



MSWG

MINORITY SHAREHOLDER WATCHDOG GROUP

Badan Pengawas Pemegang Saham Minoriti Berhad

Incorporated in Malaysia * Company No. 524898-M

The Observer

30 October 2017

PLEASE MARK YOUR CALENDAR

MSWG-ASEAN CORPORATE GOVERNANCE RECOGNITION 2017
TO BE HELD AT THE MAJESTIC HOTEL, KUALA LUMPUR
ON WEDNESDAY, 6 DECEMBER 2017

The findings and results of the governance level of Malaysian public listed companies will be announced followed by an award presentation ceremony to recognise the companies that have demonstrated high level of corporate governance practices.

We look forward to your participation and support at the event.

VOICE OF MSWG

As expected, Budget 2018 catered to a large swathe of the population, paying close heed to key areas like rising living costs, home ownership and business opportunities.

In particular, there were various benefits like personal income tax cuts for middle income earners, continued BR1M payments, cash and minimum pensions for civil servants, school assistance, affordable housing schemes, funds and aid for various race groups, the rural sector, farmers and Felde settlers, as well as allocations for Sabah and Sarawak.

This being an election year, such measures were not surprising.

FISCAL CONSOLIDATION

Economists noted that Malaysia's fiscal consolidation continued apace, the 2018 target being cut to 2.8% of GDP from 3.0% in 2017, much improved from the yawning 6.7% deficit recorded in 2009.

In fact, 2018 will be the ninth year of fiscal consolidation for the government -- a commendable trendline -- though disappointingly, expenditure still trumps development by a wide margin (RM234bn or 83.6% of the total), while development is capped at RM46 billion, similar to the previous year.

We also note that in 2008, expenditure comprised 78.2% of the total budget of RM280 billion -- a ratio that has been rising since then, to 2018's 83.6%. With the government committing to maintain the civil service workforce at 1.6 million people (about 11% of the total labour force), this number is unlikely to drop in the coming years.

With just three years to go to the government's self-imposed target of fiscal parity by 2020, we are left in little doubt that this target will not be met, particularly when expenditure continues to rise in the way it has. How has been the record in the past years and will the target of 3% for 2017 be achieved?

However we also take note of the government's efforts to rationalise the public sector by minimising duplication of functions and roles along agencies, while seeing through high-impact programmes at lower cost, which we, along with the Malaysian public, will no doubt pay close heed to. Very importantly, productivity and efficiency should be seriously addressed.

GOVERNMENT DEBT

From a macro-prudential basis, we have mixed feelings about the government's debt levels, which sits at around RM685 billion, or 50.9% of GDP as at June 2017.

That amount is below the government's (also self-imposed) threshold of 55% of GDP, but the reduction has come not by cuts but by simply transferring some RM49 billion of debt to statutory bodies (mainly to fund civil servant housing- and tertiary education loans).

Instead, those borrowings have been added to government-guaranteed contingent liabilities, which do not fall under direct government debt.

As such, as at June 2017, these government-guaranteed contingent liabilities now stand at a total RM219.4 billion, or 16.3% of GDP.

In total, both direct- and contingent-type debt amounts to nearly a trillion ringgit (circa RM904 billion), or 67.2% of GDP: far above the ceiling.

A small consolation is that almost all the debt (around 97%) is ringgit-denominated, the rest comprising Japanese yen and US dollar.

TN50

TN50, or National Transformation 2050 was introduced in 2016 as a roadmap for the country to enter the world's top 20 countries in terms of economic development, social advancement and innovation by the year 2050.

A major pillar of that goal will come from infrastructure development.

Mega projects like the East Coast Rail Link (ECRL), Pan Borneo Highway, KL-Singapore High Speed Rail (HSR) are the centrepieces of this ambitious plan, among other work like the ongoing upgrading of broadband networks, ports, railway lines and airports.

The government is also keen on attracting investments into new growth areas such as the digital economy, the halal industry and medical tourism, all pillars of the high-growth services sector, along with the tourism, logistics, venture capital, oil and gas, aerospace, rail and robotics industries.

As the nation enters this next phase of growth, it is imperative that government spending remains prudent and free of leakages, while foreign investments are restricted to terms which are favourable to the country.

Thankfully, Budget 2018 comes on the back of a local and global economic tailwind.

With this, the government has raised its growth projections to between 5.2% and 5.7% for the whole of 2017 (vs. 4.3% - 4.8% previously), while forecasting growth of 5.0% - 5.5% in 2018.

AGMs AND DIRECTORS' DUTIES

We recently attended the AGM of a small-cap company, where to our surprise and disappointment, we discovered that four out of the nine directors -- including the Managing Director -- were absent from the meeting.

