



# The Observer

21.05.2021

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## ❖ Unanswered questions loom at Cahya Mata

THE recent U-turn by the board of Cahya Mata Sarawak Bhd (CMS) that culminated in the swift return (on 6 May) of deputy group chairman Datuk Seri Mahmud Abu Bekir Taib from his 22 April leave pending an investigation into allegations of conflict of interest by the authorities has surely sparked many unanswered questions in the minds of minority shareholders.

Further pitted against the fall of the company's share price, questions abound whether there has been a proper investigation by the authorities, internally by the board or by independent parties.

While Mahmud's case seems to have been cleared, the chief financial officer (CFO) of the company was suspended for allegation of possible financial **mis**management in relation to the Company's investment and operations. As such, many seasoned investors would have readily assumed that CMS is besieged with both a deep and delicate internal predicament.

This is especially so considering the shares of CMS tumbled 33 sen or 16.26% to close at RM1.70 with 80.48 million shares traded on 6 May.

### **What is brewing in CMS?**

Recall that on 22 April, the Sarawakian conglomerate which is closely linked to the family of Sarawak Governor Tun Abdul Taib Mahmud announced that Mahmud had voluntarily taken leave of absence from all his positions in the group to facilitate a full and transparent investigation by the authorities.

This follows allegations of conflict of interest made through the Group's whistleblower channel involving him and former CIO Karl Vink @ Khalid Abdullah.

Apparently, the allegations were received through the Group's whistleblower channel. Upon receipt of the whistleblower complaints – and prior to reporting to the authorities – Cahya Mata said its board has acted immediately by conducting a full investigation to discharge its fiduciary duties to protect the best interest of the company and all its stakeholders.

In a media statement, the company requested all stakeholders to allow the investigations to proceed and patiently await the outcome. On its part, the board said it would cooperate fully with the authorities and has requested the management to also extend its fullest cooperation.

At this juncture, the action of Mahmud is praiseworthy as he had voluntarily asked to go on leave as opposed to the company 'asking' him to go on leave.

After all, leave of absence would allow the company to investigate allegations and conclude investigations on time without the fear of interference – perceived or real – by those involved in the allegations.

### **Unresolved questions**

Interestingly, as Mahmud went on his voluntary leave, another event was unfolding within CMS.

Coming hot-on-the-heels of the conflict of interest allegation against Mahmud, the company's Board suspended its Group CFO Syed Hizam Alsagoff on 5 May with immediate effect for 30 days after receiving a formal complaint from investors on possible financial mismanagement pertaining to the investment and contract losses in the Pan Borneo Highway from 2016 to 2020.

At an analysts' briefing, CMS' group managing director clarified that matters relating to its deputy group chairman and Group CFO were unrelated.

In relation to Mahmud's position, the Company's Board said it was satisfied that the allegation involving Mahmud had no basis, thus he would be allowed to resume his duties.

"The board of directors of CMS has passed a resolution requesting Mahmud to continue his service with the group and not to take leave of absence as announced on April 22," the company pointed out, noting that the issue was related to the award of a contract by CMS I-Systems Sdn Bhd, a wholly-owned subsidiary of CMS, to Vienna Advantage GmbH.

What is intriguing here is that the latest media statement of CMS made no mention of the role of the whistleblower or the whistleblower's allegations nor how the board or the authorities (presumably SC and Bursa Malaysia) validated the allegation levelled at Mahmud and former CIO Karl Vink @ Khalid Abdullah.

### **Two intertwined issues**

Back to the Group CFO's suspension, CMS said Syed Hizam's duties have been temporarily taken over by Madam Tan Mei Fung, the general manager in group finance, who has been with the company for 24 years.

"Based on management's guidance, the total loss incurred was about RM54 million which had already been recognised in the previous financial years," noted TA Securities Research analyst in a company update dated 7 May.

"The management guided that no further loss is expected from this incident in the foreseeable future."

