



The Observer

22 March 2019

MESSAGE FROM THE CEO

London Biscuits Berhad - Inconvenience to Shareholders and the Group's Dire Straits - Minority Shareholders Be Aware

Inconvenience to Shareholders

London Biscuits Berhad (the Company) has called for an AGM on 29th March, a Friday at 8 am in Ulu Tiram, Johor Darul Takzim. An EGM is scheduled for the next day, Saturday, also at 8 am.

The above scenario raises many issues that inconveniences minority shareholders and is not conducive to enable them to attend the general meetings.

1. Is it necessary to start the AGM at 8 am? Is it not too early a time to enable shareholders to attend the meeting, especially those who are travelling from outstation. For all intents and purposes, they would have to arrive the previous day and stay overnight to be able to attend the 8am AGM.
2. Why can't the EGM be held on the same day immediately after the AGM or in the afternoon instead of having it on the following day? This means that the shareholders would have to stay overnight again just to attend the EGM. That is two nights stay at the expense of the shareholder.
3. We are unsure if public transport is available to and from the general meeting venue scheduled in Ulu Tiram. If indeed unavailable, it may further inconvenience the shareholders.

Given the above circumstances, many minority shareholders may opt to not attend the general meetings due to the inconvenience. This then would be contrary to good corporate governance which is about encouraging shareholders' participation at general meetings.

Dire Straits

A qualified opinion was expressed by the external auditors for FYE 30 September 2018 outlining the following matters:

- Due to the late appointment of the new external auditor, they were not able to observe the counting of the physical inventories at the end of the FYE 30 September 2018 - *Why was the new external auditor appointed so late, only on 20 December 2018?*
- Certain opening balances contain misstatements that materially affect the current period's financial statements - *Is there inadequate control in its financial reporting process?*

- Auditors noted significant and material transactions between the group and a customer which were adjusted and treated as related party transactions (“RPT”) to reflect the operational arrangements - *Was this not picked up by the Audit Committee (“AC”)? The key responsibilities of the AC amongst others include the review of related party transactions and conflict of interest situations.*

- The auditors were unable to ascertain the correctness of the ageing data of trade receivables - *The shareholders will not be able to ascertain whether appropriate impairment has been accounted for or further impairment would be required.*

- Auditors were unable to obtain sufficient audit evidence in respect of the acquisition of Plant and Machinery totalling RM52.467 million made during the FYE 30 September 2018. The auditors were unable to determine whether adjustments were necessary to restate the value of the Plant and Machinery -*Why was this so?*

In addition, we also noted the following:

1. The Group revenue has been on a declining trend for the last three years.

(2018: RM 308.7 million, 2017: RM 426.0 million, 2016: RM 436.5 million).

2. The Group has made an impairment of RM59.2 million on certain Trade Receivables.

3. The Group’s net cash flow from Operating Activities was negative for the last two years. (2018: Negative RM12.5 million, 2017: Negative RM109.3 million)

4. The in-house Internal Audit (“IA”) function cost for FYE 2018 was a mere RM13,825 - slightly over RM1,000 per month.

Can the Audit Committee justify this significantly low figure given the size of operations of the Group and the deteriorating performance over the past few years? The AC may want to re-evaluate the scope of the internal audit and the level of composition and competency of the IA team and the need to strengthen the internal audit function.

The above are amongst the issues that we will be raising at the Company’s general meetings. Minority shareholders are asked to be aware and exercise due diligence when making their investment decisions.

Regards,

Devanesan

22 March 2019

MSWG'S QUICK TAKE ON-ONGOING CORPORATE DEVELOPMENTS

EKOVEST BERHAD (“EKOVEST” or “the Company”)

It was announced that Ekovest had on 12 March 2019 entered into a conditional share purchase agreement with Serumpun Abadi Sdn Bhd (SASB) for the proposed acquisition by Ekovest of 23.42% equity interest in PLS from SASB for a total cash consideration of RM76.50 million or RM1.00 per ordinary share in PLS (“Proposed Acquisition”).