Instead, the AGM was chaired by the Senior Independent Director and upon our query as to why the absenteeism occurred, the reasons given were unfortunately not convincing.

Such instances (especially of this extent), while admittedly rare, should not occur at all.

The annual shareholders' meeting is the one occasion during the financial year where shareholders are given an opportunity to question the board and senior management on their performance while also exploring the company's plans for the coming year.

For the managing director and nearly half the board to be missing on the most important event on shareholders' calendar is simply unacceptable.

In this particular instance, we would also like to note that half of the guilty company's board comprises family members, including brothers, nephews and sons of the Managing Director.

In the greater interests of corporate governance, this company badly needs to repair its approach and attitude to its shareholders as well as to the stock exchange and its regulators if it wants to avoid more serious censure down the road.

MSWG TEAM

29 October 2017

MSWG IN THE NEWS

MSWG 'NOT CONVINCED' BY XINGHE'S JUSTIFICATION FOR PRIVATE PLACEMENT BID

<http://www.theedgemarkets.com/article/mswg-not-convicted-xinghes-justification-private-placement-bid>

MSWG'S QUICK TAKE ON-ONGOING CORPORATE DEVELOPMENTS

LION DIVERSIFIED HOLDINGS BERHAD ("LDHB")

The Board of Directors of LDHB announced that Messrs Ernst & Young, the company's External Auditors, had expressed a disclaimer of opinion in their Independent Auditors' Report ("EY Report") in the Company's Audited Financial Statements for the financial year ended 30 June 2017. One of the main basis of the disclaimer of opinion is that the LDHB's and its group's ability to continue as going concerns was at doubt.

The company is now looking into formulating a plan to regularise its financial condition and will make the necessary announcement on the same in accordance with the requirements under PN17.

[Source: LDHB's announcement on Bursa Malaysia's website on 24 October 2017]

MSWG'S COMMENTS:

The Board must take responsibility and be accountable for the disclaimer opinion made by the Company's External Auditors. Obviously, the Board has failed to address some issues highlighted by the Auditors that have casted doubt for LDHB and its group's ability to continue as going concerns.

As it is classified as a PN17 issuer, the Company has to come up with a practical solution to regularise its financial condition.

KINSTEEL BERHAD ("KINSTEEL")

The Board of Directors of Kinsteel announced that Bursa Malaysia via its letter dated 19 October 2017 informed the company that Bursa Malaysia had resolved to reject the company's Application to delay the issuance of the Annual Report 2017 by 31 October 2017 as required under Paragraph 9.23(1) of the MMLR ("Relevant Timeframe") to 30 November 2017.

Subsequently, the Board of Directors of the company announced that it had on 23 October 2017 submitted an application for extension of time up to 30 April 2018 to submit the regularisation plan to the authorities. Bursa Malaysia had via its letter dated 25 October 2017 informed that the suspension on the trading of the company's securities and the de-listing of the company shall be deferred pending the decision on the application.

[Source: Kinsteel's announcements on Bursa Malaysia's website on 19, 23 & 25 October 2017]

MSWG'S COMMENTS:

The Board must take all the necessary steps to issue the Company's Annual Report 2017 before the expiry of the Relevant Timeframe, avoiding the suspension of trading on the Company's ordinary shares as well as the de-listing procedures.

MSWG'S AGM WEEKLY WATCH 30 OCTOBER 2017 - 3 NOVEMBER 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.

Date & Time	Company	Venue
30.10.17 (Mon) 10.00 am	IOI Corporation Bhd (AGM)	Putrajaya Marriott Hotel, IOI Resort City, Sepang Utara
31.10.17 (Tue) 10.00 am	C.I. Holdings Bhd (AGM)	InterContinental Kuala Lumpur, 165, Jalan Ampang, KL
01.11.17 (Wed) 10.00 am	Berjaya Assets Bhd (EGM)	Berjaya Times Square Hotel, KL
02.11.17 (Thur) 10.00 am	UEM Edgenta Bhd (EGM)	Menara Korporat, Persada PLUS, Persimpangan Bertingkat Subang, KM15,

		NKVE, PJ
02.11.17 (Thur) 02.30 pm	Dutaland Bhd (AGM)	Hotel Istana Kuala Lumpur
02.11.17 (Thur) 02.30 pm	Amalgamated Industrial Steel Bhd (EGM)	Boardroom, No. 24-7, Level 7, Subang Business Centre, Subang Jaya

