



The Observer

14.02.2020

Errata to the article dated 7.02.2020- The costly price of ignorance

Reference is made to the article titled 'The costly price of ignorance' which was published in our Newsletter on 7 February 2020.

The following sentence shall be amended and corrected by this Errata, as highlighted in italics and underlined below:

This is a 95.8% jump from the stock's closing price of 3.5 sen on 21 January.

"This is a 96.4% jump from the stock's adjusted closing price of 41.5 sen on 21 January."

Save for the abovementioned amendment, all other information remains unchanged.

Misconduct affects minority shareholders most

Investors in Bursa Malaysia have in recent times wised up about corporate misconduct – wrongdoings committed either by a corporation (i.e. the business entity as a whole) or by individuals that may be identified with a corporation (founder, chairman, directors, senior executives). Recently, we had the saga of bribery allegations involving top officials in AirAsia Group Berhad ("AirAsia") and AirAsia X Berhad ("AAX") regarding the purchase of Airbus' aircrafts.

But it is a rarity – although not uncommon – to have head honchos of some companies allegedly indulge in serious "public" crimes such as rape/molest, underworld activities or drug trafficking.

On 30 January 2020, it was reported that the Ooi Chieng Sim ("Ooi"), the executive chairman (EC) of Heng Huat Resources Group Berhad ("Heng Huat") and ATTA Global Group Berhad ("ATTA") was charged at Bukit Mertajam's Magistrate Court with seven other suspects under Section 39 (B)(1)

of the Dangerous Drugs Act 1952 for trafficking of 4.98 kg of methamphetamine.

Ooi is a substantial shareholder in both companies. He held 2.945% direct and 17.38% indirect stake in Heng Huat as of 31 October 2019. As for ATTA, he owned 10.3% direct interest in it as of 28 June 2019 (ATTA Annual Report 2019).

The next day, Heng Huat announced that Ooi has been redesignated to non-independent non-executive director, while ATTA has suspended Ooi's chairman-post and executive roles in subsidiaries.

On 3 February 2020, Heng Huat further suspended Ooi from his boardroom role "after taking into consideration the need for Mr Ooi to focus on his defence". "The suspension is in the best interest of Heng Huat," added the company. Ooi resigned from Heng Huat on 10 February 2020 to "focus on his personal matter".

Meanwhile ATTA had appointed an interim chairman during Ooi's absence and set up an ad-hoc committee to oversee operation and address issues arising from the investigation.

While both companies should be commended for upholding corporate governance, it is inevitable for minority shareholders of both companies to end up being the biggest losers.

Their plight started on 16 January 2020 when the Securities Commission ("SC") issued a directive to Bursa Malaysia to suspend the trading of ATTA and Heng Huat's securities pursuant to Sections 26 and 28 of the Capital Markets and Services Act 2007 after the Royal Malaysia Police seized trading accounts belonging to several key individuals who are involved in both companies.

Business operations are also substantially affected as some banking accounts of ATTA's subsidiaries were frozen to assist in police investigations. As at the date of writing, there is no sign as to when the suspension on the two counters will be lifted.

Sparking awareness

In all fairness, the whole chain of events involving bribery allegations against two AirAsia/AAX senior executives, and charges against Heng Huat and ATTA's director have sparked awareness among minority shareholders on the dire consequences stemming from the misconduct of company directors and senior executives.

Although shareholder activism is still very much at its infancy in Malaysia, one can feel "a mini-scale shareholder activism frenzy" brewing ever since news broke out that Airbus has channeled US\$50 million as sponsorship into a sporting team owned by top personnel of the two budget carriers rather than directly into the coffers of the companies.

No doubt the fiasco has sparked outrage among every class of AirAsia/AAX investors. It is regrettable that minority shareholders were affected the most from the “share dumping” that ensued, presumably by foreign funds and institutional investors.

Above all else, the severity of the issue is best illustrated by the involvement of the statutory regulator of the capital market (i.e. the SC), as well as the relevant authorities such as the police (as in the Heng Huat and ATTA case), and the Malaysian Anti-Corruption Commission (MACC) and the Malaysian Aviation Commission (in the Airbus - AirAsia/AAX case).

In relation to corporate crimes in listed entities, veteran journalist M. Shanmugam pointed out that the level of corruption in the private sector is far worse than in the public sector.

Resorting to graft is often viewed as an acceptable method of growing businesses until somebody gets caught and the incident is exposed.

“It is generally an accepted practice that businesses grease the hands of decision makers – whether they are in the private or public sectors – in exchange for favours such as a new contract,” he wrote in his latest column entitled “Corruption in the Private Sector is Equally Wrong” (StarBiz, 8 February 2020).

