**MINORITY SHAREHOLDERS WATCH GROUP**
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia . Registration No. 200001022382 (524989-M))

# The Observer

*MSWG will hold a virtual forum for Mulpha International Berhad Unconditional Voluntary Take-Over Offer on 1 November 2022, 10.30 a.m., to discuss the offer price and the implications to minority shareholders of Mulpha. We will also discuss the possible courses of action available to minority shareholders.*

*If you are interested, please register for the virtual forum by clicking here for more details.*

**28.10.2022**

## ❖ Mulpha International takeover offer: Accept or do nothing?

Last month, Mulpha International Bhd announced that it had received an unconditional voluntary takeover offer from several joint offerors (the controlling shareholder, the Lee family) to acquire all the remaining shares not already held by them for RM2.30 per share in cash.

The joint offerors are Lee Ming Tee, Lee Seng Hui, Lee Seng Huang, Klang Enterprise Sdn Bhd, Sagittarius Management Sdn Bhd, Mount Glory Investments Limited, Magic Unicorn Limited, Mountbatten Corporation and Nautical Investments Limited. They collectively own 155.65 million shares in Mulpha, representing 50.02% of the total issued shares of 311.18 million.

The offer, which is not conditional upon any minimum level of acceptance, is scheduled to close on 4 November (Closing Date), unless extended by the joint offerors. Mulpha mainly invests in real estate, hospitality and education sectors, with investments in Malaysia, Australia, the UK and New Zealand.

### Questions to ponder

When it comes to a takeover offer, minority shareholders must ask a few pertinent questions before deciding whether to accept the offer. Some of these questions are:

- What is the rationale for the offer?
- Is the offer price fair and reasonable?
- What are the options available and their implications to minority shareholders?
- Do the joint offerors intend to maintain the company's listing status?

According to the Offer Document dated 14 October, the rationale for the offer is to consolidate the joint offerors' shareholding in Mulpha. This will allow them to benefit from any future share price appreciation from the additional shares acquired, as they believe in the company's long-term value. At the same time, the offer allows shareholders to realise their investment in cash in the thinly traded stock.

While the offer price of RM2.30 per share is at a 9.5% premium to its last transacted price of RM2.10 on 22 September (prior to the date of takeover notice), it is nevertheless at a massive 79% discount to the Company's audited net assets value (NAV) of RM11.07 per share as at 31 Dec 2021. Moreover, some of its top 10 properties have not been revalued for years.

Mulpha's major assets are mainly in Australia, besides Leisure Farm in Iskandar Malaysia.

There is no doubt that the offer price for Mulpha is at a significant discount to its NAV. However, minority shareholders should bear in mind that most, if not all, property companies trade at a discount to their NAV. This is because it takes time – sometimes more than a decade – to realise the value of their properties.

**Options for minority shareholders**

Minority shareholders can choose not to accept this offer if they think the offer price of RM2.30 per share is not fair and/or not reasonable. And if they do not want to accept the offer, they do not have to do anything.

The offer is just an opportunity for shareholders who want to exit and realise their investment immediately.

Considering the low trading liquidity of Mulpha shares, the offer provides an opportunity for its shareholders – especially those with sizeable blocks of shares – to realise their investment at a slight premium of 9.52% to its last transacted price of RM2.10 on 22 September, or at a premium ranging from 5.02% to 10.05% over the 5-day, 1-month, 3-month and 6-month volume weighted average market price (VWAMP) of Mulpha shares for the respective period up to 22 September.

Regardless of the acceptance level, the joint offerors intend to maintain the listing status of Mulpha. Therefore, minority shareholders will still be able to realise their investments in the company's shares on the open market after the Closing Date. Of course, what the share price will be is uncertain.

For shareholders who decide to hold on to the shares, their future returns will largely depend on overall market sentiment, the financial performance of the underlying business, future cashflows and dividends, and a whole host of other related factors.

As Warren Buffett said, "In the end, what counts in investing is what you pay for a business – through the purchase of a small piece of it in the stock market – and what that business earns in the succeeding decade or two."

**Not fair and not reasonable**

Meanwhile, the independent adviser for the takeover offer, MainStreet Advisers Sdn Bhd (Mainstreet), has recommended that shareholders reject the takeover offer as it is "not fair and not reasonable".

Mainstreet said the offer price is not fair as it is a significant discount of 86.64% to the estimated fair value of RM17.22 per Mulpha share (computed based on revalued net asset value (RNAV) method).

It is not reasonable because the joint offerors intend to maintain the listing status of Mulpha on the Main Market of Bursa Malaysia. As such, shareholders can still trade Mulpha shares even after the Closing Date.