Moreover, CMS is said to be in the midst of appointing an external independent party to investigate the allegations and principally to perform internal control reviews, especially on its construction division.

This would, among others, entail drawing the terms of reference (ToR) to appoint a consultant, the target of which is by mid-May 2021.

"As the ToR would also include a review of the group's control system and risk mitigation measures to ensure no future recurrences, we think that the consultant's work could take a while," opined Maybank IB Research in a company update dated May 7. "Meanwhile, a potential share buyback exercise may cap its (CMS) share price near-term downside

### **A note on whistleblowing**

Regarding the allegation of conflict of interest which came about through the CMS group's whistleblower channel, MSWG wishes to point out that whistleblower policies are a powerful tool to weed out wrongdoings if they operate transparently.

Proper protection should be accorded to whistleblowers and they should never be victimised, for fear of non-protection and victimisation often hinders potential whistleblowers from coming to the fore to divulge wrongdoings.

On this note, it may be worthwhile to encourage anonymous whistleblowing although this may pose some disadvantages like the inability to identify the whistleblower for further information.

There are good people out there who want to highlight wrongdoings but do not trust the system despite the promises of non-disclosure and non-victimisation. There is also the risk that something may happen to them and/or their families if their identities are known.

Anonymous whistleblowing allows such risk-averse whistleblowers to highlight wrongdoings. Surely the probative effect of a robust anonymous whistleblowing policy clearly outweighs its prejudicial effect; the ends surely justify the means.

**Devanesan Evanson**  
**Chief Executive Officer**

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### **MSWG AGM/EGM Weekly Watch 24 – 28 May 2021**

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](http://www.mswg.org.my).

Date & Time	Company	Quick-take
24.05.21 (Mon) 11.00 am	Public Bank Bhd (AGM)	<p>Public Bank continued to outperform its peers in terms of asset quality. For FY2020, it recorded the industry lowest gross impaired loan ratio of 0.4% and cost to income ratio of 34.6%.</p> <p>However due to uncertainties arising from the COVID-19 pandemic, Public Bank expects the allowance for impairment on loans, advances and financing for FY2021 to remain elevated.</p>
25.05.21 (Tue) 10.00 am	Hengyuan Refining Company (AGM)	<p>In FY2020, HRC posted a net profit of RM251.0 million, a six-fold increase as compared to RM35.0 million recorded in FY2019. Refining margins and crude prices continued to remain volatile during the year, resulting in a full year average Current Cost of Stock margin (CCS) of USD5.23/bbl (FY2019: USD2.49/bbl) and First-In, First-Out (FIFO) margin of USD2.68/bbl (FY2019: USD3.32/bbl) including the effects of crack swaps.</p>
25.05.21 (Tue) 10.00 am	Dutch Lady Milk Industries Bhd (AGM)	<p>Dutch Lady achieved 3.2% growth in revenue to RM1.1 billion in FY2020, due to increased in-home consumption. However, PAT dipped by 28.7% y-o-y to RM73.4 million, mainly attributed to rising global dairy prices, foreign exchange fluctuations and impact of the COVID-19 pandemic.</p> <p>The Group has purchased a land in Bandar Enstek in Negeri Sembilan where it plans to invest RM340 million in the coming years to construct a new manufacturing facility in this Halal Tech Park to support the growing milk consumption in Malaysia.</p>
25.05.21 (Tue) 10.00 am	UOA Development Bhd (AGM)	<p>In FY2020, the total revenue from property development for the Group was lower at RM844.6 million and the PATAMI was at RM391.3 million.</p> <p>The lower revenue was a result of a slower property sales and there was no new project launch during the</p>

