MINORITY SHAREHOLDERS WATCH GROUP
Badan Pengawas Pemegang Saham Minoriti Berhad (524989-M)

The Observer

03 August 2018

MESSAGE FROM THE CEO

Material deviations between audited and unaudited financial statements for a financial year end must be sanctioned more severely by Bursa Malaysia. Often, they come as a rude shock to investors.

Investors often make their investment decisions based on the unaudited quarterly results.

So, when quarterly results paint one picture and the actual audited results are another, investors are in for material movement in share prices. Investors expect the quarterly results to have some degree of integrity.

The Listing Requirements state that a variance of more than 10% is deemed material and requires the company to make an announcement along with the reasons for the variance.

Asdion Berhad, on 31 July 2018, reported a deviation of more than 10% (in fact, a deviation of 107.55%) between the unaudited financial statements for the financial year ended 31 March 2018 and the audited financial statements for the financial year ended 31 March 2018.

Messrs Grant Thornton Malaysia, were the External Auditors of the Company.

It would be interesting to find out if the External Auditors had done a 'limited review' of the quarterly results prior to the release of the quarterly results. Such reviews are a common practice adopted by listed companies to be 'on the same page' with the external auditors and to minimise the risk of nasty surprises when it is time for the statutory audit. If such a limited review was done, did the External Auditor flag out these potential impairments and changes much earlier?

Asdion reported an unaudited loss after taxation and after minority interest of RM2,346,515 in the unaudited financial statements of the Company for the financial year ended 31 March 2018 (which was announced to Bursa Malaysia Securities Berhad ("Bursa Securities") on 25 May 2018) compared to an audited loss after taxation and after minority interest of RM4,870,137 in the Audited Financial Statements of the Company.

The variance of RM2,523,622 between the unaudited financial statements of the Company for the financial year ended 31 March 2018 and audited loss after taxation and after minority interest of RM4,870,137 in the audited financial statements of the Company for the year ended 31 March 2018 represents a deviation of 107.55%.

The company also announced that deviation was mainly due to the following adjustments made to the audited financial statements of the Company for the year ended 31 March 2018:-

1. Impairment from Asdion Logistics Sdn Bhd, a subsidiary of the Company amounted to approximately RM1,500,000; and

2. Changes of bargain purchase arising from the Maxillion Group of RM1,566,325.

The explanatory notes on the deviations provided by the company are as follows:

1. Impairment of trade receivables and other receivables amounted to RM1,384,442.00 and RM81,761.00 respectively.

2. Non-controlling interest as at the date of acquisition amounted to RM1,564,443.00.

Regulators would typically look at the reasons for the variance and would ask the question, "Would a reasonable director have picked up these impairments and provisions and reflected them in the unaudited quarterly results?"

The answer to the above questions would determine whether a sanction should be imposed, and if so, the type and severity of the sanction.

Nevertheless, material variances are a rude shock to the investing company.

It is timely for Bursa Malaysia to review the sanctions imposed on companies when it comes to material variations between unaudited and audited financial statements.

Regards,

Devanesan

3 August 2018

MSWG'S QUICK TAKE ON-ONGOING CORPORATE DEVELOPMENTS

APFT BHD ("APFT" OR "THE COMPANY")

Further to the announcement on 18 July 2018 on the filing of Statement of Claim against its former Director, Dato' Faruk bin Othman ("Dato' Faruk"), the Company had on 31 July 2018 announced the details of the claim made against the named Director. In the announcement, it was stated that Dato' Faruk was the sole signatory for all the bank accounts during his tenure as Executive Chairman of the Company. It was also stated in the announcement that the Management decided not to engage a forensic audit specialist to investigate the case due to the cost involved.

[Source: APFT's announcement on Bursa Malaysia's website on 31 July 2018]

MSWG'S COMMENTS:

The task of operating bank accounts of a company is an important duty and responsibility as it involves the disbursements of cash. As such, robust internal controls should be put in place to minimise the risks of fraud that may have a significant adverse financial impact on the Company.

One key internal control feature relates to the concept of 'check and balance', and in this context it would mean having at least two signatories for bank accounts. To have a sole signatory for all bank accounts is to empower an individual with unduly excessive powers in relation to cash disbursements which is highly risky. The situation is further exacerbated if the sole signatory is also the Executive Chairman who, by its position, possesses unfettered powers.