Source:

<http://www.bursamalaysia.com/market/listed-companies/company-announcements/6093601>

<http://www.bursamalaysia.com/market/listed-companies/company-announcements/6098621>

MSWG’s Comments:

Based on the details as announced, the Purchase Consideration was arrived at on a willing-buyer willing-seller basis after taking into consideration the audited consolidated net assets of PLS as at 31 March 2018 of RM369.73 million or RM1.13 per PLS Share as well as the price-to-book ratio (“PBR”) of Comparable Public Companies listed on Bursa Malaysia Securities Berhad and the enterprise value (“EV”) to planted area multiples of the Comparable Companies.

On the implied PBR, 0.88 times is higher than the average PBR of 0.48 of the Comparable Companies while the implied EV/planted area multiple of RM33,254 is lower than the average EV/planted area multiple of RM34,034 of the Comparable Companies.

It is understood that for the past five (5) FYEs 31 March 2014 to 31 March 2018, the revenue of PLS Group has been fluctuating and PLS Group has recorded losses from FYEs 31 March 2015 to 31 March 2018. Therefore, the minority shareholders have to take this into consideration. The Proposed Acquisition is expected to provide Ekovest Group with an additional stream of income through the share of future earnings in PLS as well as to reduce its reliance on its existing businesses in construction, property development and toll operations. Minority shareholders need to evaluate whether the anticipated benefits from the Proposed Acquisition will be realised and if so, whether the duration required for Ekovest to recoup its investment could be longer than anticipated.

Post-acquisition, the minority shareholders could always ask the Board of directors of Ekovest at the future’s AGMs on matters regarding Ekovest’s investment in PLS, including the performance.

NEXGRAM HOLDINGS BERHAD (“NEXGRAM” or “the Company”)

Resignation of Auditors

The Board of Directors of Nexgram Holdings Berhad (“the Company”) had on 21 March 2019 announced that the Company had on 20 March 2019 received a notice in writing given pursuant to Section 281 of the Companies Act 2016 from Adam & Co on their resignation as Auditors of the Company with effect from 18 March 2019.

Adam & Co. who had been the Auditors of the Company were re-appointed at the last Annual General Meeting (“AGM”) of the Company held on 28 December 2018 to hold office until the conclusion of the next AGM of the Company. The resignation is on a voluntary basis.

Save for the above, the Board is not aware of any matter that need to be brought to the attention of the shareholders of the Company.

Source:

<http://www.bursamalaysia.com/market/listed-companies/company-announcements/6102073>

MSWG’s Comments:

We noted that the resignation by the auditor, Adam & Co was on a voluntary basis, however in spirit of transparency and to avoid any untoward speculations, the Company should disclose the reason for the resignation of their external auditor.

MSWG'S AGM WEEKLY WATCH 25 March - 29 March 2019

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	Venue
26.03.19 (Tues) 9.30 am	Wong Engineering Corporation Bhd (AGM)	Auditorium Room, Level 1, Lot 204, Jalan Bukit Belimbing 26/38, Off Persiaran Tengku Ampuan, Lion Industrial Park Seksyen 26, 40400 Shah Alam, Selangor
27.03.19 (Wed) 11.00 am	LPI Capital Bhd (AGM)	Shangri-La Hotel Kuala Lumpur, 11 Jalan Sultan Ismail, KL
27.03.19 (Wed) 03.00 pm	Eco World Development Group Bhd (AGM)	EcoWorld Gallery @ Eco Grandeur, Persiaran Mokhtar Dahari, Bandar Puncak Alam
28.03.19 (Thur) 10.00 am	Bursa Malaysia Bhd (AGM)	Sime Darby Convention Centre, 1A Jalan Bukit Kiara 1, KL
29.03.19 (Fri) 08.00 am	London Biscuits Bhd (AGM)	No. 1, Jalan Istimewa 2, Taman Perindustrian Desa Cemerlang, Ulu Tiram, JB
29.03.19 (Fri) 10.00 am	MYNews Holdings Bhd (AGM)	Bukit Utama Golf Resort, 1 Club Drive, Bukit Utama, Bandar Utama, PJ
29.03.19 (Fri) 10.00 am	Sunsuria Bhd (AGM)	Sunsuria City Celebration Centre, Bandar Sunsuria, Sepang
29.03.19 (Fri) 11.30 am	Sunsuria Bhd (EGM)	Sunsuria City Celebration Centre, Bandar Sunsuria, Sepang
30.03.19 (Sat) 08.00 am	London Biscuits Bhd (EGM)	No. 1, Jalan Istimewa 2, Taman Perindustrian Desa Cemerlang, Ulu Tiram, JB

