MSWG MINORITY SHAREHOLDERS WATCH GROUP
Badan Pengawas Pemegang Saham Minoriti Berhad (524989-M)

The Observer

12.06.2020

A Tale of Two RPTs

Against the backdrop of financial hardship taking toll on many businesses, minority shareholders should wise up against major shareholders who resort to injection of unprofitable companies via the related party transaction (RPT) channel.

Many of these RPTs do not require approval at a general meeting because they do not trigger the thresholds stipulated in the Listing Requirements. In such instances, the decision on the deal is solely from the Board which could be 'dominated' by the Interested Directors.

Although there are independent directors on the Board, sometimes they are beholden to the major shareholder and do not challenge the RPT; the benefit of all disinterested shareholders, in particular minority shareholders, are not well-considered when deliberating the transaction at the Board level.

Leong Hup International Bhd to acquire The Baker's Cottage Sdn Bhd

Leong Hup International Bhd's (LHI) recently proposed a RPT to acquire confectionary The Baker's Cottage Sdn Bhd (TBC) and two of the latter's related businesses for RM20 million cash.

On 1 June, LHI's wholly-owned subsidiary Leong Hup (M) Sdn Bhd entered into a share acquisition agreement to purchase 43.43 million shares in TBC for RM17.94 million from Emerging Glory Sdn Bhd which is owned by LHI executive chairman Lau Chia Nguang, his brothers and nephews who also sit on LHI's board.

Another RM1.53 mil will be utilised to acquire TBC's retail business from Astaka Shopping Centre (Muar) Sdn Bhd by Leong Hup Agrobusiness Sdn Bhd, a wholly-owned subsidiary of Leong Hup Malaysia, while the balance of RM862,126 is to fund TBC's retail business from Polyyarn Industries Sdn Bhd by Leong Hup Agrobusiness.

There are concerns that the RPT exercise could be a bailout, in disguise, as TBC has been loss-making for four consecutive financial years since FY2015 with accumulated losses of RM27.15 million as of 31 December 2018. (*Source: Focus Malaysia, 4 June 2020*). It should be noted that there are no profit guarantees given by the sellers under the RPT.

Red flag

Even if the TBC Group was able to return to the black with a net profit of RM593,000 in the financial year ended 31 December 2019 on the back of a RM41.6 million revenue (as per LHI's Bursa Malaysia filing dated 1 June), it is unsure whether TBC will continue to contribute positively to the LHI Group, especially in the current (and future) tough business environment for the food & beverage sector.

From the perspective of minority shareholders, another red flag to watch out for is that the purchase consideration of RM17.9 million for TBC was arrived at on a "willing-buyer willing-seller" basis.

The net asset value (NAV) of TBC stood at RM15.1 million as of 31 March 2020 which means there is close to RM3 mil or near 20% of the NAV, being paid over and above the NAV.

Typically, the RM3 million is considered as goodwill. But there is no disclosure such as the outlook of TBC to justify the payment of goodwill; nor is there mention of plans to be implemented to ensure sustainable positive contribution from TBC.

The proposals are not subject to shareholders' approval and/or any other relevant authorities. This is because RPTs must breach certain financial thresholds in the listing requirements for an extraordinary general meeting to be called to solicit shareholders' approval; the board can decide if the RPT is below the thresholds.

The broader picture remains that LHI which debuted on 16 May 2019 at an initial public offering price of RM1.10 has not been financially performing judging from its Q1FY20's net profit which contracted 72% to RM25.32 million (Q1FY19: RM90.28 million) on the back of a slight decline in revenue to RM1.43 billion (Q1FY19: RM1.51 billion). Its stocks closed at 66.5 sen on 10 June after having touched an all-time low of 43 sen on 19 March.

In a media release dated 19 May, the company's group chief executive officer Tan Sri Francis Lau Tuang Nguang attributed its poor Q1FY20 performance to adverse impact from the COVID-19 health crisis which gave rise "to unfavourable selling prices of poultry products in our markets and exerting considerable pressure on margins"; this would likewise also impact TBC, going forward.

A restructured version of Main Board-listed Leong Hup Holdings Bhd that was delisted in April 2012, LHI also did not fare well in FY19. The company's net profit dwindled 13.7% to RM213 million from RM246.75 million a year ago although its revenue rose to RM6.05 billion from RM5.75 billion in the year before.

