



The Observer

13.07.2018

MSWG'S QUICK TAKE ON-ONGOING CORPORATE DEVELOPMENTS

MULTI SPORTS HOLDINGS LTD ("MSPORTS")

The Company had on 3 July 2018 announced that the Securities Commission Malaysia ("SC") had vide their letter dated 27 June 2018 ("SC letter") reprimanded MSPORTS as a result of its finding that MSPORTS has breached Section 354(1)(a) of the Capital Markets and Services Act 2007 ("CMSA") read together with Section 369(b)(B) of the CMSA for knowingly causing the furnishing of MSPORTS's Financial Statements that is false or misleading to Bursa Malaysia Securities Berhad ("Bursa Securities"), as follows:-

- (a) MSPORTS had failed to disclose the outstanding liabilities under the 8 Loans owed by Baixing in MSPORTS's Financial Statements. In the said Financial Statements, it was disclosed under "Interest-bearing bank borrowings" that MSPORTS's liabilities were RMB11.5 million only instead of the liabilities highlighted in the SC's Notice to Show Cause dated 13 February 2018.
- (b) The non-disclosure of the outstanding liabilities as stated above had caused MSPORTS's Financial Statements, which were lodged with Bursa Securities, to contain false or misleading information relating to the affairs of MSPORTS.

As such, pursuant to Section 354(3)(c) of the CMSA, SC reprimands MSPORTS taking into account the fact that new Directors have been appointed on the Board and efforts are being made to regularise its operations and financial condition.

[Source: MSPORTS's announcement on Bursa Malaysia's website on 3 July 2018]

MSWG'S COMMENTS:

Financial statements are not only a basic and important tool used by the investors in making their investment decisions, it is also a document that serves as a source of important information for other stakeholders of the Company which include creditors, bankers, etc. Given this fact, the integrity of the financial statements must not in any way be compromised.

The announcement alludes to the fact that new Directors have been appointed on the Board and efforts are being made to regularise its operations and financial condition.

We are also of the view that besides reprimanding the Company for the misleading Financial Statements furnished, Bursa Securities should also hold accountable those Directors on the Board when the financial statements were prepared and furnished. Sanctions should also be imposed on those

directors regardless of the fact that they have resigned as a Board member (perhaps pursuant to section 369(b)(B) of the CMA or some other appropriate sections).

Also, under Section 592(1)(c) of the Companies Act 2016, an officer of a corporate who, with intent to deceive, makes or furnishes or knowingly and wilfully authorizes or permits the making or furnishing, of, any false or misleading statement or report to a stock exchange relating to the affairs of the corporation commits an offence and shall, on conviction, be liable to imprisonment for a term not exceeding ten years or fine not exceeding three million or to both.

Under this Section, Suruhanjaya Syarikat Malaysia (SSM) can also take the necessary actions against the Directors who were involved in the wrongdoing.

TOP GLOVE CORPORATION BERHAD (“TGCB” or “the Company”)

TGCB had on 7 July 2018 announced that the company and its wholly-owned subsidiary, Top Care Sdn Bhd have taken legal proceedings against Adventa Capital Pte Ltd vide the Kuala Lumpur High Court and the High Court of the Republic of Singapore, as well as Low Chin Guan, Wong Chin Toh and ACPL Sdn Bhd vide the writ action on 29 June 2018 and 2 July 2018.

As clarified by the Company in its announcement on 9 July 2018, TGCB discovered irregularities in certain balance sheet items of Aspion, in particular, inventories, and plant and machinery. Upon such discovery, Top Glove conducted its own investigations and appointed an independent accounting firm to investigate the irregularities in Aspion’s accounts as well as the possible overstatement of the acquisition price for Aspion.

From the interim report given by the independent accounting firm, there is currently an overstatement of inventory, plant and machinery in Aspion’s accounts amounting to RM74.4 million (“Overstatement of Assets”). Further, the interim report also states that the acquisition price of Aspion was overstated by RM640.5 million (“Overvaluation”). Therefore, the claim amount of RM714.9 million in the legal proceedings consists of the Overstatement of Assets and the Overvaluation.

In the reply to the queries from Bursa Malaysia Securities Berhad’s letter dated 9 July 2018, it was stated that the management is in the process of re-assessing the profits and cash flows projection of Aspion in view of the latest development. The Company endeavours to incorporate the financial impact, if any, in the coming 4th quarter financial results ending 31 August 2018.

The Company has on 11 July 2018 announced that the ex-parte Mareva Order granted by the High Court on 2.7.2018 against Wong Chin Toh, Low Chin Guan and ACPL in the Writ Action as well as the ex-parte Mareva Order granted by the High Court on 2.7.2018 against Adventa Capital have been set aside by the High Court today. The inter partes hearing for both applications are now fixed on 19.7.2018.