The joint offerors also do not intend to invoke the provisions of subsection 222(1) of the Capital Markets and Services Act 2007 (CMSA) to compulsory acquire any remaining offer shares for which valid acceptances have not been received before the Closing Date even if the conditions stipulated in subsection 222(1) of the CMSA are fulfilled.

As such, the independent professional advisors, Mainstreet recommends that shareholders reject the offer.

**By MSWG Team**

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## MSWG AGM/EGM Weekly Watch 31 October – 4 November 2022

For this week, the following are the AGMs/EGMs of companies which are on 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 |
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| 31.10.22 (Mon)<br>09.00 am | Minda Global Berhad<br>(EGM) | The EGM will seek shareholders' green light to acquire land and buildings from Persada Mewah Sdn Bhd for RM180 million to be satisfied in cash and issuance of 357.14 million new shares at 7 sen per share.<br><br>Besides, it will also table two resolutions on the proposed establishment and implementation of the share grant scheme (SGS) up to 15% of the total number of issued shares for directors and employees, and the grant of SGS shares to the directors of Minda Global. |
| 31.10.22 (Mon)<br>10.00 am | IOI Corporation Berhad<br>(AGM) | IOI Corp's revenue increased by 38% y-o-y to RM15.58 billion (FY2021: RM11.25 billion). Its pre-tax profit of RM2.35 billion was 35% higher than RM1.74 billion recorded in FY2021, thanks to higher contributions from all segments.<br><br>Excluding the non-operating and one-off items, its underlying PBT of RM2.55 billion was 67% higher than the |

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| | | underlying PBT of RM1.52 billion in FY2021.<br><br>The Group expects to post healthy financial performance in FY2023, albeit not as good as the FY2022. |
| 31.10.22 (Mon)<br>02.30 pm | Hong Leong Financial Group Berhad<br>(AGM) | For FY2022, HLFG recorded an 8.3% increase in net profit of RM2.45 million, primarily supported by the robust performance of its commercial banking division (net of one-off Prosperity Tax).<br><br>However, the performance of the insurance/takaful and investment banking businesses was tepid, with a 14.1% and 64.36% decline in net profits of HLA Holdings Sdn Bhd (HLAH) and Hong Leong Capital Berhad (HLCB), respectively. |
| 01.11.22 (Tue)<br>10.30 am | D'Nonce Technology Bhd<br>(EGM) | One of the key agendas of this EGM is to seek approval for D'nonce's proposed acquisition of the 99.9991% interest in the loss-making Komark (Thailand) Company Limited (KTCL) for RM9.1 million to be satisfied via the issuance of 58.71 million shares at 15.5 sen,<br><br>Minority shareholders should take note that KTCL has been making losses over the last four fiscal years, with net losses ranging between THB10.68 million and THB22.39 million. |
| 02.11.22 (Wed)<br>10.30 am | Hong Leong Industries Berhad (AGM) | Hong Leong Industries recorded a 6.3% y-o-y reduction in revenue to RM2.47 billion (FY2021: RM2.63 billion), while its pre-tax profit was 20% lower at RM377 million (FY2021: RM472 million).<br><br>The lower revenue and profit were mainly due to the lower sales in the first quarter of FY2022 as Covid-19 restrictions curtailed production for two months. Despite the lower profit, the Group paid out a total dividend of RM166 million in FY2022, representing a dividend payout ratio of 79%. |
| 03.11.22 (Thur)<br>10.00 am | TMC Life Sciences Berhad<br>(AGM) | For FY2022, TMC recorded revenue and PBT of RM244 million and RM32.2 million, representing an increase of 21% and 16% respectively, compared to the previous financial year.<br><br>The higher revenue was mainly due to increased patient loads arising from |

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| | | the additional operating capacity at Thomson Hospital Kota Damansara (THKD) in Q4FY2022.<br><br>Meanwhile, its net profit was RM41.4 million, an increase of 104% compared to previous financial year. This was mainly due to the deferred tax credit of RM18.3 million arising from the unutilised Investment Tax Allowance for the THKD expansion. Had the deferred tax credit been excluded, net profit would have increased by 14%. |
| 03.11.22 (Thur)<br>11.00 am | Muar Ban Lee Group Berhad (EGM) | Muar Ban Lee intends to seek shareholders' approval for the proposal to dispose of its entire equity interest in Theron Holdings Sdn Bhd, a wholly-owned subsidiary of Muar Ban Lee, for RM19.25 million in cash.<br><br>Theron is a special purpose vehicle incorporated for the purpose of acquiring and holding 98.09 million shares in Symphony Life Berhad. |