		year. The temporary suspension of construction activities during the Movement Control Order (MCO) period also resulted in a delay in progressive revenue recognition.
25.05.21 (Tue) 10.00 am	Puncak Niaga Holdings Bhd (AGM)	Puncak Niaga achieved a net profit of RM3.097 million as compared to a net loss of RM62.126 million in FY2019, marking its return to profitability since FY2016
25.05.21 (Tue) 10.00 am	Telekom Malaysia Bhd (AGM)	For FY2020, TM recorded RM10.84 billion in revenue compared to RM11.43 billion in FY2019. The 5.2% decline in revenue is reflective of the macroeconomic and pandemic challenges faced during the year. Nevertheless, TM achieved solid profitability growth, driven by its ongoing performance improvement programmes. Its PATAMI improved by 60.6% from RM632.7 million in FY 2019 to RM1.02 billion in FY 2020.
25.05.21 (Tue) 10.00 am	RHB Bank Bhd (AGM)	RHB achieved a net profit of RM2.03 billion for FY2020, which represented a decline of 18.1% from the year before. The weaker performance was mainly due to the impact of net modification loss and higher allowances for credit losses which included additional provisions set aside for potential COVID-19 impact.
25.05.21 (Tue) 10.00 am	Hap Seng Consolidated Bhd (AGM)	In FY2020, Hap Seng Consolidated Group recorded 18% y-o-y decline in revenue to RM5.8 billion, primarily due to lower contribution from all divisions except for the plantation division. The lower total revenue was due to the slowdown in economic activities and negative market sentiments arising from the COVID-19 pandemic. Correspondingly, its profit for the year after non-controlling interests for FY2020 dipped by 35% y-o-y to RM750.2 million. Outlook for the Group's performance in FY2021 would depend on the anticipated recovery of economic activities in 2021.
25.05.21 (Tue) 3.00 pm	Gas Malaysia Bhd (AGM)	Revenue of Gas Malaysia for FY2020 was lower at RM6.69 billion compared to RM6.89 billion in 2019.

		<p>This is due to lower ASP for natural gas, and a slight decrease in the volume of natural gas sold in 2020. Nevertheless, the impact was mitigated by recognition of revenue cap adjustment in the current financial year.</p> <p>For FY2021, it expects the demand for gas to increase as consumption and manufacturing activities return to pre-pandemic levels and increase further over the longer term.</p>
25.05.21 (Tue) 3.00 pm	GHL Systems Bhd (AGM)	<p>GHL's revenue declined 3.8% y-o-y to RM334.5 million (2019: RM347.7 million) while pre-tax profits declined 51.1% to RM21.3 million (2019: RM43.6 million), mainly impacted by the global COVID-19 pandemic across its group operations. GHL's TPA business was adversely affected as most of the businesses in the retail, leisure, tourism and other sectors were closed during the MCO period. However, the pandemic and MCOs also have accelerated the shift towards e-commerce and cashless transactions at physical stores. The long-term potential of the ASEAN e-payments industry remains positive.</p>
25.05.21 (Tue) 3.30 pm	GHL Systems Bhd (EGM)	<p>The EGM is to seek shareholders' approval for the establishment of an employees' share scheme for up to 8% of the total issued share capital of GHL (excluding treasury shares, if any). The Company will be terminating its existing executives' share scheme which will be expiring on 29 August 2023.</p>
25.05.21 (Tue) 3.30 pm	Bumi Armada Bhd (AGM)	<p>In FY2020, the Group recorded a 13% increase in revenue compared to 2019. The gross profit margin increased to over 40% which reflects not only the increased scale of revenue generation but better operational and cost practices.</p> <p>Despite incurring impairments with respect to the OMS business, the Group's bottom line continued to improve with a net profit of RM125.6</p>