[Source: TGCB’s announcement on Bursa Malaysia’s website on 7 July 2018, 9 July 2018, 10 July 2018 and 11 July 2018]

MSWG’S COMMENTS:

This is a serious perplexing case of “misadventure” in an acquisition - and a large one too. Many questions have arisen but will there be sensible and acceptable answers?

To begin with, was there a full and thorough due diligence conducted which could have detected all these irregularities? Based on press reports, the due diligence was conducted in a Virtual Data Room

(VDR) manner without a full/physical due diligence at Aspion's plants/operations. This approach may have been chosen to protect Aspion's proprietary technology as TGCB was a competitor to Aspion. Isn't the approach too big a risk in relation to such a massive acquisition?

In the SPA, apart from the profit guarantee, there were seller's warranties for claims up to RM50 million, in the event of discrepancies found after the completion of the transaction. This is insufficient to cover the overstatement of assets by RM74.4 million.

Of course, a very puzzling discovery is the issue of overvaluation to the tune of RM640.5 million. Many would find it difficult to comprehend how this overvaluation could have come about. What exactly was the profit guarantee based on? Had the profit guarantee been realistic and achievable, would there still be an overvaluation?

With TGCB having suspended Mr Low (Managing Director of Aspion) and taken full control of Aspion's management, would the profit guarantee be still valid and would there be a risk of net profit shortfall?

Obviously, the share price of TGCB plummeted and investors who invested in TGCB based on its reportedly strong fundamentals suffered. TGCB may have to impair its accounts as early as its Q4 results ending 31 August 2018. The whole episode threatens to be a long-drawn legal dispute which will not only increase TGCB's costs but also distract it from its daily operations.

There are many lessons to be learnt from this episode, ranging from sufficient due diligence to structuring a proper deal with more robust risk mitigation features.

MSWG'S AGM WEEKLY WATCH 16 - 20 JULY 2018

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
18.07.18 (Wed) 10.00 am	Sapura Energy Bhd (AGM)	Kuala Lumpur Convention Centre, Kuala Lumpur City Centre

Some of the points of interest to be raised:	
Company	Points/Issues to Be Raised
Sapura Energy Bhd	<ol style="list-style-type: none"> Please explain the basis and rationale for the bonus payment to the President and Group CEO especially since the Group has incurred losses before tax of RM2.32 billion for FY2018. Furthermore, the Board has not recommended any dividend payment for FY2018. As such, there is no alignment of interest between shareholders and management. The Intellectual property rights, trademarks and branding fee paid/payable to Sapura Holdings Sdn. Bhd. and Kencana Capital Sdn. Bhd. amounted to RM43.4 million (FY2017:RM43.4 million) and RM12.5 million (FY2017:RM26.6 million), respectively, as disclosed in Note 37(a) on page 197 of the Annual Report.

Some of the points of interest to be raised:
Please provide the justification for the above payments.

LOCAL NEWS AND DEVELOPMENTS

May exports up 3.4% y-o-y

<http://www.theedgemarkets.com/article/may-exports-34-yoy>

Confidence in the Malaysian economy rose in Q2 2018

<https://www.nst.com.my/business/2018/07/387703/confidence-malaysian-economy-rose-q2-2018>

Proton sales surge by 50pc in June

<https://www.malaymail.com/s/1649581/proton-sales-surge-by-50pc-in-june>

Misif: Steel industry faces RM100m extra cost

<http://www.theedgemarkets.com/article/misif-steel-industry-faces-rm100m-extra-cost>

BSL Corp files judicial review against MoF, Customs

<http://www.thesunday.my/news/2018/07/05/bsl-corp-files-judicial-review-against-mof-customs>

SC Invites Applications for Registration as Equity Crowdfunding and Peer-to-Peer Financing Operators

https://www.sc.com.my/post_archive/sc-invites-applications-for-registration-as-equity-crowdfunding-and-peer-to-peer-financing-operators/

BNM international reserves decline 3% to US\$104.7b as at June 29

<http://www.thesunday.my/news/2018/07/06/bnm-international-reserves-decline-3-us1047b-june-29>

F&B SPAC Red Sena drops qualifying acquisition plan

<http://www.thesunday.my/news/2018/07/06/fb-spac-red-sena-drops-qualifying-acquisition-plan>

KUB Malaysia disposes of A&W for RM34m

<https://www.nst.com.my/business/2018/07/388048/kub-malaysia-disposes-aw-rm34m>

Versatile Creative: Unauthorised payments probe won't impact our ops

<http://www.theedgemarkets.com/article/versatile-creative-unauthorised-payments-probe-wont-impact-our-ops>

CCCC confirms ECRL suspension order by MRL

<https://www.nst.com.my/business/2018/07/387377/cccc-confirms-ecrl-suspension-order-mrl>

Mavcom chairman to step down

<https://www.thestar.com.my/business/business-news/2018/07/07/mavcom-chairman-to-step-down/>

Are CEOs overpaid?

