

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

Incorporated in Malaysia * Company No. 524898-M

The Observer

15 July 2016

MESSAGE FROM THE CEO

The swift transition in the British premiership from David Cameron to Theresa May have several interesting annotations. She has promoted women to some of the most senior positions in her government, and is expected to do more in this area to further advance a global movement for gender diversity in the top echelons of government -- a cause we at MSWG are also championing locally, in Malaysia's corporate space.

The cut in the overnight policy rate (OPR) was a bold move by Bank Negara Malaysia (BNM) and in our opinion was to cushion the risk factors that could arise from the global developments including Brexit and the less positive position of China's economy. Interest would be on what could be the Federal Reserve's (FED) next move on its interest policy and would have to be closely monitored.

These same concerns have led banks to forecast interest rate- and statutory reserve requirement cuts to counter the growth pressures which have seen four straight quarters of GDP shrinkage.

No doubt, the external shocks to key industries like commodities and energy have contributed to the problems faced by oil and gas counters like TH Heavy Engineering Bhd, which have come into hard times and is facing two winding-up petitions from its creditors. It is a difficult situation for the afflicted, but it is a long-term positive, for it shakes out the less well-fortified, resilient and governed.

Separately, we are pleased to share with our readers that Malaysia will hold the International Corporate Governance Network (ICGN) event next year, co-hosted by KWAP and MSWG on 12 to 14 July 2017. ICGN is an investor-led organisation and its mission is to promote effective standards of corporate governance, investor stewardship and sustainable and responsible investments. There will be various corporate governance topics from industry players to be discussed in the event, and Malaysia vis-à-vis ASEAN countries should leverage on this event.

Regards,

Rita

CAPITAL MARKET UPDATE

BANK NEGARA MALAYSIA (BNM): MONETARY POLICY STATEMENT

At the Monetary Policy Committee (MPC) meeting pm 13 July 2016, BNM decided to reduce the Overnight Policy Rate (OPR) to 3.00 percent. The ceiling and floor rates of the corridor for the OPR are correspondingly reduced to 3.25 percent and 2.75 percent respectively.

The adjustment to the OPR is intended for the degree of monetary accommodativeness to remain consistent with the policy stance to ensure that the domestic economy continues on a steady growth path amid stable inflation, supported by continued healthy financial intermediation in the economy. The MPC will continue to monitor and assess the balance of risks surrounding the outlook for domestic growth and inflation.

[Source: BNM's media release on BNM's website on 13 July 2016]

MSWG'S COMMENTS:

BNM has a dual mandate on ensuring economic growth and inflationary pressure. With the cut in OPR for the first time in 7 years, the emphasis has focused on domestic economic growth without creating asset bubbles. This is on the back of the spillover effects of Brexit and also China slowdown.

MSWG'S QUICK TAKE ON ONGOING CORPORATE TRANSACTIONS

TH HEAVY ENGINEERING BERHAD ("THHEB")

The THHEB Board announced that THHEB had received a petition for winding-up by MIB ITALIANA S.P.A ("Petitioner"). The Petitioner's claim is for USD 1,266,496.80. It was contended by the Petitioner that THHEB owes the Petitioner the sums claimed for the supply and installation of quick release hook & mooring hawser for the FPSO Layang project. THHEB has sought for the necessary legal advice on the matter with a view of defeating the petition altogether.

[Source: THHEB's announcement on Bursa Malaysia's website on 5 July 2016]

MSWG'S COMMENTS:

We are concerned with the winding-up petition filed by MIB ITALIANA S.P.A. for a claim of USD1,266,496.80, approximately RM5.1 million. Even though THHEB recorded a total cash of RM48 million as at 31 March 2016, which should be more than enough to cover the petition claim of RM5.1 million, but the current ratio of the THHEB Group was merely 0.3 times. This indicating the company may have difficulty meeting its short-term obligations and the situation could be deteriorating given the fact that THHEB has been suffering financial losses consecutively for the past 2 years.

MSWG'S WATCHLIST

AIRASIA BERHAD ("AAB")

As regards AAB's listing in Hong Kong which was speculated, AAB clarified in the Bursa announcement that:

- 1) Dual listing is not an option AAB is formally considering at the moment. In any event such an exercise could not be undertaken without the proposal being deliberated by the Board or without prior consideration of the various regulatory and commercial aspects on the matter. None of which has been undertaken thus far.
- 2) Joint Venture in China: AAB does from time to time receive proposals to establish airline joint ventures in various jurisdictions. Currently AAB is not pursuing any new joint venture proposals as we continue to focus on launching AirAsia Japan as well as strengthening our existing joint venture airline operations within Asean and India.