		million compared to RM58.6 million the year before.
27.05.21 (Thur) 11.00 am	Kerjaya Prospek Group Bhd (AGM)	Its profit after tax ("PAT") decreased 35.3% y-o-y to RM 90.8 million in FY2020 as compared to RM140.3 million achieved in the preceding year. The weaker performance was due to the complete halt of the construction sector.
28.05.21 (Fri) 09.00 am	Duopharma Biotech Bhd (AGM)	Things are looking up for this pharmaceutical company as it is in final stage of negotiations with the Malaysian government to provide the Russian produced vaccine - Sputnik, for the National Vaccination Programme. It has also invested US\$5 million in American biomedical company, AST, which is in final clinical trials to produce a drug to counter Alzheimer's disease. If the drug passes the trials and is ready for commercialisation, it will be a major game changer for Duopharma Biotech Berhad.
28.05.21 (Fri) 10.30 am	Kossan Rubber Industries Bhd (AGM)	Kossan's challenge moving forward is how it will maintain its competitive edge as more players enter the glove market as demand for gloves continues to grow due to worsening Covid-19 condition around the world. The company's profitability will also depend on the trend of Average Selling Prices (ASPs) of gloves.
28.05.21 (Fri) 10.30 am	Vizione Holdings Bhd (AGM)	Consequential to the pandemic and movement restrictions, the Group recorded a net loss of RM8.9 million in FY2020 mainly due to the fixed operating expenses and financing costs while its operations were affected. It also incurred additional costs to protect the safety of its workforce, and performing Covid-19 tests, amongst others.
28.05.21 (Fri) 03.00 pm	IHH Healthcare Bhd (AGM)	IHH's profitability was affected by the worsening Covid-19 in markets which the Company operates in. Prudent cost management resulted in the mitigation of the decline in profitability due to the pandemic. IHH should grow its nascent lines of businesses such as telemedicine to ensure that it

		continue to perform well in challenging times.
28.05.21 (Fri) 04.30 pm	PNE PCB Bhd (EGM)	Despite the various efforts by the Group to improve its financial condition, the Group has been facing challenges as a result of increased competition and product offerings from both local and foreign players. The Group has resolved to diversify its existing businesses to include the gloves business.

<b>One of the points of interest to be raised:</b>	
<b>Company</b>	<b>Points/Issues to Be Raised</b>
Public Bank Bhd (AGM)	<p>Public Bank's total allowance for impairment on loans, advances and financing rose by RM951.8 million to RM1.1 billion as compared to RM154 million in FY2019 due to higher pre-emptive provisioning set aside for potential increase in credit losses arising from the COVID-19 pandemic.</p> <p>Meanwhile, credit charge ratio jumped to 0.33% from 0.05% in FY2019.</p> <p>a) In view of the various Movement Control Orders (MCO) implemented in 2021, how will Public Bank's asset quality look like in FY2021? Will the allowance for impairment on loans, advances and financing remain elevated in FY2021?</p> <p>b) During an analyst briefing held in February 2021, Public Bank guided a better outlook in FY2021 with a potential 10-12 basis points expansion in net interest margin (NIM), and a lower credit charge-off rate of 20 - 25bp in FY21. Is this guidance still valid?</p>
Hengyuan Refining Company (AGM)	<p>The Group recorded inventories written down and a provision for impairment of receivables of RM28.1 million and RM26.2 million respectively in FY2020 as compared to nil values in FY2019. (page 81 of AR)</p> <p>a) What were the reasons for the inventories write-down in FY2020?</p> <p>b) The RM26.2 million provision for impairment of receivables is from Hin Leong Trading (Pte) Ltd that has been sued by various creditors for fraud. What is the Company's maximum exposure to this debtor? Is there any possibility of recovery from this debtor?</p>