<http://www.theedgemarkets.com/article/are-ceos-overpaid>

Remuneration based on performance

<https://www.thestar.com.my/business/business-news/2018/07/07/remuneration-based-on-performance-dilemma-of-unsold-property-facebook-in-the-right-direction/>

Austerity drives can unleash confidence

<https://www.thestar.com.my/business/business-news/2018/07/07/austerity-drives-can-unleash-confidence/>

Stockbroker's MGO for TA Enterprise could trigger takeover of TA Global

<http://www.theedgemarkets.com/article/stockbrokers-mgo-ta-enterprise-could-trigger-takeover-ta-global>

Khazanah to seek clarification from Putrajaya on investment mandate

<http://www.theedgemarkets.com/article/khazanah-seek-clarification-putrajaya-investment-mandate>

Media stocks to see low adex, rising costs and competition in 2H2018, says HLIB Research

<http://www.theedgemarkets.com/article/media-stocks-see-low-adex-rising-costs-and-competition-2h2018-says-hlib-research>

Retail and franchise exhibition targets sales of RM70m

<https://www.malaymail.com/s/1649197/retail-and-franchise-exhibition-targets-sales-of-rm70m>

GLOBAL NEWS AND DEVELOPMENTS

US imposes tariffs on US\$34bil of Chinese imports

<https://www.thestar.com.my/business/business-news/2018/07/07/us-imposes-tariffs-on-us34bil-of-chinese-imports/>

US adds 213,000 jobs in June, unemployment rate jumps to 4pc

<https://www.malaymail.com/s/1649641/us-adds-213000-jobs-in-june-unemployment-rate-jumps-to-4pc>

US trade deficit narrows to smallest since 2016 on soybean exports

<http://www.theedgemarkets.com/article/us-trade-deficit-narrows-smallest-2016-soybean-exports>

China June FX reserves unexpectedly rise to US\$3.112t

<https://www.malaymail.com/s/1650238/china-june-fx-reserves-unexpectedly-rise-to-us3.112t>

Debt curbs likely hit China's 2Q GDP growth as trade war looms

<http://www.theedgemarkets.com/article/debt-curbs-likely-hit-chinas-2q-gdp-growth-trade-war-looms>

Japan government to forecast bullish CPI, GDP growth in FY2019

<http://www.theedgemarkets.com/article/japan-government-forecast-bullish-cpi-gdp-growth-fy2019>

Indonesia to review capital imports

<https://www.thestar.com.my/business/business-news/2018/07/05/indonesia-to-review-capital-imports/>

Passenger demand up 6.1% y-o-y in May 2018, says IATA

<http://www.theedgemarkets.com/article/passenger-demand-61-yoy-may-2018-says-iata>

Can we improve corporate governance without onerous rules on companies and directors?

<http://www.theedgemarkets.com/article/can-we-improve-corporate-governance-without-onerous-rules-companies-and-directors>

There are fears about an oil spike above US\$150

<https://www.malaymail.com/s/1649557/there-are-fears-about-an-oil-spike-above-us150>

MSWG Analysts

Lya Rahman, General Manager, lyarahman@mswg.org.my

Rebecca Yap, Head, Corporate Monitoring, rebecca.yap@mswg.org.my

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

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

Wong Kin Wing, Manager, Corporate Monitoring, kinwing@mswg.org.my

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

Elaine Choo, Manager, Corporate Monitoring, elaine.choo@mswg.org.my

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

Abdul Halim Alias, Manager, Corporate Monitoring, halim.alias@mswg.org.my

Mustaqim Yusof, Senior Analyst, Corporate Services, mustaqim.yusof@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.

DISCLAIMER

This newsletter and the contents thereof and all rights relating thereto including all copyright is owned by the Badan Pengawas Pemegang Saham Minoriti Berhad, also known as the Minority Shareholders Watch Group (MSWG).

The contents and the opinions expressed in this newsletter are based on information in the public domain and are intended to provide the user with general information and for reference only. Best efforts have been made to ensure that the information contained in this newsletter is accurate and current as at the date of publication. However, MSWG makes no express or implied warranty as to the accuracy or completeness of any such information and opinions contained in this newsletter. No information in this newsletter is intended to be or should be construed as a recommendation to buy or sell or an invitation to subscribe for any, of the subject securities, related investments or other financial instruments thereof.

MSWG must be acknowledged for any part of this newsletter which is reproduced.

MSWG bears no responsibility or liability for any reliance on any information or comments appearing herein or for reproduction of the same by third parties. All readers or investors are advised to obtain legal or other professional advice before taking any action based on this newsletter.

ENDS./