We are very surprised and puzzled how this could have happened in a listed company which is required to have the following:

- An internal audit function to review the governance, risk and controls within the Company.
- An Audit Committee to oversee the work done by the internal auditors
- External auditors, one of whose primary duties is to assess the financial internal controls to ascertain the degree of reliance that they can be placed on the integrity of the financial statements
- A risk management framework that on an ongoing basis identifies, evaluates, monitors and manages significant risks affecting the business of the Company.
- Independent directors, both at the audit committee and the board levels.

We are unsure whether any parties have highlighted the risks of the Executive Chairman being the sole signatory for all bank accounts.

Or was this the result of Board dominance by the substantial shareholder who is also the Executive Chairman of the Company?

We are of the view that the ultimate responsibility remains with the Board (especially the independent directors). They should be answerable for this fundamental weakness in internal control that has led to the misappropriation of funds and substantial loss to the Company.

What is also very puzzling and of great concern is the Company's decision, as stated in the announcement, that the Management has decided not to engage a forensic audit specialist to investigate the case due to the cost involved ….. despite the fraudulent misappropriation of funds. Are the Board and the Management not interested to get to the bottom of the matter and gain further insight into lessons learned.

Moving forward, how will the Company ensure that the internal control and the risk management framework of the Group are effective and functioning as intended? How will the internal audit and the audit committee play their oversight and monitoring role to prevent fraud in future? These are the issues that would need the immediate attention from the Board and the Management of the Company.

MAXWELL INTERNATIONAL HOLDINGS BHD ("MAXWELL" OR "THE COMPANY")

On 25 April 2018 the Company announced that it is unable to release to Bursa Malaysia Securities Bhd ("Bursa Securities") and shareholders its Annual Report in respect of the financial year ended 31 December 2017 by 30 April 2018 as required under Paragraph 9.23(1) of the Main Market Listing Requirements ("MMLR") of Bursa Securities. The delay was because the Company and the External Auditors require more time to complete the Annual Report. The Management in China is working closely with the external auditors to expedite the completion of the Annual Report 2017.

As the Company had failed to issue/announce its Annual Report 2017 within 5 market days from the timeframe, i.e. 30 April 2018, trading in the Company's shares was suspended on 10 May 2018.

On 31 May 2018, the Company again announced that the Company is still unable to issue or submit to Bursa Malaysia Securities Bhd and to shareholders its Annual Report in respect of the financial year ended 31 December 2017. The reason for not being able to issue the annual report was that the Company is experiencing cash flow problems for the completion and finalisation of the audit of the Group for the financial year ended 31 December 2017. The latest announcement on 31 July 2018 stated that the Company is still experiencing cash flow problems and therefore issuance of the annual report is still pending.

In order to expedite the completion and finalisation of the audit of the Group, the Management has taken the following steps/actions:-

(i) Sought potential investors to secure funding for the Company

(ii) Regular meetings with the Board to seek and secure funding to complete the audit

[Source: MAXWELL's announcement on Bursa Malaysia's website on 31 July 2018]

MSWG's COMMENTS

We have seen quite a few China-based companies not being able to issue their annual reports on time.

However, it is not common for the delay in issuance of the annual report to be attributed to cash flow problems faced by the Company. It is also very puzzling as what is the co-relation between issuance of annual report and cash flow problems faced by the Company?

Or is the Company alluding that the auditors refused to complete the external audit as the Company would not be able to pay the audit fee? However, the cash flow problems reason given is also untenable as the quarterly results for period ended 31 March 2018 (unaudited) showed that the Group has a 'cash and cash equivalent' balance of RM344.9 million – hardly a scenario of a company with cash flow problems. Obviously, there are many questions that require the Company's response.

Pursuant to Paragraph 9.28(6) of the MMLR, if Maxwell fails to issue the Annual Report within 6 months from the expiry of the timeframe, de-listing procedures shall be commenced against Maxwell.

The announcements on 31 May 2018, 29 June 2018 as well as the latest on 31 July 2018, states that the Management has taken steps to seek potential investors to secure funding for the Company and there were regular meetings with the Board to seek and secure funding to complete the audit.

Given that the Company has ceased operations since 2017, and the Company is currently facing several litigation cases, how confident is the Company of getting potential investors for the Company before the deadline to issue the annual report, by 31 October 2018, to avoid de-listing?

In the event the steps taken fail, how will the Board act in the interest of the company to address the issue of potential de-listing?

For the information of all parties concerned, the substantial shareholder holds 58.33% ordinary shares in the Company, (as at 31 March 2017). The substantial shareholder is also the President & Executive Director of the Company.