BCorp buys Singer Malaysia

Another RPT that was mooted about the same time as LHI's, but of a much bigger proportion, is that of Berjaya Corporation Bhd (BCorp) inking a memorandum of understanding to acquire 100% of Singer (M) Sdn Bhd from Berjaya Retail Sdn Bhd for RM536 million. BCorp's controlling shareholder and founder Tan Sri Vincent Tan Chee Yioun is the owner of Singer.

Unlike the LHI acquisition of TBC, BCorp's proposed deal is subject to shareholders' approval in view of the quantum involved breaching the RPT-thresholds stipulated in Chapter 10 of Bursa Malaysia's Main Market Listing Requirements.

BCorp will make a net payment of RM388 million after offsetting the Singer Group's inter-company debts of RM148 million against the purchase consideration of RM536 mil.

In a filing to Bursa Malaysia dated 2 June, BCorp said the acquisition will be settled via the issuance of new BCorp shares at an issue price of 33 sen each, representing a premium of 14 sen or about 74% over the May 29 closing price of 19 sen.

As at 31 December 2019, the unaudited net assets of the Singer Group is RM561 million. Additionally, Tan will provide a profit guarantee to BCorp that Singer will achieve an after tax profit of RM20 million annually for the financial years ending 31 December 2020 and 31 December 2021.

According to CTOS data, Singer recorded an after tax profit of RM31.2 mil for its financial year ended 31 December 2018, up 64% against RM19 million the year before while its annual revenue grew to RM321.96 mil in FY18 versus RM310.97 mil in FY17. (*Source: theedgemarkets.com, 1 June 2020*).

Curbing RPT abuses

To curb RPT abuses, the CFA Institute Centre for Financial Market Integrity proposes among others, that market regulators should review the existing thresholds to ensure that they "must not be so high as to allow controlling shareholders to conduct a series of small deals with ultimately the same effect as a single large transaction, nor so low as to be costly and cumbersome to administer".

Another workable solution is to have independent directors to fulfil the role of "vigilantes" on behalf of the minority shareholders as opposed to merely be a rubber stamps of the CEOs, company founders or controlling stakeholders; but sometimes they are not vigilant enough.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 15 - 19 June 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
15.06.20 (Mon) 09.30 am	British American Tobacco (M) Bhd (AGM)	BAT continues to face strong headwinds especially the prevalent illicit cigarettes issue amid current challenging environment.
15.06.20 (Mon) 10.00 am	Chemical Company of Malaysia Bhd (AGM)	To meet growing market demand for chlor-alkali products, its Chemicals Division embarked on a capacity expansion exercise in FY18. The expansion in Polymers business is making good headway thanks to increasing global demand for gloves.
15.06.20 (Mon) 03.00 pm	Maxis Bhd (AGM)	Maxis' service revenue decreased 3.4% year-on-year to RM7.8 billion in FY19 vs RM8.07 billion FY18 due to the termination of a network sharing agreement. As a result, it posted a lower normalised net profit of RM1.5 billion compared to RM1.77 billion in 2018. It targets to pay not less than 75% of its net profit as dividend to shareholders.
16.06.20 (Tue) 10.00 am	Petronas Chemicals Group Bhd (AGM)	Petronas Chemicals made its first venture into the specialty chemicals and silicones business last year by acquiring Dutch-based Da Vinci Group. The exercise will allow it to expand the high-value chemicals segment.
17.06.20 (Wed) 10.00 am	Duopharma Biotech Bhd (AGM)	Duopharma Biotech's diversification into the biosimilars space is gradually bearing fruits. The specifications of its biosimilars products such as Erysaa are in the midst of evaluation for upcoming tender held by Ministry of Health.
17.06.20 (Wed) 11.00 am	MSM Malaysia Holdings Bhd (AGM)	MSM faces immense pressures and will need strong business strategies to deliver positive result in FY20.

