where RPT issues and concerns were uncovered by auditors of financially distressed PLCs, said SC in its Annual Report 2021.

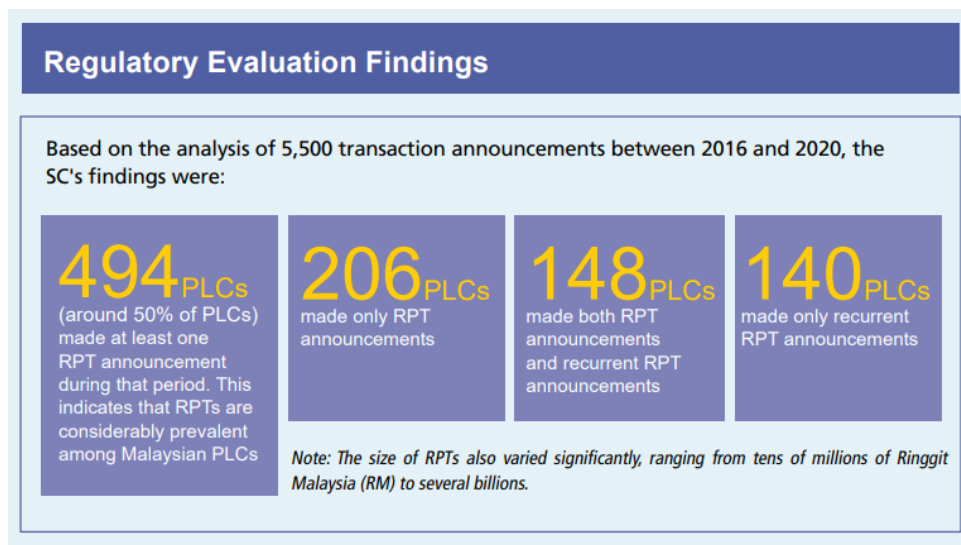
Previous reports by the Organisation for Economic Co-operation and Development (OECD) and CFA Institute highlighted that RPTs were not uncommon in Asia, and while not all RPTs were abusive, occurrences of detrimental RPTs did pose harm to investors.

With that, investors are advised to pay particular attention to general announcements in relation to transaction between related parties who are only connected by common directorships, and memorandum of understanding or heads of agreement between related parties. These transactions or dealings may carry the risk of erosion of minority shareholders protection.

Given the prevalence of RPTs among Malaysian PLCs, the boards of PLCs – particularly the independent directors and audit committee – must establish effective processes and controls to prevent detrimental RPTs while ensuring that decisions made on RPTs are in the best interest of the PLCs and its shareholders.

For PLCs, they should ensure that their RPT disclosures and disclosures of other dealings between related parties are timely, complete, and accurate.

SC further stresses that PLCs' internal policies on the handling and safeguarding of material non-public information should cover RPTs that are likely to have a material price impact.



Source: Securities Commission's Annual Report 2021

Apart from SC's observation on RPTs, we also found out some interesting points from the SC's Annual Report 2021:

Regulated short selling activities: Upon resumption of regulated short selling (RSS) trading on 4 January 2021, the SC observed that renewed risk management activities resulted in fairly active RSS trades before moderating to an average of about 1% of the total market value traded throughout 2021.

In addition, developments surrounding the GameStop short squeeze incident by retailers in the US gave rise to concerns over similar risks associated with domestic short-selling activities.

However, such risks did not materialise in the domestic market given its different environment and regulatory framework including prescribed limits on short selling positions, among others.

Overall, RSS activities were well-governed with enhanced and existing control measures in place to ensure market stability and mitigate against risks of excessive net-short positions. Such controls include tighter aggregate net-short position limits, trading tick rules, and daily short selling volume limits.

Misleading disclosures: In 2021, potential wrongdoing detected by the SC included possible misleading disclosures made by listed companies which may have induced trading activities or influenced the market price of securities.