The points of interest to be raised:	
Company	Points/Issues to Be Raised
IOI Corporation Bhd (AGM)	The Resourced-based Manufacturing recorded revenue of RM13.8 billion and operating profit of RM292 million in FY2017. What was the revenue and operating profit contribution from Refining, Oleochemical and Specialty Oil & Fats sub-segments?
C.I. Holdings Bhd (AGM)	What steps have been taken to improve the Company's profit margin which had deteriorated for the last five (5) financial years?
UEM Edgenta Bhd (EGM)	The Circular stated that no liabilities including contingent liabilities and guarantee to be assumed by the Offeror arising from the Proposed Disposal. The liabilities of the OIC Group will be consolidated in WSP Global's book upon completion of the Proposed Disposal. Could the Board clarify this statement given the knowledge of subsisting business contracts of OIC Group that were announced to NZX?
Dutaland Bhd (AGM)	We noted that FFB production had been declining over the last three years. The Company had earlier stated that with the engagement of external consultants to review and improve the management of the estate, the FFB production would be expected to be higher in FY2017. What were the factors that had caused the FFB production to decline further in FY2017 instead of improving as expected?
Amalgamated Industrial Steel Bhd (EGM)	What would be the potential earnings growth for Amalgamated Industrial Steel Berhad in the next few years with the inclusion of Parkwood Sdn. Bhd?

LOCAL NEWS AND DEVELOPMENTS

Mida: Total approved investments fall 28%

<http://www.thestar.com.my/business/business-news/2017/10/20/mida-total-approved-investments-fall-28/>

Malaysia business and consumer sentiment eases in 3Q

<http://www.theedgemarkets.com/article/malaysia-business-and-consumer-sentiment-eases-3q>

Tsunami Capital director charged with failure to help in probe

<http://www.thesundaily.my/news/2017/10/24/tsunami-capital-director-charged-failure-help-probe>

Bank Negara to issue revised trade credit framework by year-end

<http://www.thestar.com.my/business/business-news/2017/10/24/bank-negara-to-issue-revised-trade-credit-framework-by-year-end/>

August's stronger Leading Index points to positive GDP growth

<http://www.thestar.com.my/business/business-news/2017/10/24/august-stronger-leading-index-points-to-positive-gdp-growth/>

Malaysia's September inflation at 4.3% on-year

<http://www.theedgemarkets.com/article/malysias-september-inflation-43-onyear>

Malaysia retains C rating in world pension rankings

<http://www.theedgemarkets.com/article/malaysia-retains-c-rating-world-pension-rankings>

Malaysia Airlines' never ending search for a CEO

<http://www.thestar.com.my/business/business-news/2017/10/19/mas-never-ending-search-for-a-ceo/>

Hubline slapped with UMA query

<http://www.thesundaily.my/news/2017/10/19/hubline-slapped-uma-query>

Concerns over power of special shareholder

<http://www.theedgemarkets.com/article/concerns-over-power-special-shareholder>

Top Glove says in talks with glove maker, but not Adventa nor Supermax

<http://www.theedgemarkets.com/article/top-glove-says-talks-glove-maker-not-adventa-nor-supermax>

MGOs in question

<http://www.theedgemarkets.com/article/mgos-question>

Petronas warns of industry stagnation if LNG prices do not recover

<http://www.theedgemarkets.com/article/petronas-warns-industry-stagnation-if-lng-prices-do-not-recover-0>

GLOBAL NEWS AND DEVELOPMENTS

China's economy seen growing 6.8% in 2017

<http://www.thestar.com.my/business/business-news/2017/10/24/china-economy-seen-growing-nearly-7-pct-this-year/>

India to inject US\$32b into state banks to spur loans

<http://www.themalaymailonline.com/money/article/india-to-inject-usus32b-into-state-banks-to-spur-loans#ibuV8TyVp2oKabuB.97>

Abenomics powers on with Abe's landslide win

<http://www.thestar.com.my/business/business-news/2017/10/24/abenomics-powers-on-with-abes-landslide-win/>

US fiscal year deficit widens to US\$666bil

[http://www.thestar.com.my/business/business-news/2017/10/21/us-fiscal-year-deficit-widens-to-us\\$666bil/](http://www.thestar.com.my/business/business-news/2017/10/21/us-fiscal-year-deficit-widens-to-us$666bil/)

US jobless claims plunge to 44-year low in storms' wake

<https://www.nst.com.my/business/2017/10/292832/us-jobless-claims-plunge-44-year-low-storms-wake>

US Senate passes budget blueprint key to Trump tax effort

<http://www.thestar.com.my/business/business-news/2017/10/20/us-senate-passes-budget-blueprint-key-to-trump-tax-effort/>

UK annual retail sales growth slows to weakest since 2013 in 3Q

<http://www.theedgemarkets.com/article/uk-annual-retail-sales-growth-slows-weakest-2013-3q>

Singapore won't regulate cryptocurrencies, remains alert to risk

<http://www.themalaymailonline.com/money/article/singapore-wont-regulate-cryptocurrencies-remains-alert-to-risk#hewVTtBlEqIq8sqY.97>

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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.*
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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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