The Observer

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The Minority Shareholders Watch Group is now on Twitter. The presence at Twitter is the first step for us to create strong social media presence and engage with our stakeholders more effectively. Do follow MSWG's Twitter account at @MSWGMalaysia and share your thought on our tweets from time to time.

❖ External Auditors, the Audit Committee and the Board

External auditors of public listed companies are appointed by shareholders at annual general meetings to perform their duties of auditing the financial statements of PLCs. The auditors will then report whether the financial statements, for the financial year-end, are prepared according to the prevailing laws and accounting standards and whether, in their opinion, they present a true and fair view. Such are the requirements of the Companies Act 2016.

The auditor is also bound by law (the Capital Markets and Services Act 2007) to report issues that may have a material impact on the financial statements of a PLC to the Securities Commission (SC). In such instances, the SC will decide if further investigation is warranted.

Typically, the auditors will deal with the company's management (which includes executive chairman/executive directors, chief executive officer, chief financial officer) during their auditing process to iron out issues relating to the financial statements. There are times when auditors are unable to resolve the issues with management and both parties refuse to budge from their respective positions. This is when the auditor will escalate their concerns to the audit committee (AC).

Under the Bursa Securities' Listing Requirements (LR), the AC must comprise non-executive directors, with majority of them being independent directors. Meanwhile, the Step-Up practice in the Malaysian Code on Corporate Governance (MCCG) ups the ante by stating that the AC should comprise solely of independent directors. This means no EC/EDs should sit on the AC. Such requirements are to allow auditors to articulate their concerns candidly, without fear or favour.

The LR states, amongst others, that the AC must review with the external auditor, the audit report and the assistance given by the employees of the audited company to the external auditor. Since the AC is a sub-committee of the Board, the AC reports back to the Board on these matters. It is the prerogative of the auditor to decide when he should address the AC when there are concerns. As stated earlier, concerns will likely be raised to the AC only when communications with management have either broken-down or an impasse has been reached.

Under the LR, one of the responsibilities of the AC in relation to auditing a company's financial statements is to focus on significant matters highlighted e.g., financial reporting issues, significant judgments made by management, significant/unusual transactions, and the measures to tackle these issues.

Removal of auditor

The AC can also recommend to the board, the removal of the auditor based on valid reasons. The Board will deliberate on the recommendation, and if it concurs with the AC, approve such a resolution to be tabled for shareholders' approval at an AGM or EGM. But the key ground for the removal of auditors are 'valid reasons'. It is not good corporate governance practice to remove auditors when issues and concerns are festering and remain unresolved. In such circumstances, changing auditors is akin to 'opinion-shopping'.

Quite often we hear the grounds given by companies for the removal of their auditors but rarely do we hear from the auditor. This is probably because the auditor feels that he only needs to communicate through his audit opinion which is included in the annual report. Besides, they will be there at the AGM to address questions anyway.

To allow the shareholders to hear the auditor's side of the story, the auditors should exercise their rights granted under the Companies Act 2016 by presenting their side of the story and requesting the company to circulate it to the shareholders with the notice of the meeting to remove them.

Some red flags for minority shareholders to watch out for

Extending or changing the financial year-end when nearing the report-issuance deadline may be an indication that things are not going well. If the audited financial statements can be released in a timely manner in the past, there should be no reason to extend/change the financial year-end this time around. Of course, there are valid reasons to extend/change a financial year-end e.g., to align the year-ends of all companies within a group to facilitate the preparation of group (consolidated) financial statements.

In addition, auditors resigning in the middle of their tenure is also something to watch out for. Some auditors irresponsibly choose to resign when there are issues and concerns rather than discharging their responsibilities to the shareholders who appointed them; an easy way out leaving the company to appoint a more tolerant auditor – a form of 'opinion shopping'.
Another red flag is the removal of an auditor mid-stream during their tenure especially when there are issues and concerns in relation to the audit of the financial statements.

Auditors may issue clean audit opinions or modified audit opinions (such as material uncertainty related to going concern).

