

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

Incorporated in Malaysia \* Company No. 524898-M

# The Observer

04 June 2017

## VOICE OF MSWG

The sale of a 49.9% share in our national carmaker Proton has been a long time coming, after numerous attempts by first Khazanah Nasional, the government, then DRB-HICOM (DRB), to dispose the stake.

But unlike that adage of 'saving the best 'til last,' this sale to Geely of China should be examined for its impact on taxpayers, DRB shareholders alike and the vendors and any other DRB stakeholders.

In real cash terms, only RM170 million goes to DRB for their nearly half stake in Proton, much less than the RM558-odd million that it receives for its sale of 100% of the much-smaller Lotus in a parallel transaction. Not a lot, in other words, for a car company that was once the market leader in Malaysia and which counts over three decades of operations.

Under the terms, the DRB-Geely Proton JV also receives rights over the use of Geely's Boyue SUV in Malaysia and the region, but this is an existing (though albeit successful) platform that requires no extra monetary investment from the Chinese. Its impact, however, on the Malaysian vendors may be crucial.

Worryingly, there was also little mention of fresh cash and/or joint investments in new platforms or areas such as autonomous/self-drive vehicles: key growth segments which the larger industry is pouring billions into.

Instead, the larger cash portion is coming from a combined RM1.35 billion ringgit R&D 'reimbursement' and soft loan by the government, begging the question of why a company that was privatised years earlier continues to receive state assistance and funding.

We also note that under the terms announced, it is DRB's responsibility of funding the not-inconsiderable cost of migrating manufacturing operations to the Tanjung Malim plant, and not Geely.

With majority control remaining in Malaysian hands, DRB shareholders and Malaysian taxpayers alike may justifiably ask, 'does this JV spell an end to financially supporting Proton?' And if the answer is a 'No', then 'how much more expense is needed, and for how long and when can we see the light at the end of the tunnel?'

Quite a few points of concern then, but note that this only remains a pact of intent, such are the nature of the 'Heads of Agreement' contracts which Proton and Geely entered into. Its terms may yet vary, as might a final contract ultimately, so we will watch this space with great interest.

## **CHINA EVERYWHERE**

In a somewhat related development, the unusual move by the auditor of China Automobile Parts Holdings Ltd (CAP) to withdraw its opinion on the company's FY15 audited accounts does not augur well for the already-known investors' generally negative perception of China-based companies listed in Bursa Malaysia and also may reinforce the views of sceptics of the mounting business Malaysia does with China. The auditor, PKF, said CAP's accounts for that period cannot be relied upon, as "several" litigation cases remain undisclosed to them.

On 1 June 2017, both CAP and Xingquan International Sports Holdings Limited (Xingquan) announced that Bursa Malaysia may suspend the trading of their shares on 8 June 2017 for failure to submit their third quarter results and outstanding issues on time.

This adds fuel to concerns that some of the China based Bursa-listed companies have been consistently lacking in transparency in their operations and short in providing clear pictures of their financial state of affairs. All of these companies' shares have been trading below their IPO level.

## **MORE COVERAGE, MORE INTEREST, MORE FUNDS**

Bursa Malaysia has just launched its Mid and Small Cap (MidS) Research Scheme, though it should be noted that similarities arise with former programmes (such as the 'CMDF-Bursa Research Scheme (CBRS) penned in conjunction with Standard & Poor's Equity Research in 2005.)

Undoubtedly, as it was then and now, poorly covered smaller companies outside of the Top 50 to 100 stocks need the additional coverage and subsequent liquidity.

However, more information should have been provided behind the selection of the inaugural batch of 100 mid and small-cap companies to receive the additional coverage, because not doing so throws an element of suspicion and unfair advantage to the lucky few.

Merely announced was this broad statement: "selected PLCs underwent a screening process encompassing both qualitative and quantitative criteria, and represent a market capitalisation range of RM200 million to RM2 billion." But beyond that, not much else was proffered.

Perhaps the Task Force chaired by the Securities Commission Malaysia (SC) comprising representatives from Bursa, Kumpulan Wang Persaraan (Diperbadankan) (KWAP), Malaysian Investment Banking Association (MIBA) and Association of Stockbroking Companies Malaysia (ASCM) will be able to shed more light on the selection criteria.

Especially since there will also be additional capital from a specially set-up mid- and small-cap fund to invest in these lucky companies.