		Last year saw its debt level increased and a substantial provision of RM140.55 million for impairment of certain assets. It is also in the process of divesting its non-core business.
17.06.20 (Wed) 11.00 am	LPI Capital Bhd (AGM)	Concern is on how the COVID-19 pandemic affecting the general insurance industry with significant slowdown in economic activities and consumer spending.
17.06.20 (Wed) 02.30 pm	Zhulian Corporation Bhd (AGM)	The Group is cash rich with zero gearing and has been consistently distributing dividends every year. Its challenge ahead is to grow its business further by rapidly expanding its footprint to more countries.
18.06.20 (Thur) 10.00 am	Cypark Resources Bhd (AGM)	The renewable energy provider continues to expand its portfolio of asset with its most recent acquisition of 51% share in a biogas plant operator. It is also expected to participate in the bidding of 1GW Large Scale Solar 4 project.
18.06.20 (Thur) 10.00 am	Cahya Mata Sarawak Bhd (AGM)	CMS saw a substantial 33% drop in pre-tax profit in FY19 due to the lower contribution from associate companies and lower operating profits from core business divisions.
18.06.20 (Thur) 10.30 am	Vizione Holdings Bhd (EGM)	Vizione's proposed private placement exercise is to fund the existing and future property development and construction projects.
18.06.20 (Thur) 11.00 am	Amalgamated Industrial Steel Bhd (AGM)	The initial start-up cost in marketing and construction activities has affected the Group's property development performance.
19.06.20 (Fri) 11.00 am	FGV Holdings Bhd (AGM)	FGV implemented a series of transformation strategies in 2019 to turn around itself with measures like divesting non-core and non-performing businesses. This has resulted a lower net loss of RM246 million in FY19. Nevertheless, outlook of palm oil industry remains uncertain as the full impact of COVID-19 outbreak has yet to be determined. On the other hand,

		will India's resumption of purchases on Malaysian palm oil and the CPO export duty exemption help FGV?

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
British American Tobacco (M) Bhd (AGM)	BATM said illegal tobacco trade flourished further during Movement Control Order (MCO) period due to its wide accessibility. Besides, household spending on alcohol and tobacco during MCO period also fell significantly as consumers were cautious in their spending habit. How would these affect BATM's performance in FY2020 against the backdrop of the existing unresolved issues?
Chemical Company of Malaysia Bhd (AGM)	Due to a fire incident at the RAPID site on April 2019, CCM's expectation of a caustic soda supply to PETRONAS pursuant to the contract did not materialise as planned and there is an expected delay towards the end of 2020 (page 11 of AR2019). a) Were there any payment of penalty or any serious repercussions arising from the delay? Is the supply now expected to be on schedule? b) Following the delay, was there a change in the estimated contract value of RM315.9 million which was announced on 23 April 2019?
Maxis Bhd (AGM)	The Group will be delivering operational cost savings of RM1 billion over the next three years to bring about greater efficiencies and fund its growth agenda. (Page 22 of Integrated Annual Report – IAR) a) Has the Group been able to achieve any operational cost savings (please state the areas and amount, if any) in FY 2019? b) In which areas, and how, would the Group be able to deliver the cost savings over the next three years?
Petronas Chemicals Group Bhd (AGM)	Share of profit of equity accounted joint ventures and associates, net of tax shows a loss of RM54 million in FY2019 compared to a profit of RM108 million in FY2018 (Page 108 of IR). a) Which entities contributed to the loss and what were the reasons for the loss? b) Is the situation expected to be better and will the entities become profitable in FY2020?

<table>
<tr><td>Duopharma Biotech Bhd
(AGM)</td><td>Investment into highly liquid investments with financial institutions has increased 87.2% year-on-year to RM42.87 million from RM22.9 million in FY18 (Note 11, Notes to the Financial Statements, AR2019).

What is the rationale for these liquid investments? What are the financial instruments invested in? Are these interest-bearing instruments? If yes, what is the weighted average interest rate offered by these investments?</td></tr>
<tr><td>MSM Malaysia Holdings Bhd
(AGM)</td><td><u>Selling Price and Profit Margins</u>
a) The issuance of approved sugar permits (AP) to foreign producers has resulted in increased competition with margins being pressured and reduced average selling price. In October 2019, MSM's management increased the selling price to wholesale segment and this resulted in lower volume for the wholesale segment and increased volume in the industry segment (page 36 of the Annual Report).

How will the company ensure its competitive advantage?

b) The Company's profit margin reduced significantly from 8.9% in 2018 to 0.73% in 2019. Please explain the significant decrease in profit margins.