| **One of the points of interest to be raised:** | |
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| **Company** | **Points/Issues to Be Raised** |
| IOI Corporation Berhad (AGM) | Germany's high dependence on Russia for natural gas supply creates a high risk of production downtime/interruption and both the Group's production sites in Witten and Wittenberge are not equipped with any alternative source of heating or steam generation (page 78 of AR2022). The Group's European operations will have to endure the soaring natural gas cost (page 79 of AR2022).<br><br>The Russia-Ukraine war has created long-lasting interruption of energy supply to Germany, to what extent has the Germany energy crisis affected the Group operationally and financially? |
| Hong Leong Financial Group Berhad (AGM) | The new Malaysian Financial Reporting Standards (MFRS) 17 Insurance Contracts accounting standard will come into effect on 1 January 2023.<br><br>The objective of MFRS 17 is to provide a comparable and consistent accounting model for insurance/takaful contracts that is applicable across the insurance/takaful industry.<br><br>a) How well is the Group prepared for the introduction of this new standard?<br><br>b) What is the expected financial impact arising from the implementation of MFRS 17 to the Group's insurance income? |
| D'Nonce Technology Bhd (EGM) | <u>Proposed acquisition by D'nonce of 333,997 ordinary shares or 99.9991% in Komark (Thailand) Company Limited (KTCL), from General Labels & Labelling (M) Sdn Bhd, a wholly-owned subsidiary of Komarkcorp Berhad for RM9.1 million to be</u> |

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| | <u>satisfied entirely via the issuance of 58.71 million D'nonce shares at an issue price 0f 15.5 sen each (collectively known as Proposed Acquisition)</u><br><br>The Group proposed to acquire 99.9991% equity interest in Komark (Thailand) Company Limited (KTCL) from Komarkcorp Berhad- for RM9.1 million. KTCL is involved in the manufacturing and selling of self-adhesive labels.<br><br>a) KTCL has been making losses over the last four fiscal years, with net losses ranging between THB10.68 million and THB22.39 million (page 90, Appendix I of D'nonce Circular to Shareholders dated 17 October 2022). It also recorded negative cash flow from operating activities during the same period.<br><br>Given the financial performance of KTCL, the proposed acquisition goes against commercial sense as it is neither profit-generating nor is it asset-value accretive.<br><br>How does this Proposed Acquisition create value for D'nonce shareholders?<br><br>In view of the loss-making status, would the consolidation of KTCL's financial result affect the overall financial performance of D'nonce going forward?<br><br>b) Komarkcorp had been unsuccessful in turning around KTCL for years. How would KTCL perform differently under the management of D'nonce?<br><br>What would be the strategies to turn around KTCL upon completion of the Proposed Acquisition? How long would it take for D'nonce to turn around KTCL?<br><br>c) Based on KTCL's management accounts for the 2-month ended 31 May 2022, KTCL posted improved financial performance where it recorded a slight net profit.<br><br>What were the catalysts for KTCL's better financial performance during the two months? How sustainable is the profit-making record?<br><br>d) Based on D'nonce's net cash position (after deducting total borrowings) of RM12.44 million as of 30 June 2022, why did the Company not satisfy the acquisition via a combination of cash and shares to minimise the dilutive impact of new shares issuance? |
| Hong Leong Industries Berhad (AGM) | The supply chain disruption arising from the Covid-19 pandemic affected the supply of motorcycle parts and the Russia-Ukraine conflict caused significant surge in costs for freight, energy and materials (page 14 of AR2022). The fibre cement boards business also faced challenges from supply chain disruption, the rising cost of raw materials and freight that eroded the profit margin. (page 18 of AR2022) |

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| | To what extent is the Group able to pass the increase in cost to its customers? Did the Group raise its various product prices since January 2022? If yes, by how much? |
| TMC Life Sciences Berhad (AGM) | 1. TMCLS is in the midst of a major expansion plan, with significant additional capacity and capabilities coming on stream since January 2022. The plan includes expanding its flagship hospital, Thomson Hospital Kota Damansara, and developing a new integrated medical hub – Thomson Iskandar – in Johor Bahru (Page 4 of AR 2022).<br><br>a) Is the expansion of the new wing in the hospital in Kota Damansara fully operational? What is the total number of beds and the occupancy rate before and after the expansion?<br><br>b) When is Thomson Iskandar targeted to be operational? How many beds will the hospital have?<br><br>2. As at end of FY 2022, Group trade receivables stood at RM29.827 million while the allowance for expected credit losses amounted to RM5.538 million (18.6%) (Page 162 of AR 2022).<br><br>Considering the nature of the Group's business which is mainly on a cash basis, the allowance for expected credit losses seems to be relatively on the high side. Please explain. What is the probability of recovering the allowance amount? |


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