## **THE NOOSE OF ENFORCEMENT**

In keeping with the SC's role as both market developer and enforcer, investors will no doubt be gladdened to read that various insider trading and misleading financial disclosure-charges have been brought against the directors of various perpetrators such as Maxbiz, Worldwide Holdings, Welli Multi Corporation and Megan Media.

This is all no doubt good news, but market participants might also echo this phrase: ‘justice delayed is justice denied’: a legal maxim which means that if legal redress is available for a party that has suffered some injury, but such redress is not forthcoming in a timely fashion, it is effectively the same as having no redress at all.

While evidence and proof points are difficult and time-consuming to procure, due adherence should also be given to timely application of the law. Only by tightening all ends of the capital market value chain -- whether in terms of new entrants, more coverage and enforcement -- will more interest be generated in the capital markets as a viable and safe avenue for retirement savings and investment.

*THE MSWG TEAM*

*2 June 2017*

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## **MSWG’S QUICK TAKE ON ONGOING CORPORATE DEVELOPMENTS**

### **CHINA AUTOMOBILE PARTS HOLDINGS LIMITED (“CAP”)**

Bursa Malaysia had on 26 May 2017 been informed by CAP’s auditor, PKF Malaysia Sdn Bhd (“PKF”) that there were significant unreported borrowings and material litigation during QuanZhou Fen Sun Automobile Parts Co. Limited’s (“Fen Sun”), a subsidiary of CAP, financial year ended 31 December 2015. PKF also gave notice to the Board of CAP that it will take appropriate and legal actions to prevent reliance on its auditors’ report dated 6 April 2016 in respect of the company’s financial statements for FYE 2015.

PKF will also proceed to notify the Securities Commission, Bursa Malaysia and any other regulatory agencies having relevant jurisdiction on this issue, and to request the company to take whatever steps it may deem appropriate in respect of the said disclosure. CAP further announced that trading of its shares may be suspended on 8 June 2017 if it does not submit its quarterly report and issue its outstanding financial statements on time.

*[Source: CAP’s announcement on Bursa Malaysia’s website on 26 May 2017 and 1 June 2017]*

### **XINGQUAN INTERNATIONAL SPORTS HOLDINGS LIMITED (“XINGQUAN”)**

Xingquan announced that it is unable to submit its Third Quarter Results by 31 May 2017 (“Timeframe”) to Bursa Malaysia as required under Paragraph 9.22(1) of the Main Market Listing Requirements (“MMRLR”). Xingquan informed that if the company fails to issue the outstanding Third Quarter Results within five (5) market days after the expiry of the Timeframe (the last day of five (5) market days period is referred to as “Suspension Deadline”), in addition to any enforcement action that Bursa Malaysia may take, Bursa Malaysia shall suspend trading of Xingquan securities. The suspension shall be effected on the next market day after the Suspension Deadline, which is 8 June 2017, and will be uplifted on the market day following the issuance of the outstanding Third Quarter Result, unless otherwise determined by Bursa Malaysia.

*[Source: Xingquan's announcement on Bursa Malaysia's website on 1 June 2017]*

**MSWG'S COMMENTS:**

In recent months, we noted that a spate of irregularities and corporate governance fiascos at China based companies listed in Bursa Malaysia is increasingly unsettling investors. This has caused shares of the China based companies to tumble and inflicted losses on their investors.

Some of the China based companies were either unable to issue their respective quarterly reports and audited report and hence their trading of securities will face suspension (i.e. Multi Sports Holdings Ltd, CAP and Xingquan), or their substantial cash pile was wiped out in the event of unusual losses (i.e. Xingquan) or they have been categorised as a PN17 company after suffering substantial losses (i.e. Maxwell International Holdings Berhad).

While we have been appealing to our regulators to seriously look into these issues, we have again seen another accounting scandal involving CAP which is a China based company.

We hope the regulators be vigilant in identifying irregularities or unusual happenings through the tell-tale signs, early warning signals or red-flag indicators such as severe drop in share price, auditors' qualified opinion, independent directors' resignation, persistent absence of key executive directors in shareholders' meetings and non-adherence to the timeline for the issuance of financial reports to establish whether these China based companies are frauds.

Another rather unfathomable and seemingly hard to rationalise or justify corporate proposal is the call for rights issue when the company is still flushed with funds with little or hardly any borrowings and without any strong justifications for capex expansion to grow the company. Such proposal should certainly come under the radar of suspicion. And when queried by the regulators, the explanations given were far from being rational or convincing.