Dutch Lady Milk Industries Bhd (AGM)	The Group's gross profit margin decreased by 5.5% from 37.9% in 2019 to 32.4% in 2020. Given the increasing global dairy raw material prices especially for skimmed milk powder, what is the Company's plan to mitigate the impact from the increased input costs to protect its gross profit margin in the coming year?
UOA Development Bhd (AGM)	<p>The Group's inventory of completed properties reduced by RM32.6 million or 3.5% from RM931.9 million to RM899.3 million. (page 99 of AR)</p> <p>a) What percentage of the inventory of completed properties are properties completed in FY2020? Where is the location of these properties and what are their values?</p> <p>b) What percentage of the inventory of completed properties is aged more than 2 years? Where is the location of these properties and what are their values?</p>
Puncak Niaga Holdings Bhd (AGM)	<p>Diversifying into Healthcare Services via TRIpIc Berhad Group of companies</p> <p>2021 marks the year when the Group has successfully ventured into the healthcare and healthcare services industry since its inception in 1997 (Page 25 of the Annual Report 2020).</p> <p>a) Does the Group have enough know-how to venture into the healthcare services industry?</p> <p>b) Is the Group facing any operational difficulties? If so, what is the Group 's strategy to manage these difficulties?</p> <p>c) Is there any potential to grow the segment further? If so, what is the potential?</p>
Telekom Malaysia Bhd (AGM)	On 6 April 2020, TM ONE launched Cloud a (Cloud Alpha) to strengthen enterprise and public sectors' digital resilience. It subsequently signed a Memorandum of Agreement (MoA) with Huawei Technologies (M) Sdn Bhd (Huawei), sealing a collaboration that will see further expansion of its Cloud services offered by its enterprise and public sector business arm, TM ONE. With the MoA, TM ONE customers will enjoy the full capabilities of Cloud a solutions. (Page 21 of IAR)

	<p>a) What was the revenue contribution from the Cloud services? What is the outlook going forward?</p> <p>b) Apart from cloud services, does TM have (or plans to have) any collaborations/dealings with Huawei on 5G? If so, what will be the benefits of such collaborations/dealings to TM?</p>
RHB Bank Bhd (AGM)	<p>As of 31 March 2021, the Bank had provided RM16.5 million payment assistance to 180,984 individuals and RM4.9 billion to 1,732 SME customers.</p> <p>a) Of the total payment assistance provided, how many percent of the affected borrowers have resumed repayments?</p> <p>b) What is the size of loan that is still under extended relief measures after the expiry of the six-month automatic loan moratorium which ended on 31 September 2020?</p> <p>c) Has the Bank seen improvement in the collection of loans from borrowers under the extended relief measures?</p> <p>d) Is there an increased default risk for the loans involved in the TPA?</p> <p>e) Is there a need for provisions for these loans?</p>
Hap Seng Consolidated Bhd (AGM)	<p>Gek Poh (Holdings) Sdn Bhd (Gek Poh), the holding company, has provided a total guaranteed profit after tax of RM275.03 million over 5 financial years (FY2016 to FY2020) (Guaranteed PAT) in relation to the purchase price paid by HSCB for the acquisition of Malaysian Mosaics Sdn Bhd (MMSB) in FY2016. Based on the audited results of MMSB for FY2020, the Guaranteed PAT has not been fulfilled, hence, Gek Poh has an obligation to pay the profit guarantee shortfall. In FY2020, the profit guarantee shortfall receivable from Gek Poh amounted to RM179.9 million. (page 159 &amp; note 11 (b)(i) page 231 of AR 2020)</p> <p>What is the status on the collection of the abovementioned receivable?</p>
Gas Malaysia Bhd (AGM)	<p>It was reported that Gas Malaysia released the access arrangement document for its gas distribution pipelines in June 2020 as part of the requirement to allow the</p>

