



The Observer

24.01.2020

*(In conjunction with the Chinese New Year celebration, **The Observer** will take a one-week break. Publication will resume as usual on 7 February. MSWG wishes all subscribers' and readers another year of prosperity and abundance return.)*

Major Shareholder's Abstention after Voicing Support for Resolutions

The abstention of Solution Group Bhd's group managing director (GMD) and major shareholder, Lim Yong Hew from voting on resolutions pertaining to asset acquisition and business diversification has certainly caught its shareholders by surprise.

In an extraordinary general meeting (EGM) held on 21 December 2019, shareholders shot down three resolutions pertaining to asset acquisition and business diversification put forth by the Board.

The three resolutions were namely, proposed acquisition of a partially completed plant for RM18 million, proposed acquisition of machinery and equipment for RM7 million and a proposal to diversify into the production of lactic acid (collectively referred to as "Proposals"). The acquisition of the plant, machinery and equipment for RM25 million are earmarked for the production of lactic acid.

On page 21 of the Circular dated 6 December 2019 issued to shareholders, the Board opined that the Proposals were in the best interest of the Group and shareholders. Shareholders were recommended to vote in favour of the Proposals. It was learnt that Lim had also, at various times during the EGM, indicated his confidence in completing the new venture.

Surprisingly, only 881,235 shares voted for the Proposals. 42.9 million shares voted against the Proposals.

The outcome was so unexpected to the extent that Solution had to request its counter to be 'halted' from trading subsequent to the EGM.

The Proposals would have been carried if Lim had voted with all his directly and indirectly held 83.13 million shares (27.13% stake), in favour of the Proposals. He was neither an interested director nor connected with the deal.

So why the pull out at the eleventh hour? Wasn't Lim, the GMD, one of the parties involved in proposing this new venture and signing off on the related documents? Or was it due to concerns over the financial position of the Company?

It was learnt that one of the key issues discussed at the EGM was the availability of financiers to finance the RM25 million acquisition.

Based on Solution's pro forma illustration, the proposed acquisition would increase its gearing level from 0.16 times as at 31 December 2018, to 0.70 times, assuming 85% of the fund required for acquisitions were financed by bank borrowings.

This excludes the additional RM8 million capex to construct the partially completed plant and additional funds required for future expansion.

The substantial investment may have dampened financiers' appetite from financing the Proposals along with the proposed move to diversify into the production of lactic acid - an uncharted territory for Solution.

But hadn't the Board including Lim, take all these factors into consideration before putting forth the Proposals? The Board of Solution should have been fully aware of the financial position of the Company.

Having said that, it is not all doom and gloom. Some shareholders view the outcome as a blessing in disguise given that Solution will only forfeit RM500,000 of deposits compared with the potential RM2.5 million loss if termination took place after the Proposals were approved.

Also, we must not forget the resources spent on advisors and other professional service in assessing the deal. These monies have gone down the drain as well.

Above all else, minority shareholders deserve an explanation from the Board on the unanswered questions above.

When Minority Shareholders Lose Out Due to Inadequate Enforcement

Share price of British American Tobacco (Malaysia) Berhad (BAT) reached its lowest closing since 2003 at RM12.70 on 20 January.

Market value of the stock has tumbled about 64% for the past 12 months. At its heyday, it was traded at RM70 above and dubbed as the "King of Stocks" in

Bursa Malaysia. Surely lots of minority shareholders have lost a lot of money along the way or see the value of their investment depreciate.

BAT attributes their misfortunes largely to high levels of illegal cigarette trade incidence which stands at about 65%. This means that 2 out of 3 cigarettes sold in Malaysia is illegal - without payment of government duties.

No thanks to the rampant illicit cigarette trade and contraband tobacco products, BAT's revenue and profit continued to suffer.

For the quarter ended 30 September 2019, BAT's revenue was down by 20% year-on-year to RM584.34 million compared to RM735.52 million. Meanwhile, net profit declined 42% to RM84.8 million from RM146.26 million in last corresponding period.

BAT's misfortunes were further exacerbated by the mushrooming vape market which was also illegal.

Smuggling-in cheap contraband cigarettes is illegal. The government as a stakeholder, has also lost-out in tax revenue over the years.

It is puzzling why such rampant illegal cigarettes are so difficult to control despite the efforts by law enforcement agencies to clamp down on the cartels running these syndicates. The tobacco players have had over the years raised the risk of illicit cigarettes flooding the market.

Unfortunately, BAT's employees, who are important stakeholders of BAT have also suffered. Last November, BAT announced that it was to lay off 20% of its 500-strong workforce in Malaysia.

And in the years before, BAT and another tobacco company, JTI Malaysia, closed their manufacturing plants in Malaysia, affecting about another 500 workers.

Now there is market speculation that BAT may be a potential delisting candidate if its share price continues to tumble.

If so, this would spell the demise of the one-time stock market darling, which boasted of attractive consistent dividend pay-outs, from Bursa Malaysia.

By Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 27 January 2020 – 31 January 2020

Below are the AGMs/EGMs of companies that 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
31.01.20 (Fri) 09.00 am	Ageson Bhd	The Company proposed to raise up to RM65.27 million via rights issue to acquire development land for RM57 million.

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•With regard to the companies mentioned, MSWG holds a minimum number of shares in all these companies covered in this newsletter except Solution Group Berhad.

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