



The Observer

25.12.2020

We, at MSWG, would like to wish all our Christian friends and readers a joyful and wonderful Christmas celebration. May your holiday be blessed with the love and warmth of family and friends.

Merry Christmas.

❖ External auditors resign due to “resources constraint” and manpower issues

On 21 December, Fintec Global Bhd announced that PKF Malaysia has voluntarily resigned as the external auditor of the Company, citing “resources constraint”. PKF’s term of office will end after 21 days from 21 December 2020.

PKF was reappointed as the auditors of the company at the last annual general meeting (AGM) of the company held on 30 September 2020 and is to hold office until the conclusion of the next AGM of the company.

“The resignation of PKF is on a voluntary basis due to its resources constraint,” said Fintec Global in a filing with Bursa Malaysia. The Company also highlighted that the Board is not aware of any other matters that need to be brought to the attention of shareholders.

Meanwhile, two other PLCs, namely, Asia Media Group Bhd and DGB Asia Bhd said its auditors has voluntarily resigned due to manpower issues.

There seems to be a rising trend of external auditors resigning due to “resources constraint” or “manpower issues”.

On 16 December 2020 INIX Technologies Holdings (“INIX”) and SMTrack Berhad (“SMTrack”) had also received resignation notice from Jamal, Amin & Partners (JAP)

In the filing with Bursa Malaysia, both PLCs stated that “the resignation is on a voluntary basis” without giving any specific reasons. it was said that “the Board is not aware of any matter that need to be brought to the attention of the shareholders of the Company”.

Given that “resources constraint” and “manpower issues” have been cited as the reasons for external auditors’ resignation, we are concerned if the “resources constraint” and “manpower issues” are industry-wide issue for external auditors.

As such, should we brace ourselves for more such resignations citing “resources constraint” and “manpower issues” by the external auditors?

The COVID-19 pandemic has rendered many people jobless and surely there are, amongst them, those who have the expertise in the external audit function. If this is true, then the “resources constraint” (if it relates to human resources) and “manpower issues” is not a tenable reason.

Perhaps the Audit Oversight Board should visit external auditors who resign citing “resources constraint” and “manpower issues” as these auditors may not be “fit and proper” to be an external auditor of a Public Interest Entity, given that they have issues with inadequate “resources” and “manpower”.

Again, minority shareholders must use their uncanny ability to read between the lines when it comes to external auditors’ resignations as there is more than what meets the eye. Minority shareholders should also remember that there is no smoke without fire.

❖ **Takeover/privatisation; insider trading due to leakages of price sensitive information**

Be it a management buyout, mandatory takeover offer (MO) or privatisation, insider trading can ensue prior to the commencement of the negotiation process itself, or even during the timeline between the ongoing negotiation and official announcement.

After all, the lengthy time frame makes it all the much easier – if not safer – for insiders who are privy to price sensitive information, that has yet to be made public, to indulge in buying or selling activities.

The phenomena are common in some stock markets around the world. Share price runs up, followed by a public announcement which has positive news or the price nosedives, followed by a public announcement which has negative news.

Material price movements before public announcements are due to ‘leakages’ of price sensitive information, which is utilised to commit insider trading. But once the price and volume start to move, the technical trades (by chartists) trades by momentum traders come into play, and it becomes challenging for the regulators to discern these trades from the inside traders’ trades. Nevertheless, the regulators have been able to charge and bring about convictions for insider trading.

In the FELDA-FGV case, when the Cabinet gave the nod for the termination of the Federal Land Development Authority's (FELDA) land lease agreement (LLA) with FGV Holdings Bhd on 28 October, FGV's share price closed at RM1.08 with 3.4 million shares traded.

Then, news broke out on 8 December that FELDA is planning to make a MO offer to FGV's minority shareholders at RM1.30 per share. When the offer was made, FGV's share price ended unchanged at RM1.27, very close to the MO price of RM1.30, with 8.01 million shares transacted-

There was a 17.6% (or 19 sen) increase in FGV's share price between 28 October (RM1.08) and 8 December (RM1.27). There is a possibility that some insiders may have been embroiled in illegal trading between that period and gained up to 19 sen per share from their illegal trading activity.

Insider trading is the transacting of a security by insiders who possess price sensitive information that is not available to the public. Such insiders capitalise on this unlevel playing field. Insider trading is a criminal offence and comes under the purview of the Securities Commission (SC). The SC has, in the past, brought about successful fines and/or convictions for the offence of insider trading.

To be precise, almost anybody – whether they are the company founders, brokers, lawyers, family members, friends or employees – who possesses price sensitive and non-public information can commit the illegal act of insider trading.

On 23 December, Cheah Yew Keat, the former managing director of DIS Technology Holdings Bhd was convicted of insider trading by the Kuala Lumpur Sessions Court and sentenced to spend one day in jail and to pay a fine of RM1 million.

