



UNIVERSITI TUN HUSSEIN ONN MALAYSIA

**FINAL EXAMINATION
SEMESTER I
SESSION 2021/2022**

**COURSE NAME : BUSINESS ETHICS AND
CORPORATE GOVERNANCE**

COURSE CODE : MPA 11003

PROGRAMME CODE : MPA

EXAMINATION DATE : JANUARY / FEBRUARY 2022

DURATION : 3 HOURS

INSTRUCTION :

- 1. ANSWER ALL QUESTIONS**
- 2. THIS FINAL EXAMINATION
IS AN ONLINE ASSESSMENT
AND CONDUCTED VIA OPEN
BOOK**

THIS QUESTION PAPER CONSISTS OF FOUR (4) PAGES

Q1 Transmile Group Berhad, an investment holding company, provides air transportation and related services; and deals in aircraft, aircraft parts and equipment. It also provides express distribution and logistics management services; and aircraft leasing services. The company was founded by Gan Boon Aun in November 1993 and was later listed on the Bursa Malaysia Securities Berhad (Bursa Malaysia) on 27 June 1997 and then transferred to main board in 2002.

It operates a fully integrated centre in Subang Airport in Kuala Lumpur where Transmile is self-sufficient enough to handle its own maintenance, warehousing, cargo handling as well as other related services. Aside from that, it additionally offers outsider administrations that covers airplane support, warehousing and slope dealing with administrations in their base (Fortune.my, 2014).

In line with the Malaysian Code on Corporate Governance (the "Code") in 2000, the Board of Directors ("the Board") is fully committed in supporting the Code and its principles and best practices. The Board has also set up a number of standing committees including Audit Committee, Nomination Committee and Remuneration Committee. In 28 April 2004, Transmile appointed

- Tun Dr Ling Liong Sik as its independent and non-executive chairman and the outgoing chairman cum executive director,
- Gan Boon Aun had been re-designated as director and chief executive officer (CEO) of the company.
- Two independent directors of Transmile, Shukri Sheikh Abdul Tawab and Jimmy Chin Keem Feung were also members of the company's audit committee

Transmile had always been one of the favorite companies for investors. Its share price had risen by 428.3% since 2003 and analysts had always maintained bullish views on Transmile. In order to encourage a better understanding of the company's performance and latest developments, Transmile had also conducted several briefing sessions to interested fund managers and analysts and "one to one" dialogue sessions upon request. Advocacy On 15 February 2007, the company released its unaudited 4th Quarter of 2006 report. Both local and foreign analysts, agreed with it by giving positive assessments on the company's prospect and lofty target prices. These, despite the fact that profit growth were unusually high – a common general red flag for financial statement fraud.

Curiously enough, the research house's own estimate on the Transmile's profit wasn't that far off, but merely by 1.5% than that of Transmile's own inflated figure. This gave rise to suspicion that the analysts could have gotten wind of the information from insiders in Transmile. In July 2007, three former top executives of Transmile Group Bhd, Gan Boon Aun, Lo Chok Ping and Khiudin Mohd were charged with abetting the cargo airline in making a misleading statement about reported revenue of RM338 million. This referred to the company's quarterly report that contained the unaudited consolidated results for the financial year ended December 2006. Due to the lack of bill support and failure to pass the

audit, the group immediately announced a special audit for the accounts. According to a special audit carried out by Moores Rowland Risk Management Sdn. Bhd, Transmile made pre-tax losses of RM126 million and RM77 million for FY 2006 and FY 2005 , respectively, instead of pre-tax profits of RM207 million and RM120 million as originally reported. This means that Transmile had overstated its revenue by RM197 million in 2005 and by RM333 million in 2006. That is a total of RM530 million (Malaysiakini, 2007).

This accounting fraud definitely affected the company's reputation. The company's share price plummeted and investors from foreign countries also rushed to sell their shares. It's going to be difficult to regain the confidence of investors. The company violated the business ethics of corporate governance principles. They deliberately deceived public and innocent investors; and writing the original loss as profit, which itself has moral errors. Imprisonment and fines are inevitable if the company intentionally commits a crime and violates previously enacted laws. Through the principle of accountability, the individuals who make the accounting fraud should be accountable for the decisions they make and the actions they take. According to the meaning of transparency, the company is required to publish all the information without any hidden information to the public investors. Obviously, the Transmile Group Berhad did not reveal the actual accounting situation. Transmile was delisted from Bursa in 2011. On 27 August 2020 Transmile Group Bhd's founder and former chief executive officer Gan Boon Aun has been found guilty by the Sessions Court for furnishing misleading financial statements to Bursa Malaysia in 2007.

(Source: Liau, 2019 & The Rise & Fall of Transmile, 2021)

- (a) Examine the **FOUR (4)** pillars of corporate governance that the company failed to apply which lead to the problem. (20 marks)
- (b) Outline **FOUR (4)** types of stakeholders that affected of Transmile collapse based on stakeholders' theory (20 marks)
- (c) Elaborate **THREE (3)** principles of Malaysian Code of Corporate Governance that the company already practiced. (15 marks)
- (d) Directors are supposed to act according to the law and regulations of the country. Justify **TWO (2)** main duties that the board should perform to protect Transmile. (20 marks)

- (e) The audit committee form the third line of defense the company. However, in the case of Transmile the committee failed to do so.

Elaborate with example **FOUR (4)** roles that the audit committee should perform. (20 marks)

- (f) Explain **ONE (1)** main challenge of corporate governance in Malaysia (5 marks)

-END OF QUESTIONS-

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