	<p>implementation of the third-party access (TPA) regime in the Peninsular Malaysia gas market.</p> <p>As of 11 May 2021, the said document was not available on Gas Malaysia's website.</p> <p>a) What are the salient points included in the document? Does Gas Malaysia receive a fee for the use of Natural Gas Distribution System (NGDS) by third parties under the TPA mechanism? Is the Company currently in talks with any third party to utilise the NGDS?</p> <p>b) With the market liberalisation under TPA and entry of new players, is there any imminent risk of discontinuation of gas supply agreements with existing industrial customers?</p>
GHL Systems Bhd (AGM)	<p>Bad debts written-off rose sharply to RM2.3 million (2019: RM0.6 million). Inventories written-off increased to RM1.4 million (2019: RM0.7 million) (page 84 of AR2020).</p> <p>a) What were the reasons for the sharp increase in bad debts written-off by the Company in FYE2020? What was the nature of these bad debts? What were the measures taken to recover the said bad debts prior to it being written-off?</p> <p>b) What were the reasons for the significant increase in inventories written-off? What is the nature of these inventories that has been written-off?</p>
Bumi Armada Bhd (AGM)	<p>The Group managed to sell 5 Offshore Service Vessels ("OSV") and secured the sale of another 11 OSVs as at FY2020. (page 69 of AR)</p> <p>a) What is the financial impact of the sales of 11 OSVs to the Group's financial result?</p> <p>b) When is the sale expected to be completed?</p> <p>c) Will there be any more disposal of OSVs in FY2021? If yes, what is the expected number?</p> <p>d) What is the utilisation rate of OSV as at March 2021 as compared to December 2020?</p>

	<p>e) Is the Group exiting the Offshore Marine Services segment? If yes, where is the new business growth area?</p>
<p>Kerjaya Prospek Group Bhd (AGM)</p>	<p>Kerjaya Prospek achieved an order book replenishment of RM1.5 billion in FY2020. This brings the outstanding order book to RM3.5 billion as at 31 December 2020 (Page 12 of the Annual Report 2020).</p> <p>a) How long will the order book of RM3.5 billion last?</p> <p>b) What is the targeted order book replenishment in the next two financial years?</p>
<p>Duopharma Biotech Bhd (AGM)</p>	<p>The Company is hoping to be able to supply MOH with Russian COVID-19 vaccine, Sputnik-V. The Company has executed Term Sheets with the Government of Malaysia ("Government") and the Russian Direct Investment Fund (RDIF), which is the marketing agent for the vaccine. Subject to the fulfilment of conditions precedent including the execution of a definitive supply agreement the Company should be able to contribute to the national vaccination programme starting from 2021'. (Page 11 of AR 2020)</p> <p>a) What is the current status of the project to supply the Malaysian government with the Russian Sputnik vaccine?</p> <p>b) What is the projected contribution to Duopharma's revenue if this project materialises?</p>
<p>Kossan Rubber Industries Bhd (AGM)</p>	<p>The Covid-19 pandemic has witnessed overwhelming demand for gloves and glove producing companies such as Kossan have seen a sharp increase in top line and bottom-line growth in FYE 2020. The increased demand has also seen the entry of many new players into the industry.</p> <p>a) With the increased competition within the rubber glove industry, what is Kossan's competitive edge to ensure continued growth of the Company?</p> <p>b) What is the current plant utilisation rate of the Company? Does the Company plan to increase its capacity? Is demand for gloves expected to increase with the discovery of new Covid-19 variants.</p>
<p>Vizione Holdings Bhd (AGM)</p>	<p>There is an impairment loss on trade receivables of RM5,901,468 recorded in FYE2020 (FY2019: Impairment loss on trade receivables of RM60,689) (Page 120 of the Annual Report 2020).</p>

	<p>a) What is the nature of the trade receivables involved in the impairment loss exercise?</p> <p>b) Is the amount recoverable?</p> <p>c) What are the measures taken to collect the trade receivables?</p> <p>d) How much of the impairment loss on the trade receivables have been recovered to-date?</p>
IHH Healthcare Bhd (AGM)	It was reported in the media recently that the majority shareholder of IHH, Mitsui was planning to buy Khazanah's stake in IHH. Is the Board or management aware of any such discussions? If yes, please provide an update.
PNE PCB Bhd (EGM)	<p>The rapid global advancement of 5G technology, IoT and artificial intelligence are also seen as catalytic to the growth of the PCB industry in which the Group's business are involved in. (page 22 of the Circular)</p> <p>Why does the Group not emphasise on turning around its PCB business instead of venturing into gloves business in which it has no expertise especially since the glove business has attracted an influx of new players which makes the glove business more competitive?</p>

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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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