This was in light of the increase in the number of announcements made by PLCs into COVID-19 or healthcare-related ventures amid the COVID-19 pandemic. The SC had monitored and assessed such disclosures to ensure PLCs do not take advantage of the current pandemic by making any false or misleading statements that may influence investors' investment decisions.

Non-compliance with financial reporting standards: Some PLCs were found not to have complied with the approved accounting standards in relation to the accounting treatment of investments in wholesale funds.

It was found that certain listed companies managed their cash surplus by investing in wholesale funds and there were instances where the wholesale funds appeared to cater primarily to the listed company's specific cash management requirements.

Some of these wholesale funds held investment portfolios that consist mainly or wholly of the financial instruments of the listed company and its related companies. This may result in the listed company having effective control over the wholesale funds.

If such control exists, the accounting treatment for the listed company's investments in the wholesale funds should be assessed and reflected accordingly.

The SC also noted an instance of non-compliance with approved accounting standards in relation to the failure to re-classify certain perpetual sukuk (Islamic bond) from equity instruments to financial liability when the listed company no longer has an unconditional right to avoid the redemption of the perpetual sukuk.

Enforcement (criminal action): Throughout 2021, a total of 10 criminal charges were filed against six individuals and one PLC for unlicensed activities and furnishing false information in financial reporting. Additionally, one criminal forfeiture application was filed against an individual and a private limited company in connection to money laundering offences.



Source: Securities Commission's Annual Report 2021

Elsewhere, three convictions were secured against three individuals for cases involving insider trading, furnishing misleading information in financial reporting, and failure to appear before an investigating officer of the SC in connection with an investigation under the Anti-Money Laundering, Anti-Terrorism and Proceeds of Unlawful Activities Act 2021 (AMLATFPUAA). All-in-all, RM7.57million in total fine was imposed.

Enforcement (Civil Action): The SC filed six civil actions in 2021, against 10 individuals. Four consent judgments were also recorded between the SC and eight individuals. Total civil penalties imposed amounted to RM2.5 million.

Regulatory settlement with AMMB Holdings Berhad: In 2021, SC had completed its investigation on AMMB Holdings Bhd (AmBank Group) in relation to 1Malaysia Development Bhd (1MDB) as well as non-compliance with the SC's relevant laws and guidelines.

With that, the SC had entered into an arrangement with AmBank Group to settle all pending regulatory actions relating to or in connection with:

- RM5 billion Government Guaranteed Islamic Medium Term Notes (IMTN) Programme due in 2039 which was issued by the Terengganu Investment Authority (TIA, now known as 1MDB) in May 2009; and
- RM2.4 billion Sukuk Murabahah Programme due between 2021 and 2024 which was issued by Bandar Malaysia Sdn Bhd (BMSB) in February 2014 and December 2014.

The settlement of the TIA IMTN was made on a without admission or denial of liability basis by AmBank Group. AmBank Group also acknowledged the breaches of securities laws identified by the SC on the matter relating to the BMSB Sukuk Murabahah.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 4 – 8 April 2022

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	Quick-take
06.04.22 (Wed) 11.00 am	LPI Capital Bhd (AGM)	<p>In 2021, LPI's gross written premiums grew marginally to RM1.56 billion from RM1.55 billion in previous year due to decline in the economic activities arising from movement restrictions introduced by the government. Nevertheless, its financial performance was supported by improved contribution from investment activities. Its investment income in 2021 increased 16.8% y-o-y to RM105.7 million from RM90.5 million a year ago.</p> <p>This, together with lower claims incurred, contributed to an improved PBT which increased 0.9% to RM437.3 million from RM433.6 million a year ago.</p>
08.04.22 (Fri) 10.00 am	G3 Global Berhad (EGM)	<p>In this EGM, G3 intends to seek shareholders' approval for the resolutions below:</p> <ul style="list-style-type: none"> - Proposed diversification of business activities into the healthcare related business which includes the distribution of Coronavirus disease 2019 test kits. - Proposed private placement of up to 432.85 million new shares, representing 20% of the total issued shares to independent third-party investor(s) to be identified later at an issue price to be determined later.
08.04.22 (Fri) 10.30 am	G3 Global Berhad (EGM)	G3 proposed to increase in the limit for authority to allot and issue shares pursuant to Sections 75 & 76 of the Companies Act 2016 as prescribed under