Points of interest to be raised:	
Company	Points/Issues to Be Raised
Wong Engineering Corporation Bhd (AGM)	<p>The manufacturing segment is the main revenue earner, contributing to 85% of Group revenue on improved customer demand in FY2018 but the segmental profit before tax of manufacturing was largely flat after excluding one-off gain from the disposal of a vacant property (page 16 of the AR2018).</p> <p>a) Please provide further insight into the significant increase in cost of sales which has increased by 58% in FY2018 and the impact of fluctuations in USD and the increased raw material prices and labour costs.</p> <p>b) What is the Company's expectation on the profitability of the existing manufacturing business for the next three years?</p>
LPI Capital Bhd (AGM)	<p>We refer to pages 144 and 145 of the Annual Report and noted that the Group's net claims incurred increased by 16.3% or RM53.3 million to RM381.0 million from RM327.7 million in 2017. The performance of your Miscellaneous Class's net claims incurred ratio has increased from 41.0% to 49.6% in the same period.</p> <p>What are the reasons for the higher claims incurred in the Miscellaneous Class and the measures taken to address this?</p>

Eco World Development Group Bhd (AGM)	Eco Horizon Sdn. Bhd. (“EHSB”), a joint venture company, recorded a revenue of RM42.44 million in FY2018 as compared to a nil revenue in FY2017. However, it recorded a higher loss of RM5.09 million in FY2018 as compared with a loss of RM4.99 million in FY2017 as reported on pages 136 and 138 of the Annual Report. (a) Please explain the reason for the higher loss. (b) When is EHSB expected to report a profit for the Group?
Bursa Malaysia Bhd (AGM)	On enforcement actions, we note that Bursa has taken actions against 15 listed companies and 22 directors (of 5 listed companies and 1 other person) for various breaches of the Listing Requirements. A total of 138 management actions was also taken mainly relating to dealings by directors and principal officers, disclosures on sustainability in Annual Report etc. (page 16, GFR) Has any firm action been taken to restrict or bar “errant” directors from sitting on Boards of listed companies, especially the repeat offenders?
London Biscuits Bhd (AGM)	Shareholders would surely be very concerned with the qualified opinion expressed by the independent auditors in their report on the Company’s financial statements for FYE 30 September 2018. In this regard, we wish to seek clarifications on the following issues: (a) What were the reasons for the change to the new independent auditors and for appointing them only on 20 December 2018 resulting in their inability to observe the counting of physical inventories at the end of the FYE 30 September 2018? (b) On Page 7 of the Annual Report, under the basis for qualified opinion, it is stated that the management are of the opinion that related party transactions disclosure would not apply due to the legal status of the said company. Is the said company, Secret Ingredients Sdn Bhd and what is the legal status of the company in relation to London Biscuits? Please elaborate on what is meant by the non-existence of a legal nexus? (c) As the auditors were unable to ascertain the correctness of the ageing data of trade receivables, how would investors and users of the audited financial statements be satisfied that the impairment has been appropriately recognized and that there would not be further significant impairment required? (d) Why were the auditors unable to obtain sufficient audit evidence in respect of the acquisition of plant and machinery (P&M) totaling RM52.7 million made during the current financial year? Why were they also unable to determine whether adjustments are necessary to restate the value of the P&M? Would there be a possibility of an impairment required and not recognized?
MYNews Holdings Bhd (AGM)	As major market players continue to evolve and improve their products, what is the Company’s key competitive advantage to retain customer loyalty and market share?
Sunsuria Bhd (AGM)	The Group’s impairment loss of RM29.51 million in respect of write-down in value of investment properties of Freehold Land (RM17.15 million) and Carpark (RM12.36 million) in FY2018 is disclosed on page 123 of the Annual Report. (a) Please explain the reasons for the impairment loss for the Freehold Land and the Carpark; (b) Where is the location of the Freehold Land and the Carpark;

