



The Observer

19.03.2021

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❖ False trading and market rigging

False trading & market rigging, market manipulation, insider trading, disseminating of misleading information, and the use of manipulative and deceptive devices in trading are the types of market misconducts that are prohibited by regulators.

The act/conduct of a person that is deemed to have created a false or misleading appearance with respect of: -

- (i) active trading in any securities on stock market
- (ii) the market; or
- (iii) price of any securities

is an offence under Section 175 (1) of Capital Markets and Services Act 2007 (CMSA). A person who contravenes section 175 commits an offence and shall be punished on conviction to imprisonment for a term not exceeding ten years and to a fine of not less than RM1 million.

Below are some of the situations that could be deemed to have created a false or misleading appearance with respect to the trading of securities, the market and the prices of securities:

1. Transaction with no change in beneficial ownership

This involves a situation where a person carries out, either directly or indirectly, any transaction of sale/purchase of securities which does not involve a change in beneficial ownership.

The operators may create the appearance of genuine trades between willing buyers and sellers when this is not the case.

This can be done by placing matching orders of buys and sells for the same securities and in the same quantities, where the ultimate owner of the securities remains the same, e.g., transactions are executed among a few trading accounts which are under the control of the same people. For example, a person can sell a certain number of shares, and use the trading account of his/her employees, family, and friends to buy back those shares.

2. Matched sales

The second situation is where a person offers to sell/buy securities at a specified price and at the same time that person also made an offer to purchase/sell the same number of securities at a price that is substantially the same as the sale price. This technique is known as matched sales.

By making matched sales, the manipulator attempts to ensure the share price is kept at certain level by virtue of the transactions which he makes or is involved in. In certain cases, matched sales are conducted when the manipulator has large blocks of shares which are pledged to financiers and any drop in share price may result in margin calls.

Matched sales are identical to wash sales – a practice in which a manipulator opens a few trading accounts, and trades back and forth between these accounts, being both seller and buyer to create the impression of genuine trading activity.

However, matched sales are often regarded as pre-arranged trades which usually take place off-market, while wash sales are more likely to be trades executed through the stock exchange trading system.

3. Marking the close

Another way that manipulative activity can occur is by entering a quote or effecting a purchase/sale at/or near the close of trading session to artificially affect the closing price of securities. For instance, entering quotes that are substantially lower in price than what others are bidding near the close of the market may exert downward pressure on the price of the securities involved and this creates the false impression that the price ~~was~~ is weakening.

4. Successive purchases, sales, quotations

Another manipulative technique in trading is by effecting successive transactions or quotations in securities at either higher or lower price levels to artificially move the price. This then can induce significant decisions based on the security's artificially high or low price.

The abovementioned *modus operandi* is by no means exhaustive. There are many more ways to create a false or misleading appearance of active trading, market or price of a security.

There are a few reasons why a manipulator would want to create a false and misleading appearance of the trading activities and price of securities.

One of the most common reasons is relating to the holder of a substantial block of shares who may have pledged these shares to financial institutions to obtain funding. When the value of these shares falls, the institution which provided the loan would make margin calls or force-sell the sales if the margin calls are not met. Thus, artificially maintaining the price of the securities would prevent such margin calls from being made.

However, when one is unable to 'support' the price through such manipulative activity, a plunge in share price will ensue. Consequently, this will affect genuine investors who have no inkling that the share price is being kept artificially at a certain level in the past.

In addition, a sudden sharp rise in price and volume without valid reasons may be indicative of market manipulation.

Since the beginning of the year, a total of 17 PLCs have received the Unusual Market Activity (UMA) query issued by Bursa Malaysia due to the sharp rise in price and volumes. Investors are advised to trade carefully in these stocks especially if the company announces that they are not aware of any reasons for the share price/volume increases.

(Source of reference: Capital Markets and Services Act 2007, Capital Market Laws of Malaysia (2nd Edition) by Shanti Geoffrey)

Lim Cian Yai
Manager, Corporate Monitoring

MSWG AGM/EGM Weekly Watch 22 – 26 March 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
22.03.21 (Mon) 11.00 am	Lotus KFM Bhd (AGM)	Lotus KFM had completed its regularisation plan in Nov 2019 and