The Company was listed on Bursa Malaysia on 6 January 2011. The IPO price was RM0.54 per share and the share price has been trending down since IPO until the current price of 1 sen per share. The net asset per share as at 31 March 2018 is RM0.66.

SAPURA ENERGY BERHAD ("SEB" OR "THE COMPANY")

On 27 July 2018, the Board of Directors of Sapura Energy Berhad announced that the composition of the Board Remuneration Committee be revised as follows:

1. YBhg Dato' Hamzah Bakar (Chairman, Non-Independent Non-Executive Director)
2. Encik Mohamed Rashdi Mohamed Ghazalli (Member, Independent Non-Executive Director)

3. YBhg Datuk Muhamad Noor Hamid (Member, Independent Non-Executive Director); and

4. YBhg Datuk Ramlan Abdul Rashid (Member, Independent Non-Executive Director).

[Source: SEB's announcement on Bursa Malaysia's website on 27 July 2018]

MSWG's COMMENTS

The Board Remuneration Committee now comprises majority independent non-executive directors, as provided for in the guidance of the Malaysian Code on Corporate Governance. Previously, the Committee comprised one (1) non-independent non-executive director, who is the Chairman of the committee, one (1) independent non-executive director, and an Executive Director who is the President/Group Chief Executive Officer.

MSWG hopes that with the new composition, the Committee would review the remuneration policies which would include, among others, the alignment of the interest of Management with that of shareholders.

UTUSAN MELAYU (*MALAYSIA*) BERHAD ("UTUSAN")

DEFAULT IN PAYMENT PURSUANT TO PARAGRAPH 9.19A OF THE BURSA MALAYSIA SECURITIES BERHAD MAIN MARKET LISTING REQUIREMENTS

UTUSAN had on 1 August 2018 announced that it had defaulted on the repayment of principal and profit amounting to RM2,960,799.89 to Affin Islamic Bank Berhad on 31 July 2018. Due to financial constraints the Company is not able to meet obligation to repay the Bank and therefore had defaulted in profit and principal repayment to the bank. UTUSAN intends to submit a proposal to restructure the Term Loan Facilities with the Bank. In the meantime, UTUSAN is working towards restructuring all its loan facilities in line with its business transformation plan.

[Source: UTUSAN's announcement on Bursa Malaysia website on 1 August 2018]

MSWG's COMMENTS

A default in loan payment by a listed issuer is a great concern as the Company may risk being classified as a PN17 issuer unless the listed issuer is able to provide a solvency declaration to the Exchange.

The Board of Directors of the Company has announced that it is of the opinion that the Company is able to provide Bursa Securities a Solvency Declaration pursuant to Paragraph 9.19A(4) fo the Main Market Listing Requirements that the Company is solvent on the basis that the Company's assets and properties held by the Company, which were charged as securities for the Term Loans facilities, have market value exceeding the outstanding sums owed to the Bank.

Although the Company has stated that it is working towards restructuring all its loan facilities, the Management has to monitor the situation closely, particularly its cash flows to ensure that there will be no further loan default.

Based on the latest quarterly results for the period announcement for the three months period ended 31 March 2018, the Company continued to incur a loss after tax of RM5.845 million. For the immediate preceding quarter ended 31 December 2017, the Group suffered a loss after tax of RM5.214 million

As at 31 December 2017, the Group has accumulated losses totalling RM65.5 million compared to its issued share capital of RM161.4 million. At the Company level it has accumulated losses amounted to RM148.5 million against issued share capital of RM161.4 million. The financial condition was further aggravated with net current liabilities amounting to RM117.9 million and RM120.8 million at the Group and Company level respectively.

In view of such material poor financials, would it not warrant the independent auditors to include an emphasis of matter drawing attention to the material uncertainty related to going concern in its independent auditors' report for the financial statements of the Company and its subsidiaries for the financial year ended 31 December 2017?

MSWG'S AGM WEEKLY WATCH 6 - 10 AUGUST 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
06.08.18 (Mon) 9.00 am	Pansar Bhd (AGM)	Tanahmas Hotel, Sibu, Sarawak

Some of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Pansar Bhd (AGM)	The Group's Mechanical & Electrical division had a stellar year in revenue growth with an increase of 59.4% in 2018 (page A3 of the Annual Report 2018). Is the revenue growth sustainable? Does the Board intend to expand the division's business in the next few years?