The charge of insider trading was under Section 188(2)(a) of the Capital Markets and Services Act 2007 (CMSA). This occurred while Cheah was in possession of material price-sensitive information that was not generally available, namely the alleged misstatement of DIS Technology's quarterly financial reports between third quarter of 2008 and fourth quarter of 2009, which would significantly impact the company's financial results.

Some say insider trading is a faceless crime; there is no victim; the victim is the investor who trades without the benefit of the inside information.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 28 – 31 December 2020

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
28.12.20 (Mon) 10.30 am	SMTRack Bhd (AGM)	<p>SMTrack recorded a 5.24% increase in revenue to RM1.787 million in FY2020 (FY2019: RM1.698 million). Its loss after tax decreased to RM0.816 million from RM1.776 million in FYE 2019 due to its cost-cutting measures and reduction in the administrative expenses.</p> <p>It is confident that it can re-build the business of Citilink Aviation (M) Sdn Bhd's after it acquired the company. The acquisition will enable SMTrack to venture into the Air Carriage Services and is expected to provide a new stream of income to the Group.</p>
28.12.20 (Mon) 11.30 am	SMTRack Bhd (EGM)	<p>SMTrack is seeking shareholders' approval on its proposed issuance of Redeemable convertible notes with an aggregate principal amount of up to RM120 million. Given the financial condition of the Group, SMTrack is at the mercy of its potential subscribers to raise the required funding.</p> <p>It also proposed to diversify its businesses activity into the business of Air Operator. The diversification is to create a second stream of income for the Group as it intends to continue with its existing RFID business.</p>
28.12.20 (Mon) 2.30 pm	Omesti Bhd (EGM)	<p>Omesti proposed to issue renounceable rights issue of 119.76 million redeemable preference shares ("RPS") at RM1.00 per RPS, with 279.48 million Warrants on the basis of 1 RPS for every 5 existing Omesti Shares held with 7 Warrants for every 3 RPS subscribed. Omesti expects to raise at least RM50 million via the issuance of 50 million RPS based on the issue price of RM1.00 per RPS. The proceeds will be used to fund its TM Project, working capital and repayment of borrowings.</p>

30.12.20 (Tues) 10.00 am	Xidelang Holdings Ltd (AGM)	<p>The Group recorded a total revenue of RMB626.6 million for the 18-month financial period ended 30 June 2020 (FY2018: RMB454.3 million). This translated into a lower monthly revenue of RMB34.8 million (FY 2018: RMB37.9 million). The lower sales were due to interruption in market activities arising from Covid-19 pandemic and intensified market competition within the China market.</p> <p>Nevertheless, it managed to record a higher net profit of RMB34.6 million during FPE2020 (FY2018:RMB22.0 million) which translated into a higher monthly profit of RMB1.9 million (FY2018: RMB1.8 million).</p>
31.12.20 (Wed) 10.30 am	CME Group Bhd (AGM)	<p>CME's external auditor Messrs Kreston John & Gan had highlighted the existence of a material uncertainty about CME's ability to continue as going concerns.</p> <p>As of 30 June 2020, CME's group current liabilities had exceeded current assets by RM31.29 million (page 48, Independent Auditors' Report, AR2020).</p> <p>This is also the fourth statement of "Material Uncertainty Related to Going Concern" (MUGC) issued by CME external auditors since FY2016.</p>

One of the points of interest to be raised:	
Company	Points/Issues to Be Raised
SMTRack Bhd (AGM)	<p>1. As disclosed in the Auditors' Qualified Opinion, on 28 July 2017 the Company went into a settlement agreement with Cherish Works Sdn Bhd ("CWSB") where CWSB agreed to pay the outstanding amount owed by giving 10 units of One LeTower Serviced Apartment. However, based on the physical sightings performed, the auditors were unable to satisfy the ownership of the apartment by CWSB. Furthermore, there is minimal progress on the construction of the said property, hence the</p>

	<p>recoverability of the development project and the amount due is uncertain (page 43 of AR2020).</p> <p>a) Given that it has been more than 3 years since the Group signed the settlement agreement, what is the estimated timeframe for CWSB to deliver the 10 units of One LeTower Serviced Apartment?</p> <p>b) Given the minimal progress on the construction of the said property, to what extent will the Group be compensated for late delivery?</p> <p>2. The total cost incurred by the Internal Audit Function for the financial year ended 31 July 2020 amounted to RM4,000 (2019: RM4,000) (page 28 of AR2020).</p> <p>a) Given that the fee is rather small (approximately RM333 per month), how does the audit committee assure itself that there would be adequate coverage and that the audit function is effective?</p> <p>b) How many internal audit reports were issued during FYE 2020? What areas did the internal audit reports cover?</p>
<p>CME Group Bhd (amended) (AGM)</p>	<p>The Chairman position of CME has been vacant since FY2000. The Board said it will continue to assess the need to fill the position from time to time (page 3 of Corporate Governance Report).</p> <p>Why does it take two decades for the Board to assess the need to appoint a chairman and to identify a suitable candidate to fill the position?</p>

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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.

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