		<p>was uplifted from being classified as PN17 company in July 2020.</p> <p>With new shareholders and management at the helm, Lotus KFM's revenue has been on an uptrend since FY2018.</p> <p>In FY2020, the Group recorded a decline of 4.83% in revenue to RM55.1 million mainly due to COVID-19 pandemic. However, with the improved cost structure and operational efficiency, it achieved gross profit of RM5.5 million, an increase of 396% compared to previous year.</p> <p>Its net profit amounted to RM9.9 million thanks to other income of RM4.99 million from waiver of debts and dividend received from investment of RM3.54 million.</p>
25.03.21 (Thur) 09.30 am	Wong Engineering Corporation Bhd (AGM)	<p>The Group achieved a record high revenue of RM70.85 million, a 16% increase as compared to RM60.91 million in FY2019. The increase in revenue was mainly attributed by the Construction & Property Development segment.</p> <p>However, its PBT of RM4.67 million was 10% lower than RM5.19 million recorded in FY2019.</p> <p>The diversification into the construction & property development activities since 2017 has yielded good results for the Group.</p>
25.03.21 (Thur) 10.00 am	MYNews Holdings Bhd (AGM)	<p>Mynews recorded RM489.4 million sales in FY2020, a decline of 5.5% as compared to FY2019 due to disruptions caused by the COVID-19 pandemic resulted in closure of outlets and shorter operating hours.</p> <p>During the year, it registered a net loss of RM15.9 million - the first loss-making year since its listing. The poor performance was due to the imposition of various MCOs as well as</p>

		<p>Food Processing Centre (FPC) related costs of RM12.4 million.</p> <p>Going forward, as the economy recovers from the pandemic, Mynews expects to grow faster with the rollout of more Mynews stores, Maru Kafe outlets and CU stores.</p>
25.03.21 (Thur) 10.30 am	CAB Cakaran Corporation Bhd (AGM)	<p>CAB's revenue decreased by 4.09% to RM1.68 billion (FY2019: RM1.75 billion), but profit from operation increased marginally to RM25.14 million (FY2019: RM24.85 million).</p> <p>Nevertheless, it recorded LBT of RM3.64 million versus a PBT of RM14.79 million previously, due to higher losses on the "other gain and losses" item and excluding a gain on partial disposal of an investment property which was recorded in FY2019.</p> <p>With the roll-out of the Covid-19 vaccination, CAB expects its prospect will be improved from the second quarter of 2021 onwards.</p>
26.03.21 (Fri) 02.30 pm	Saudee Group Bhd (EGM)	<p>The EGM is to seek shareholders' approval for proposed private placement of up to 61.88 million new shares, which represents 30% of the total number of issued Saudee shares, to third party investors. Also, shareholders' approval is sought for the proposed renounceable rights issue of up to 536.31 million new shares together with up to 268.15 million free warrants on the basis of 2 rights shares with 1 free warrant for every 1 existing Saudee share held.</p>

One of the points of interest to be raised:

Company	Points/Issues to Be Raised
Lotus KFM Bhd (AGM)	<p>LKFM announced recently that it has entered into three share sale agreements to acquire the entire equity interest in three companies (ASV Jaya Resources Sdn Bhd, SAM Jaya Plantation Sdn Bhd and Hijau Ria Solution Sdn Bhd), whose principal activities are logging and trading in timber logs, for a cash consideration of RM3.7 million ("Proposed Acquisition").</p>

	<p>It was mentioned in the announcement that the Proposed Acquisition would give LKFM the rights of use for over 1,744.5 acres land from the Kelantan State for the purpose of plantation. What are the Company's plan for this land?</p>
<p>Wong Engineering Corporation Bhd (AGM)</p>	<p>Revenue from Construction and Property Development segment totaled RM22.9 million for FY2020.(Page 99 of AR). A single customer contributed the RM22.9 million to the Group's revenue from Construction and Property Development. (Page 101 of AR)</p> <p>What are the Group's plans to mitigate the customer concentration risk in generating revenue from the Construction and Property Development segment?</p>
<p>MYNews Holdings Bhd (AGM)</p>	<p>The prospect of the Group hinges on the roll out of Mynews higher store count, increase in number of Maru Kafe concept outlets and effective utilisation of Food Processing Centre (FPC) (Page 22 of AR2020).</p> <p>a) In terms of store expansion strategy, what are the Company's plans to rollout new stores and Maru kafe concept outlets? How would the on-going pandemic affect your store expansion plan?</p> <p>b) 46 stores were closed in FY2020 compared to 17 stores in FY2019 (Page 16 of AR2020). What are the reasons for closing so many stores?</p> <p>c) Mynews Supervalu store was launched in FY2020 as a new concept store and to-date 5 stores have been opened (Page 15 of AR2020). Is the Board satisfied with the progress and performance of these stores?</p> <p>d) FPC has been non-performing and contributed a loss of RM12.4 million to the Group in FY2020 (Page 19 & note 31, page 130 of AR2020). What is FPC's current utilisation rate?</p> <p>e) When does the Company expect to turnaround FPC to achieve breakeven point for capacity utilisation?</p>
<p>CAB Cakaran Corporation Bhd (AGM)</p>	<p>The Group's allowance for impairment losses on trade receivables increased to RM21.29 million (2019: RM19.58 million) (Note 25, page 147 of AR2020).</p> <p>a) What actions have been taken to recover the said amount?</p> <p>b) What is the probability of recovering the impaired amount?</p>

	c) To-date, how much of the impaired trade receivables have been recovered?
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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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