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**MSWG'S AGM WEEKLY WATCH 5 June 2017 - 9 June 2017**

For this week, the following are the AGMs/EGMs of companies which are in the Minority Shareholder Watchdog 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](http://www.mswg.org.my).

<b>Date &amp; Time</b>	<b>Company</b>	<b>Venue</b>
06.06.17 (Tuesday) 10.30 am	Malaysian Resources Corp. Bhd (AGM)	Hotel Istana Kuala Lumpur City Centre, KL
08.06.17 (Thursday) 02.30 pm	Oriental Holdings Bhd (AGM)	Sri Mas Ballroom, Level 4, Bayview Hotel Georgetown Penang, 25A Farquhar Street, Penang
08.06.17 (Thursday) 02.30 pm	Vivocom Intl Holdings Bhd (AGM)	Tower A, M Hotels, Hock Lee Centre, Jalan Datuk Abang Abdul Rahim, Kuching, Sarawak
09.06.17 (Friday) 10.00 am	Per maju Industries Bhd (AGM)	Hyatt Regency Kinabalu, Jalan Datuk Salleh Sulong, Kota Kinabalu, Sabah

10.06.17 (Saturday) 11.00 am	KPS Consortium Bhd (AGM)	Klang Executive Club, Persiaran Bukit Raja 2, Bandar Baru Klang, Klang
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<b>The points of interest to be raised:</b>	
<b>Company</b>	<b>Points/Issues to Be Raised</b>
Malaysian Resources Corp. Bhd (AGM)	<p>The Chairman's Statement reported that the Board's strategy was predominantly focused on transit-oriented developments comprising 78% of its gross development value ("GDV") or RM38.4 billion and on urban development comprising high rise bespoke buildings.</p> <p>(i) How would the Board balance its strategy and focus in order to optimise in achieving sustainable profitability and earnings as a Transit Oriented Developer and as a Developer of bespoke buildings?</p> <p>(ii) Considering its property development &amp; investment's contribution of up to 55% of the Group's revenue, how would the Board assess its contribution in percentage terms for the next 2 to 3 years given the knowledge of the Group's property development activities underpinned by its 410.7 acres urban land with an estimated GDV exceeding RM50 billion?</p>
Oriental Holdings Bhd (AGM)	<p>The Automotive segment in Malaysia recorded a decrease in sales units by 12.8% (FY2016: 10,649 units; FY2015: 12,217 units) mainly due to the rising new car prices since January 2016 and a slowdown in overall market conditions resulting in cautious consumer spending.</p> <p>What are the measures taken by the Group to improve the performance of the Malaysian Automotive division in Malaysia given the current market conditions?</p>
Vivocom Intl Holdings Bhd (AGM)	<p>For FYE 2016, the Group recorded revenue of RM365.9 million, an increase of RM268 million from FYE 2015. The higher revenue was attributable to the full year consolidation of the results for the Construction and Aluminium segments. In addition, the Construction and Aluminium segments performed well and managed to secure numerous sizeable projects during the FYE 2016, which will keep the Group busy for the next 2-3 years.</p> <p>(i) What is the Group's current order book for the Construction and Aluminium segments?</p> <p>(ii) Could the Board share what are the current ongoing projects for these two segments as mentioned above?</p>
Permaju Industries Bhd (AGM)	<p>It was reported in the Annual Report that "Despite the best endeavours, the Group suffered further losses, net of tax, of RM10.97 million on a lower revenue of RM74.69 million for the financial year under review".</p> <p>The Group has continued to register loss after tax since 2007 despite measures taken by the Board to improve the Company's performance.</p> <p>(i) What were the actions taken by the Board and why were they not effective in improving the Company's performance?</p> <p>(ii) How does the Board plan to improve the Group's performance given that the measures taken by the Board have failed to yield positive results?</p>

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## MSWG'S WATCHLIST

### **RHB BANK BERHAD ("RHB") / AMMB HOLDINGS BERHAD ("AMMB")**

Both RHB and AMMB had on 1 June 2017 announced that approval from Bank Negara Malaysia ("BNM") had been obtained for the two parties to commence discussions for a proposed merger between RHB Banking Group and AmBank Group. Following the aforementioned approval by BNM, both parties have entered into an exclusivity agreement to negotiate and finalise terms and conditions of the proposed merger for submission to the relevant regulatory authorities. The exclusivity agreement will expire on 30 August 2017. It is envisaged that the transaction will effectively be an all shares merger.