The risk-averse minority shareholder may prefer to invest in companies that have a clean opinion, and these represent most of the PLCs.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 14 – 18 June 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.

Date & Time	Company	Quick-take
15.06.21 (Tue) 10.00 am	Axiata Group Bhd (AGM)	Axiata's PAT and PATAMI decreased by 65.6% and 74.9% to RM624.0 million and RM365.2 million respectively impacted by accelerated depreciation and write-off of assets mainly for 3G assets amounting to RM821.2 million, as well as lower one-off gains. Eyes will be on the proposed merger between Celcom-Digi as the merger is widely expected to pose promising growth opportunities for the Group.
16.06.21 (Wed) 09.00 am	Pharmaniaga Bhd (AGM)	Pharmaniaga entered into an agreement in March 2021 with the Government of Malaysia to provide fill and finish 12 million doses of Sinovac vaccines. This could provide a major earnings catalyst for the Company for FYE 2021. The possibility of increase in orders from the government cannot be discounted at this juncture as the pandemic worsens.
16.06.21 (Wed) 10.00 am	Time dotCom Bhd (AGM)	In FY2020, TIME posted a 10% growth in revenue to RM1.22 billion (FY2019: RM1.11 billion). The better top-line performance was attributed to stronger revenues attained by data and data centre for FY2020. Net profit increased 4% y-o-y to RM326.9 million.

		Moving forward, the Group foresees data and data centres being strategic drivers for growth.
16.06.21 (Wed) 11.00 am	Parkwood Holdings Berhad (AGM)	The Group recorded a higher revenue for financial year 2020 of RM6.51 million as compared to revenue of RM5.01 million in the preceding year. As a result, the loss before tax reduced marginally by 6.81% to RM3.81 million from RM4.09 million in 2019.
17.06.21 (Thur) 10.00 am	Sime Darby Plantation Bhd (AGM)	The Group's revenue increased by 8% y-o-y to RM13.1 billion (FY2019: RM12.1 billion) and recorded net profit of RM1.19 billion as compared to a net loss of RM200 million in FY2019. The higher revenue was due to higher average CPO and palm kernel (PK) realised prices which had mitigated the impact of a 3% decline in fresh fruit bunch (FFB) production. Its downstream business recorded a PBIT of RM386 million (FY2019: RM276 million), which was 40% higher than the previous year. The better performance had cushioned the production decline impact of Upstream FFB production. It is currently prioritising its efforts in addressing the Withhold Release Order ("WRO") issued by the U.S. CBP., which blocks palm oil exports originating from the Group's Malaysian plantations from entering US ports.
17.06.21 (Thur) 10.00 am	POS Malaysia Bhd (AGM)	Pos Malaysia posted net loss of RM308 million in FY2020, mainly due to one-off Impairments on aviation segment, property, plant and equipment, as well as provision for mutual separation scheme. Moving forward, the increase in commercial mail tariff in 2020 and the surge in parcel volume are expected to help cushioning the significant loss in revenue by the Aviation segment as Malaysia's borders remain closed in 2021.

17.06.21 (Thur) 10.00 am	Malaysia Building Society Bhd (AGM)	MBSB's gross impaired financing (GIF) ratio continued to rise with a 5.75% recorded at the end of 31 March 2021, from 5.3% in 4QFY2020 (FY2019: 5.19%). Nevertheless, it had set a target of lowering the GIF ratio by 50 basis points end of FY2021. However, in view of current macroeconomic environment and multiple movement controls imposed to contain the COVID-19 pandemic, it will take management strenuous effort to achieve the target.
17.06.21 (Thur) 11.00 am	MSM Malaysia Holdings Bhd (AGM)	For FY2020, Group revenue surged 9% from RM2.01 billion to RM2.18 billion mainly contributed by the growth of export sales. Net loss amounted to RM71.23 million, however, if impairments were to be excluded, it recorded an operational profit of RM6.3 million for FY2020. Under a 3-year strategic blueprint - BP21, MSM aims to achieve downstream integration and cost optimisation by 2023. Moving forward, it will expand export markets, innovate more specialty products, increase production efficiency and yield of MSM Johor refinery.
17.06.21 (Thur) 11.00 am	Greenyield Bhd (AGM)	Greenyield revenue amounted to RM33.34 million for FYE2020 as compared to RM47.43 million for the 17-months FPE2019. It recorded a net profit of RM5.39 million (FPE2019: RM4.26 million) mainly due to the recognition of the gain on disposal of land use right and land by overseas subsidiaries. With the on-going Covid-19 pandemic, growth prospects in 2021 and demand for the Group's products remains to be seen.
17.06.21 (Thur) 03.00 pm	UEM Edgenta Bhd (AGM)	UEM Edgenta Bhd will gradually move away from its concession-based business model to move into commercial businesses that will bring longer-term returns and enable the