		paragraph 6.03(1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad from 10% to 20%.
08.04.22 (Fri) 11.00 am	G3 Global Berhad (EGM)	This EGM is to seek approval for G3's proposed new shareholders' mandate for recurrent related party transactions of a revenue or trading nature.
08.04.22 (Fri) 11.00 am	Kumpulan H&L High-Tech Berhad (AGM)	H&L's total revenue improved by 18.1% y-o-y to RM21.85 million (FY2020: RM18.51 million), while its PBT increased tremendously by 625.1% to RM20.06 million (FY2020: RM2.77 million) due to an extra-ordinary gain on disposal (resale) of treasury shares. Excluding the one-time extra-ordinary gain, the Group's PAT still performed well and recorded an increase of 119.5% to RM5.33 million from RM2.43 million in FY2020 mainly because of the improvement in all divisions.

One of the points of interest to be raised:

Company	Points/Issues to Be Raised
LPI Capital Bhd (AGM)	<p>LPI also registered a lower customer retention rate of 78.5% as compared to 79.9% and 83.7% in the two previous financial years (page 50 of Annual Report 2021).</p> <p>Does the decline suggest that LPI products are losing its appeals to customers? Was the declining customer retention rate an industry-wide phenomenon experienced by other players as well? What is the average customer retention rate within the general insurance industry?</p>
Kumpulan H&L High-Tech Berhad (AGM)	<p>Despite the Movement Control Order ("MCO") and the Covid-19 pandemic which affected the Group's production and export capacity in FY2020 as well as FY2021, the manufacturing business segment generated a better profit margin in FY2021 than FY2020 due to the fluctuation of demand and supply of certain raw materials. (page 8 of AR2021).</p> <p>(a) Is the demand for the Group's products and profit margins sustainable, going forward? Which of the Group's products will drive revenue growth for financial year ending 2022?</p>

	<p>(b) The plastic segment also experienced a spike in profit margin due to supply chain crisis as well as increase in demand from the medical sector due to the Covid-19 healthcare crisis. (page 8 of AR2021)</p> <p>How and to what extent will the Russia-Ukraine war impact the Group's plastic segment?</p>
--	---

MSWG TEAM

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

Rita Foo, Head, Corporate Monitoring, (rita.foo@mswg.org.my)

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

Lee Chee Meng, Manager, Corporate Monitoring, (chee.meng@mswg.org.my)

Elaine Choo Yi Ling, Manager, Corporate Monitoring, (elaine.choo@mswg.org.my)

Lim Cian Yai, Manager, Corporate Monitoring, (cianyai@mswg.org.my)

Ranjit Singh, Manager, Corporate Monitoring, (ranjit.singh@mswg.org.my)

Ooi Beng Hooi, Manager, Corporate Monitoring, (ooi.benghooi@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.

DISCLAIMER

This newsletter and the contents thereof and all rights relating thereto including all copyright is owned by the Badan Pengawas Pemegang Saham Minoriti Berhad, also known as the Minority Shareholders Watch Group (MSWG).

The contents and the opinions expressed in this newsletter are based on information in the public domain and are intended to provide the user with general information and for reference only. Best efforts have been made to ensure that the information contained in this newsletter is accurate and current as at the date of publication. However, MSWG makes no express or implied warranty as to the accuracy or completeness of any such information and opinions contained in this newsletter. No information in this newsletter is intended to be or should be construed as a recommendation to buy or sell or an invitation to subscribe for any, of the subject securities, related investments or other financial instruments thereof.

MSWG must be acknowledged for any part of this newsletter which is reproduced.

MSWG bears no responsibility or liability for any reliance on any information or comments appearing herein or for reproduction of the same by third parties. All readers or investors are advised to obtain legal or other professional advice before taking any action based on this newsletter.