*[Source: RHB's and AMMB's announcements on Bursa Malaysia's website on 1 June 2017]*

### **STONE MASTER CORPORATION BERHAD ("SMCB")**

The company announced that the EGM held on 30 May 2017 was invalid in accordance with the articles of association of the company.

There was no head table arranged for the seating of directors and the company secretary.

Mr Low Eng Tack, a proposed independent director suggested by Lee Fong Yin, had acted as Chairman of the meeting. The company objected to such conduct.

The company secretary was asked by Mr Low Eng Tack whether he could confirm if there was a quorum. The company secretary's response was that he could not confirm the presence of a quorum as no details of CDS accounts and IC numbers were made available to him. Notwithstanding that, the Chairman proceeded to continue the meeting.

Furthermore, the scrutineers appointed by the Company were not allowed to perform their duties.

Dato Koh Mui Tee informed the shareholders at the EGM that the meeting was invalid. Both Dato Koh Mui Tee and Dato Lee Hwa Cheng left the meeting thereafter.

The company does not recognise any board meeting and board resolution that the alleged new board may hold and does not recognise any new company secretary or any announcement that may be made by the alleged new board.

The company also put Lee Fong Yin @ Lee Vun Ya and the 8 directors proposed to be appointed by her on notice that their actions interfere with the court proceedings filed.

For avoidance of doubt, Dato Koh Mui Tee and Dato Lee Hwa Cheng are still the lawful directors of the company.

*[Source: SMCB's announcement on Bursa Malaysia's website on 30 May 2017]*

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## LOCAL NEWS AND DEVELOPMENTS

World economy on the recovery?

<http://www.thestar.com.my/business/business-news/2017/05/27/world-economy-on-the-recovery/>

Malaysia Airlines carried 5% fewer passengers in 1Q17 versus 4Q16

<http://www.theedgemarkets.com/article/malaysia-airlines-carried-5-fewer-passengers-1q17-versus-4q16>

Malaysia pledges to cut oil production by 20,000 barrels per day

<https://www.nst.com.my/business/2017/05/242858/malaysia-pledges-cut-oil-production-20000-barrels-day>

FGV denies deforestation in West Kalimantan

<http://www.thesundaily.my/news/2017/05/26/fgv-denies-deforestation-west-kalimantan>

Malaysia tackles taxpayer non-compliance more vigorously, 'no hidden agenda'- IRB

<http://www.theedgemarkets.com/article/malaysia-tackles-taxpayer-noncompliance-more-vigorously-no-hidden-agenda-irb>

Multi-Usage extends suspension of director for third time

<http://www.theedgemarkets.com/article/multiusage-extends-suspension-director-third-time>

Time for Islamic banks to consider merger, says banker

<http://www.themalaymailonline.com/money/article/time-for-islamic-banks-to-consider-merger-says-banker>

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## GLOBAL NEWS AND DEVELOPMENTS

Oil plunges 5% on disappointment with Opec cuts

<http://www.thesundaily.my/news/2017/05/26/oil-plunges-5-disappointment-opec-cuts>

US economy grows at tepid 1.2%; business spending softens

<http://www.theedgemarkets.com/article/us-economy-grows-tepid-12-business-spending-softens>

US jobless claims edge up, trade deficit widens

<http://www.themalaymailonline.com/money/article/us-jobless-claims-edge-up-trade-deficit-widens>

China factories seen growing at slowest pace in 8 months in May

<http://www.theedgemarkets.com/article/china-factories-seen-growing-slowest-pace-8-months-may>

Japan consumer prices rise in April, driven by energy costs

<http://www.thestar.com.my/business/business-news/2017/05/26/japan-consumer-prices-rise-in-april/>

China's reforms not enough to arrest mounting debt, says Moody's

<http://www.themalaymailonline.com/money/article/chinas-reforms-not-enough-to-arrest-mounting-debt-says-moodys>

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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 save for Stone Master Corporation Berhad.*
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#### **Feedback**

We welcome your feedback on our newsletter and our work. Email us at [mswg.ceo@mswg.org.my](mailto:mswg.ceo@mswg.org.my) with your comments and suggestions.

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