	<p>(c) Will there be further impairment on the Freehold Land and Carpark in FY2019?</p>
<p>Sunsuria Bhd (EGM)</p>	<p>The Proposed ESOS will be administered and managed by the ESOS Committee in accordance with the By-Laws.</p> <p>(a) Who are the members of the ESOS Committee? If not appointed, who will be the proposed members of the Committee?</p> <p>(b) Please explain how the ESOS Committee can function impartially as every Board member will be allocated shares under the ESOS.</p>
<p>London Biscuits Bhd (EGM)</p>	<p>1. The Company has scheduled an AGM to be held on 29 March 2019. Why did the Board not consider convening the EGM on the same day immediately after the AGM instead of the following day after the AGM? The current arrangement causes inconvenience to shareholders especially those from outstation as they have to return the following day to attend the EGM. Moreover, the EGM is to be held very early in the morning at 8 a.m.</p> <p>Does the Board not share the views that the time of the AGM is very early and such timing would cause inconvenience to shareholders especially those from outstation, more so if the venue is not easily accessible by public transport?</p> <p>2. The Company seems to be embarking on several private placements. The last one was just completed on 10 December 2018 and another proposal is to be tabled at the upcoming EGM.</p> <p>These seem to give the indication that the Company is facing cash flow problems especially with negative cash flows from operating activities for the last 2 financial years. This is a concern as the Group has substantial borrowings currently amounting to approximately RM379.13 million especially with RM10 million due in July 2019.</p> <p>What are the strategies to manage the seemingly precarious cash flow position?</p>

MSWG'S VIGILANCE

Listing of PN17 and GN3 companies

PN17 Companies

1. AMTEK HOLDINGS BERHAD
2. APFT BERHAD
3. BERJAYA MEDIA BERHAD
4. BERTAM ALLIANCE BERHAD
5. BRAHIM'S HOLDINGS BERHAD
6. CHINA AUTOMOBILE PARTS HOLDINGS LIMITED
7. DAYA MATERIALS BERHAD
8. EKA NOODLES BERHAD
9. HB GLOBAL LIMITED
10. KINSTEEL BHD
11. KUANTAN FLOUR MILLS BERHAD
12. MAA GROUP BERHAD
13. MALAYSIA PACIFIC CORPORATION BERHAD
14. MAXWELL INTERNATIONAL HOLDINGS BERHAD
15. MULTI SPORTS HOLDINGS LTD
16. PERISAI PETROLEUM TEKNOLOGI BERHAD
17. STONE MASTER CORPORATION BERHAD
18. SUMATEC RESOURCES BERHAD
19. TH HEAVY ENGINEERING BERHAD
20. UTUSAN MELAYU (MALAYSIA) BERHAD
21. YFG BERHAD

GN3 Companies

1. G NEPTUNE BERHAD
2. IDIMENSION CONSOLIDATED BERHAD
3. WINTONI GROUP BERHAD

Please refer to the link below for the latest status of the company.