		firm to further compete in international markets. Ultimately, The goal is to grow into larger addressable markets in the Middle East, Europe and Southeast Asia.
18.06.21 (Fri) 10.00 am	Dagang Nexchange Bhd (EGM)	The EGM is to seek shareholders' approval for proposed acquisition of 60% stake in PING Petroleum Limited (PING) for USD78 million, which will be satisfied via a combination of cash, issuance of new ordinary shares in DNeX, and issuance of redeemable preference shares in DNeX Energy Sdn Bhd, a wholly-owned subsidiary of DNeX (Proposed Acquisition). Upon completion of the Proposed Acquisition, PING will become an indirect 90%-owned subsidiary of DNeX. This will enable DNeX to consolidate the results of PING going forward.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Axiata Group Bhd (AGM)	Group profit after tax and minority interest declined significantly by 75% to RM365 million in FY2020 from RM1,458 million in FY2019. However, total remuneration of executive directors at Group level increased sharply by 92.7% to RM19.213 million in FY2020 from RM9.973 million in FY2019. (Page 87 of GAFS) Kindly justify the executive directors' remuneration in the context of the Group's deteriorating performance.
Pharmaniaga Bhd (AGM)	The Company entered into an agreement with the Government of Malaysia in March 2021 to supply 12 million doses of Sinovac Covid-19 vaccine to be filled and finished at its small volume injectable plant in Puchong. (Page 51 of AR 2020) a) What is the capital investment made by the Company to undertake this project? b) What is the expected contribution to the Company's profitability in FYE 2021? c) Is the Company in negotiations with the Government to increase the supply of the Sinovac vaccine? If yes, what is the expected increase?

Time dotCom Bhd (AGM)	Net impairment on trade receivables increased to RM13.107 million in FY2020 from RM8.947 million in FY2019. (Page 140 of AR) What was the reason for the substantial increase in impairments? How much of these impairments have been recovered to-date? What percentage of these impairments are expected to be non-recoverable? Are impairments expected to increase, going forward?
Parkwood Holdings Berhad	In 2020, total sales generated from Utamara Boutique Residence ("UBR") amounted to RM26.13 million. As for the investment property, Phase 1 of the proposed Avant Industrial Park ("AIP") generated an annual rental income of RM2.20 million, while strategies are being formulated to unlock the full income potential of Phase 2 (Page 18 of the Annual Report 2020). a) What is the latest take-up rate for Utama Boutique Residences? What is the Group's expectation for the boutique residence sale in FY2021? b) What are the strategies being formulated by the Group to unlock the full income potential of Phase 2 of AIP? c) What is the full income potential of Phase 2? Will the potential income of Phase 2 of AIP be higher than the income of Phase 1 of AIP?
Sime Darby Plantation Bhd (AGM)	On 30 December 2020, the United States Customs and Border Protection ("US CBP") issued a Withhold Release Order ("WRO") blocking palm oil exports originating from the Group's Malaysian plantations from entering US ports with immediate effect (page 74 of Annual Report 2020 ("AR2020")). a) What is the estimated cost and financial impact to the Group in relation to the WRO issued by the US CBP? b) In March 2021, the Group appointed Impactt Ltd ("Impactt"), an ethical trade consultancy with specific expertise in detecting and remediating forced labour issues in company supply chains, to undertake a human rights assessment of SDP's operations and verify its internal findings (page 74 of AR2020). Please provide an update in relation to the WRO.