[Source: AAB's announcement on Bursa Malaysia's website on 12 July 2016]

LION DIVERSIFIED HOLDINGS BERHAD ("LDHB")

The Board of Directors of LDHB announced that on 6 July 2016, the solicitors of the company were served with London High Court of Justice Queen's Bench Division Claim Form by Classic Maritime Inc. ("Classic") as claimant against (1) Limbungan Makmur Sdn Bhd ("Limbungan Makmur"), a wholly-owned subsidiary of the company; and (2) the company. Brief details of the claim are as follows:

- (1) As against Limbungan Makmur, damages for breach of contract of affreightment dated on or about 29 June 2009 ("the COA") in the sum of USD20,497,332.00 and/or USD431,366.88 and/or USD1,422,534.24 and/or USD171,595.57 and/or such other sums as is/are properly due and owing to Classic;
- (2) As against the company pursuant to a contract of suretyship dated on or about 29 June 2009 pursuant to which the company guaranteed the performance of Limbungan Makmur's obligations under the COA and/or agreed to pay to Classic on demand any and all amounts accruing to Classic from Limbungan Makmur under the COA; and
- (3) As against both Limbungan Makmur and the company, interest pursuant to section 35A of the Supreme Court Act 1981, to be assessed.

Both Limbungan Makmur and the company believe that they have a good defence to the above claim and shall take all actions to defend such claim.

[Source: LDHB's announcement on Bursa Malaysia's website on 8 July 2016]

LOCAL NEWS AND DEVELOPMENTS

Malaysian palm oil/Vegetables: Market factors to watch Monday July 11

<http://www.thestar.com.my/business/business-news/2016/07/11/palm-oil-market-factors-to-watch-july-11/>

Entry fee in Malaysia's fund management industry among highest in the world

<http://www.thestar.com.my/business/business-news/2016/07/09/fund-fees-too-high/>

2016 retail sales growth forecast cut to 3.5%

<http://www.thesundaily.my/news/1890578>

Fintech firms all for regulation

<http://www.thesundaily.my/news/1890580>

Megasteel cleared of infringing Competition Act

<http://www.thesundaily.my/news/1890576>

International reserves lower on forex revaluation

<http://www.thestar.com.my/business/business-news/2016/07/06/international-reserves-lower-on-forex-revaluation/>

Multi-Usage's unit sued over land purchase

<http://www.theedgemarkets.com/my/article/multi-usages-unit-sued-over-land-purchase?type=Corporate>

Tourist arrivals expected to grow this year despite multiple challenges

<http://www.theedgemarkets.com/my/article/tourist-arrivals-expected-grow-year-despite-multiple-challenges?type=Corporate>

GLOBAL NEWS AND DEVELOPMENTS

US economy posts largest job gains in eight months in June

<http://www.thestar.com.my/business/business-news/2016/07/09/us-economy-posts-largest-job-gains-in-eight-months-in-june/>

China June inflation eases further, more policy stimulus anticipated

<http://www.thestar.com.my/business/business-news/2016/07/11/china-june-inflation-eases-further-more-policy-stimulus-anticipated/>

BOE may make first interest-rate cut since 2009 in bid to stabilise economy

<http://www.themalaymailonline.com/money/article/boe-may-make-first-interest-rate-cut-since-2009-in-bid-to-stabilise-economy>

G20 pledges to boost global trade despite rising protectionism

<http://www.thesundaily.my/news/1892508>

German output in May dropped the most in 21 months

<http://www.thestar.com.my/business/business-news/2016/07/08/german-output-in-may-dropped-the-most-in-21-months/>

EU declares Spain, Portugal in violation of deficit rules

<http://www.thesundaily.my/news/1890503>

MSWG Analysts

Lya Rahman, General Manager, Corporate Services, 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

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

Wong Kin Wing, Manager, Corporate Monitoring, kinwing@mswg.org.my

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

Nor Khalidah Khalil, Analyst, Corporate Monitoring khalidah@mswg.org.my

Vinodth Ramasamy, Analyst, Corporate Monitoring vinodth.ram@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.*
 - *The CEO is deemed interest in Airasia Berhad (AAB) via her spouse's holding of a minimum number of shares in AAB.*
-

Feedback

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

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 Shareholder Watchdog 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.

ENDS./