<table>
<tr><th></th><th>2019
RM 000</th><th>2018
RM 000</th></tr>
<tr><td>Sales</td><td>2,006,911</td><td>2,214,376</td></tr>
<tr><td>Cost of Sales</td><td>1,992,260</td><td>2,016,022</td></tr>
<tr><td>Gross Profit</td><td>14,651</td><td>198,354</td></tr>
<tr><td>Gross Profit Margins</td><td>0.73%</td><td>8.9%</td></tr>
</table></td></tr>
<tr><td>LPI Capital Bhd
(AGM)</td><td>The amount invested in unit trust quoted in Malaysia has increased by 5.5 times to RM235.52 million in FY19 as compared to RM36 million in the year before (page 176 of AR2019).

What prompted the Company to increase its investment in unit trust? What are the types of unit trust that you have invested in? What is the expected yield from such investment?</td></tr>
<tr><td>Zhulian Corporation Bhd
(AGM)</td><td>In 2019, the Group accelerated its strategy of engaging and recruiting younger generation into the Zhulian Group's MLM business network to groom new direct sales Leaders for the long-term growth and sustainability of the Group (Chairman's Statement (Page 6)).</td></tr>
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	What is the current total number of direct sales Leaders and Distributors? What is the respective addition and attrition from end FY 2018 to-date?
Cypark Resources Bhd (AGM)	The Company intends to restructure its existing borrowings to further reduce financing costs and enhance bottomline (page 18 of Annual Report 2019). a) What is the size of borrowings that the Company is looking to restructure out of the total loans and borrowings of RM1.17 billion? b) What is the expected interest cost saving to be achieved from the debt restructuring? c) What is the average interest rate (in exact figures) for the term loans, revolving credits and trust receipts (page 129 of AR2019) (as base lending rate and cost of funds vary from bank to bank)? d) With the Group's gearing ratio approaching the internal target of 50% (page 145 of AR2019), is there a need for the Company to reduce loans and borrowings?
Cahya Mata Sarawak Bhd (AGM)	1. Under Ordinary Resolution 7, CMS is seeking shareholders' approval for the payment of Directors' remuneration (excluding Directors' fees) to the Non-Executive Directors up to an amount of RM5,500,000 from the date of the forthcoming AGM to the next AGM of the Company. At the previous AGM in 2019, CMS had sought shareholders' approval for the similar payment of up to RM2,650,000. What is the reason to propose a payment of up to RM5,500,000 for the Directors' remuneration (excluding Directors' fees) to the Non-Executive Directors as this is more than double the previous year's proposed payment? 2. We refer to Page 144 of the Integrated Annual Report 2019 that the amount paid for non-audit services, including tax services provided by the Auditors amounted to RM1,050,000 was 107.36% of the audit fees of RM 978,000 in FY2019. a) Please provide the breakdown of the non-audit services, including tax services provided by the Auditors.

	b) We note that CMS via its Group Audit Committee has a policy with regard to the non-audit fee incurred (Page 131 of the Integrated Annual Report 2019). Can the Committee explain the appropriateness level of the non-audit fees incurred in FY2019, which was more than 50% of the audit fees?
Amalgamated Industrial Steel Bhd (AGM)	Utamara Boutique Residences was successfully launched in April 2019 and managed to garner 20% sale for FY2019 along with encouraging bookings in spite of the prevailing market sentiment (Page 19 of the Annual Report 2019) What is the latest take-up rate for Utama Boutique Residences? What is the Group's expectation for the boutique residence sale in FY2020?
FGV Holdings Bhd (AGM)	It was reported in The Edge Financial Daily on 21 April 2020 that FGV has voluntarily ceased operations at five palm oil mills within the Sahabat region in Lahad Datu, Sabah, after police enhanced the Movement Control Order (MCO) in the area following the detection of 11 Covid-19 cases. a) Besides the five palm oil mills operations that were affected by the MCO, how has the MCO impacted the Group's other operations? b) Did the Group's plantations suffer any crop loss due to the MCO? What is the estimated crop loss suffered during this period?

MSWG TEAM

Devanesan Evanson, Chief Executive Officer, (devanesan@mswg.org.my)
Linnert Hoo, Head, Research & Development, (linnert.hoo@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)
Nor Khalidah Mohd Khalil, Executive, Corporate Monitoring, (khalidah@mswg.org.my)

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•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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