POS Malaysia Bhd (AGM)	The total compensation for other key management personnel of the Group (exclude Directors of Group entities) has increased by 28.7% to RM9.59 million in FY2020 (FY2019: RM7.45 million) (Note 6, page 232 & 233 of AR 2020). What is the reason for the significant increase especially since the Group has been loss making as follows:- <table><tr><td>RM' million</td><td>FP2019*</td><td>FY2020</td></tr><tr><td>Revenue</td><td>1,682.5</td><td>2,332.3</td></tr><tr><td>Loss before income tax, depreciation & amortisation ("LBITDA")</td><td>(16.6)</td><td>(3.5)</td></tr><tr><td>Loss before tax</td><td>(241.9)</td><td>(303.5)</td></tr></table>* Financial period 1.4.2019 to 31.12.2019. (Source: Page 81 of AR 2020)
Malaysia Building Society Bhd (AGM)	As at the end of FY2020, MBSB had extended COVID-19 customer relief and support measures to RM28.34 billion financing. Of the total relief provided, 4.1% of it was categorized as missed payment and 5.7% was extended and repaying as per revised schedules (page 288, Note 50 – COVID-19 specific disclosures, IAR2020). a) Based on the assessment on macroeconomic outlook and borrowers' repayment ability, is there an increased default risk for the financing in missed payment as well as the extended and repaying categories? b) Does the Group foresee an increase in allowance for credit loss?
MSM Malaysia Holdings Bhd (AGM)	1. "Other operating expenses" have increased significantly to RM14.2 million in FY2020 from RM747,000 in FY2019 (page 133 of AR 2020). What were the reasons for the significant increase in other operating expenses? What are the nature of these expenses? 2. Accumulated allowance for impairment losses on trade receivables have increased by 253% to RM10.6 million in FY2020 (FY2019: RM3.0 million) (Note 23, page 203 of AR 2020)

	a) How much of the impaired trade receivables is related to the Group's major (top-5) customers by sales value? b) Will the impairment losses on trade receivables remain elevated in FY2021? c) What is the probability of recovering the impaired amount? To-date, how much of the impaired trade receivables have been recovered?
Greenyield Bhd (AGM)	The recent strengthening of commodity prices including natural rubber prices provides opportunities to improve plantation inputs sales (page 18 of Annual Report 2020 ("AR2020")). Developed economies where the Group exports most of its household goods to are expected to record positive growth-rates (in contrast with 2020) (page 19 of AR2020). To-date, to what extent has the demand for the Group's plantation inputs and household goods picked up? How are the current sales compared to pre-pandemic times?
UEM Edgenta Bhd (AGM)	Under the Edgenta of the Future 2025 (EoTF25) transformation strategy, UEM Edgenta will gradually move away from the concession-based business model to commercial businesses that will bring longer-tern returns and enable it to further compete in the international market (page 41 of Integrated Annual Report 2020). a) Despite the broad rules and regulations to comply, the concession business is widely seen as a stable income provider to concessionaires. Why did UEM Edgenta decide to move away from this business model? Will UEM Edgenta completely exit the concession business once the existing concessions expire? b) What is the current financial contribution (topline and bottom-line) of concession business to UEM Edgenta?
Seacera Group Bhd (EGM)	<u>Proposed Private Placement</u> a) What are the compelling reasons for Seacera to opt for private placement instead of a rights issue as the former method of fund raising does not provide an opportunity for existing shareholders to increase their equity stake

	further and to participate in the growth of the Company and will also dilute their existing shareholdings? b) The Placement Shares are intended to be placed to independent third-party investor(s) to be identified later (Page 5 of the Circular). i. What are the criteria considered in selecting the third-party investor(s)? ii. How can the third-party investor(s) add value to the company in the short, medium, and long term? iii. Will the Board be able to make known the third-party(s) identity at this juncture?

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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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