MSWG'S WATCHLIST

TOP GLOVE CORPORATION BHD ("TGCB")

UPDATE ON LITIGATION AGAINST ADVENTA CAPITAL PTE LTD

The Company had on 30 July 2018 announced that Top Glove and Top Care's Mareva application against Wong Chin Toh, Low Chin Guan and ACPL in the Writ Action as well as against Adventa Capital in the KL OS in aid of the Singapore arbitration proceedings were not allowed by the High Court. The Company will be appealing the High Court's decision.

Top Glove and Top Care's proceedings against Wong Chin Toh, Low Chin Guan and ACPL in the Writ Action, as well as the Singapore arbitration proceedings against Adventa Capital are on-going. The Singapore Mareva Injunction remains in force and the hearing of Adventa Capital's application to set aside will be heard on 23 August 2018.

[Source: TGCB's announcement on Bursa Malaysia's website on 30 July 2018]

PETALING TIN BERHAD ("PTB" OR "THE COMPANY")

UNCONDITIONAL VOLUNTARY TAKE-OVER OFFER BY TAN SRI DR CHEN LIP KEONG ("OFFEROR")

The Company had on 26 July 2018 announced that the Offeror has received valid acceptances in respect of the Offer Shares and as a result of the Offer, the Offeror currently holds more than 90% of the listed shares in PTB. The Offeror has no intention to maintain the listing status of PTB. As such, trading of PTB shares will be suspended from 9.00 a.m. on Friday, 3 August 2018. Thereafter, the Offeror will procure PTB to take the requisite step to withdraw its listing status.

[Source: PTB's announcement on Bursa Malaysia's website on 26 July 2018]

MSWG'S VIGILANCE

SCOMI GROUP BHD ("SGB" or "THE COMPANY")

The Company had on 31 July 2018 announced that its independent auditors, Messrs KPMG PLT (the "Independent Auditors") has included an emphasis of matter to draw attention to the material uncertainty related to going concern in its independent auditors' report dated 31 July 2018 ("Independent Auditors' Report") for the financial statements of the Company and its subsidiaries (the "Group") for the financial year ended 31 March 2018 (the "Financial Statements").

LOCAL NEWS AND DEVELOPMENTS

Malaysia's export growth to accelerate to 8.7% in June — RAM
https://www.theedgemarkets.com/article/malaysias-export-growth-accelerate-87-june-%E2%80%94-ram

Cradle Fund urges Putrajaya to develop startup ecosystem
https://www.theedgemarkets.com/article/cradle-fund-urges-putrajaya-develop-startup-ecosystem

Malaysia's exports, imports seen rebounding in June
https://www.theedgemarkets.com/article/malaysias-exports-imports-seen-rebounding-june

Putrajaya 'definitely' able to equalise minimum wage nationally within 100 days in power, says Kula
https://www.theedgemarkets.com/article/putrajaya-definitely-able-equalise-minimum-wage-nationally-within-100-days-power-says-kula

Ringgit in narrow range with focus on Fed, tariffs
https://www.theedgemarkets.com/article/ringgit-narrow-range-focus-fed-tariffs

Loan approvals for passenger car purchases jumped to 21.9% in June, says BNM
https://www.theedgemarkets.com/article/loan-approvals-passenger-car-purchases-jumped-219-june-says-bnm

GLOBAL NEWS AND DEVELOPMENTS

China central bank to fine-tune policy to ensure ample liquidity
https://www.theedgemarkets.com/article/china-central-bank-finetune-policy-ensure-ample-liquidity

Trump administration adds to China trade pressure with higher tariff plan
www.theedgemarkets.com/article/trump-administration-adds-china-trade-pressure-higher-tariff-plan

China's Empire of Money Is Reshaping Lives Across New Silk Road
https://www.theedgemarkets.com/article/chinas-empire-money-reshaping-lives-across-new-silk-road

Singapore welcomes Malaysia's suggestion to commence discussions on HSR
https://www.theedgemarkets.com/article/singapore-welcomes-malaysias-suggestion-commence-discussions-hsr

U.S. factory activity slows; private payrolls increase
https://www.theedgemarkets.com/article/us-factory-activity-slows-private-payrolls-increase

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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, save for APFT Bhd, Maxwell Internatinal Holdings Bhd, and Petaling Tin Berhad.*

Feedback
We welcome your feedback on our newsletter and our work. Email us at corporateservices@mswg.org.my with your comments and suggestions.

ENDS./