<http://www.bursamalaysia.com/market/listed-companies/list-of-companies/pn17-and-gn3-companies/>

REGULATORY NEWS

SC to promote an accessible, agile and accountable capital market ecosystem

<https://www.sc.com.my/news/media-releases-and-announcements/sc-to-promote-an-accessible-agile-and-accountable-capital-market-ecosystem>

ASEAN Capital Markets Forum advances regional integration efforts through roadmap for sustainable capital markets

<https://www.sc.com.my/news/media-releases-and-announcements/asean-capital-markets-forum-advances-regional-integration-efforts-through-roadmap-for-sustainable-capital-markets>

Financial Consumer Alert: List of unauthorised companies and websites has been updated

http://www.bnm.gov.my/index.php?ch=en_announcement&pg=en_announcement&ac=701&lang=en

Bursa Malaysia and Maybank co-hosted Invest Malaysia 2019

<http://www.bursamalaysia.com/corporate/media-centre/media-releases/6033>

Bursa Malaysia rings the bell for gender equality

<http://www.bursamalaysia.com/corporate/media-centre/media-releases/6029>

LOCAL NEWS AND DEVELOPMENTS

No more politicians as heads of missions or GLCs - PM

<https://www.theedgemarkets.com/article/no-more-politicians-heads-missions-or-glcs-%E2%80%94-94-pm>

Construction outlook seen challenging

<https://www.thestar.com.my/business/business-news/2019/03/19/construction-outlook-seen-challenging/>

Corporate tax rate lowered to 17% for SMEs with paid-up capital of below RM2.5m – PM

<https://www.theedgemarkets.com/article/corporate-tax-rate-lowered-17-smes-paidup-capital-below-rm25m-%E2%80%94-94-pm-0>

Mature unlisted government entities may be listed in the stock market

<https://www.theedgemarkets.com/article/mature-unlisted-government-entities-may-be-listed-stock-market-%E2%80%94-94-pm>

After year-long drought, two big Malaysian IPOs set for Q2 launch

<https://www.thestar.com.my/business/business-news/2019/03/20/after-year-long-drought-two-big-malaysian-ipos-set-for-q2-launch/#oEdWHqvsJK6x8uxm.99>

Malaysia retail growth slows to 2.7% in 4Q18

<https://www.theedgemarkets.com/article/malaysia-retail-growth-slows-27-4q18>

GLOBAL NEWS AND DEVELOPMENTS

Foreign investors turned net buyers of Asian bonds in February

<https://www.theedgemarkets.com/article/foreign-investors-turned-net-buyers-asian-bonds-february>

Goldman Sachs sets targets for Hispanic and black entry-level hires

<https://www.reuters.com/article/us-goldman-sachs-diversity/goldman-sachs-sets-targets-for-hispanic-and-black-entry-level-hires-idUSKCN1QZ2NK>

China's Banks Have a Hidden Wave of Bad Debt

<https://www.bloomberg.com/opinion/articles/2019-03-17/china-banks-bad-loan-sales-mask-scale-of-challenge>

Huge Pools of Dirty Money Are Europe's Worst-Kept Banking Secret

<https://www.bloomberg.com/news/features/2019-03-14/huge-pools-of-dirty-money-are-europe-s-worst-kept-banking-secret?srnd=businessweek-v2>

Plant protein startups vie to tap China's hungry market

<https://www.theedgemarkets.com/article/plant-protein-startups-vie-tap-chinas-hungry-market>

Asian business sentiment lingers near 3-year low as trade war drags – Thomson Reuters/INSEAD

<https://www.theedgemarkets.com/article/asian-business-sentiment-lingers-near-3year-low-trade-war-drags-%E2%80%94-thomson-reutersinsead>

Brexit: How will the new tariff system work?

<https://www.bbc.com/news/business-47554026>

MSWG TEAM

Devanesan Evanson, Chief Executive Officer, devanesan@mswg.org.my

Siva Yamini, Head, Corporate Services, yamini@mswg.org.my

Quah Ban Aik, Head, Corporate Monitoring, banaik.quah@mswg.org.my

Norhisam Sidek, Manager, Corporate Monitoring, norhisam@mswg.org.my

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

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

Lim Cian Yai, Senior Analyst, Corporate Monitoring, cianyai@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.

Feedback

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

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