Collusive corruption – where officials from the public sector “join hands” with the private sector – is greatly present in today’s business environment, particularly in procurement, construction and development, according to former immediate Transparency International Malaysia president Datuk Seri Akhbar Satar (New Straits Times, 10 February 2020).

In its quest to combat graft, Bursa Malaysia has amended the Main Market and ACE Market Listing Requirements to include disclosure of anti-corruption measures to support of the National Anti-Corruption Plan 2019-2023. The measures are intended to enhance the quality and integrity of listed issuers in the local bourse.

To take effect on 1 June 2020, the Anti-Corruption Amendments will require listed issuers and their board of directors to establish and implement policies and procedures to prevent corrupt practices, thereby providing them with a measure of assurance and a defence against corporate liability for corruption under Section 17A of the MACC Act 2009.

We hope that such measures will help to uplift Malaysia's international standing in combating bribery and corruption, while promoting better governance culture and ethical behavior within PLCs.

By Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 17 February 2020 – 21 January 2020

Below are the AGMs/EGMs of companies that 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
18.02.20 (Tue) 11.00 am	Kuala Lumpur Kepong Bhd (AGM)	Profit before tax has been declining since FY2016 due to increase in cost of production over the years. With the shift towards mechanisation for estates and automation in mills - can profit u-turn?
18.02.20 (Tue) 02.15 pm	Batu Kawan Bhd (AGM)	Pre-tax profit has been declining, but the Group's dividend payout ratio has been increasing since FY2016. Can it sustain?
20.02.20 (Thur) 10.00 am	TMC Life Sciences (AGM)	Allowance for expected credit losses stood at RM9.0 million, representing 23.91% of total trade receivables. Is the amount recoverable?
20.02.20 (Thur) 10.00 am	Aemulus Holdings Bhd (AGM)	Revenue slid by 22% and the Group which was profitable in FY2018 (net profit: RM5.2 million), turned loss-making in FY2019 (net loss: RM3.2 million). Can it turn around in financial year ending 2020?
20.02.20 (Thur) 10.00 am	Datasonic Group Bhd (EGM)	Proposed Employees' Share Option Scheme is also extended to include the non-executive Directors of Datasonic Group – not good Corporate Governance.
20.02.20 (Thur) 11.00 am	Tiger Synergy Bhd (EGM)	Removal of Directors.

One of the points of interest to be raised:	
Company	Points/Issues to Be Raised
Kuala Lumpur Kepong Bhd (AGM)	<p>In FY2019, the Group incurred a negative net change in fair value of equity instruments amounting to RM868.3 million (2018: positive net change in fair value of equity instruments of RM75.4 million) (pages 117 & 185 of AR2019).</p> <p>(a) What is the reason for the huge amount of negative net change in fair value of equity instruments?</p> <p>(b) To which equity instruments do the negative fair value relate to?</p> <p>(c) How does the Audit and Risk Committee manage the risk associated with investment in equity instruments?</p>
Batu Kawan Bhd (AGM)	<p>In October 2019, Caruso Australia Ventures Pty Ltd further invested in a new residential development project situated in Pakenham, an established suburb on Melbourne's south eastern fringe (page 35 of AR2019).</p> <p>(a) What is the total estimated amount to be invested in this new residential development project situated in Pakenham?</p> <p>(b) When is the new residential development project expected to be completed?</p> <p>(c) What would be the expected gross development value for the new residential development project situated in Pakenham?</p>
TMC Life Sciences (AGM)	<p>The Group used RM61 million in new investment activities during the financial year compared to RM34.9 million last financial year. The higher amount was mainly due to the further progress of the Group's expansion projects at Thomson Hospital Kota Damansara (THKD) and piling work at Thomson Iskandar Medical Hub (Page 11 of the Annual Report 2019).</p> <p>(a) What will be the budget requirement for the investment activities for the expansion projects at THKD and Thomson Iskandar Medical Hub in FY2020?</p> <p>(b) What is the Group's expected return on the investment?</p> <p>(c) What is the progress of the expansion projects?</p>
Aemulus Holdings Bhd (AGM)	<p>Allowance for expected credit loss/impairment losses amount to RM2,120,354 (2018: RM93,344) (Note 9, page 90 of AR2019).</p> <p>(a) What actions have been taken to recover the said amount?</p>

	(b) With the significant increase in allowance for expected credit loss/impairment losses in FYE2019, does the Company expect higher write-off in the financial year ending 2020?
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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 except Heng Huat Resources Group Berhad.

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