



The Observer

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❖ The Good, the Bad and the Ugly

In "**The Good, the Bad and the Ugly**", a 1966 Italian Spaghetti Western film directed by Sergio Leone, Clint Eastwood who plays the role of Blondie (The Good) teamed up with Angel Eyes (The Bad, played by Lee Van Cleef) to hunt down Tuco (The Ugly, played by Eli Wallach).

Ever since the outbreak of COVID-19 pandemic, there has been a spate of PLCs joining the gloves bandwagon.

Now, we have abundant wannabe glove-play counters to choose from, and amongst them, there are bound to be the good, the bad and the ugly. It takes skill and knowledge to search for the coveted "Good" and try and give a pass on the "Bad" and "Ugly".

The latest PLC which jumped onto the glove bandwagon is circuit board maker PNE PCB Bhd. On 7 January, it announced that it plans to set up five glove production lines with each yielding approximately 300 million pieces per year. The glove production will start in stages by the fourth quarter of 2021. The new business is expected to contribute 25% or more to its future earnings.

Other Main and ACE-Market listed PLCs that have joined the glove bandwagon are:

Company	Existing business	Date of announcement	Closing price on 2 January 2020 (RM)	Closing price on the next trading day after the announcement (RM)	Closing price on 6 Jan 2021 (RM)
AT Systematization Berhad	manufacturer of industrial automation systems & machinery	10/8/2020	0.040	0.130	0.175
GPA Holdings Berhad	manufacturing of automotive batteries	1/9/2020	0.100	0.230	0.110
Green Ocean Corporation Berhad	Palm Oil, renewable and green products/services	1/9/2020	0.079	0.230	0.075
Hong Seng Consolidated Berhad	investment holding, Search and Advertising, IT, supply chain management & moneylending business	25/8/2020	0.135	1.600	1.020
Inix Technologies Holdings Bhd	Information technology	11/8/2020	0.055	0.620	0.385
Jiankun International Berhad	property development & project management	22/12/2020	0.335	0.570	0.510
Kanger International Berhad	investment holding, manufacturing of bamboo flooring	11/8/2020	0.070	0.295	0.135
Luster Industries Bhd	industrial mold manufacturing	19/10/2020	0.090	0.225	0.175
Mah Sing Group Bhd	Property development & manufacturing	15/10/2020	0.661	0.945	0.850
Notion VTec Berhad	manufacturing of precision components	30/10/2020	0.637	1.100	0.795
Salcon Bhd	water & wastewater management, property development	12/11/2020	0.233	0.380	0.245
Titijaya Land Berhad	Property development	12/8/2020	0.290	0.600	0.400

As shown on the table, all the new glove players experienced a sharp run-up in their share prices after their announcements of new venture. Subsequently, most of their share prices normalized to current level. The reason behind this phenomena is definitely food for thought for investors.

There are many factors we must look at before deciding in which wannabe glove counter to invest in. Some of the factors that should be considered are:

1. The business segment and gestation period

Some of the PLCs above are involved in glove manufacturing and some of them are in the glove distribution and supply business. Moreover, within the glove manufacturing segment, different products fetch different profit margins. As such, investors need to take note of the products that they are involved in.

Generally, PLCs may acquire existing plant and machinery/business or set up their own production plants to kickstart their glove manufacturing venture.

If PLCs intend to embark on the journey on their own, investors must consider whether physical initiatives like plant and machinery and factories have been set up to produce gloves. Investors must also consider the number of production lines and production capacity that has been planned.

And if the PLC intends to acquire a glove related business, they must consider the current stage of acquisition. They need to know whether a sale and purchase agreement has been signed. Sometimes the parties are at the exploration stage and only have a memorandum of understanding (MOU). MOUs are not contracts, and even contracts can be broken. There is no certainty, especially at the MOU stage.

In addition, as medical gloves are categorized as medical products, be prepared for possible lengthy certification and other processes before the end-product becomes marketable. Furthermore, as the gloves business is becoming increasingly competitive, glovemakers must constantly invest in R&D and automation to obtain a competitive edge. Again, this will require significant financial investment.

2. The Financial Muscle

The PLC should have the necessary financial muscle to carry out its proposals. A quick read of the financial statements together with relevant metrics such as liquidity, solvency, operating efficiency and profitability will give prima facie evidence of existing financial strength.

To a certain extent, the financial strength of the PLC will determine the financial muscle that the company has to undertake a successful venture. The existing financial strength will also indicate the ease with which it will be able to raise new funds.

3. The Reputation of the Board/Management

Some board/management are good, some are bad, and some are ugly...by reputation. Shareholders should reckon that the fate of their investment is partially hinged on the reputation of these drivers. Minority shareholders must bear in mind that perception (of reputation) is just as important as reality as it is said that perception shapes reality.

In their search for "**A Fistful of Dollars**" or for "**A Few Dollars More**", minority shareholders should remind themselves that informed investing should be the order of the day.

(P/S: "**A Fistful of Dollars**", "**A Few Dollars More**" and "**The Good, The Bad and the Ugly**" are the three films in the *Dollars Trilogy* directed by Sergio Leone).

❖ The unanswered questions at Menang Corporation's virtual AGM

Recently, a corporate representative from MSWG attended the virtual annual general meeting of Menang Corporation (M) Bhd at 10 am, 30 December 2020. The corporate representative from MSWG attended the AGM as a proxy.

In total, the corporate representative had raised five questions during the meeting but none of the questions raised was answered by the Board during the virtual meeting.

The first question was in relation to Ordinary Resolution 6 on the Proposed Retention of Independent Non-Executive Director, Mr Chiam Tau Meng, who was appointed as an Independent Non-Executive Director (INED) on 21 October 2005. Mr Chiam has served the Company as an INED for more than 12 years as at the date of the notice of meeting.

The question raised was about the absence of a two-tier voting process for the retention of Mr Chiam as an INED as advocated by Practice 4.2 of the Malaysian Code on Corporate Governance. Practice 4.2 states that the Board should seek annual shareholders' approval through a two-tier voting process if it continues to retain an independent director after the twelfth year. The Board did not respond to this question.

Then, the MSWG representative raised the same question again, and again the question was not answered.

Subsequently, the Chairman of the meeting informed that there were irregularities in Ordinary Resolutions 7, 8 and 9 under the Companies Act 2016 (CA2016), and as such, he was withdrawing these resolutions.

The MSWG representative raised a question to seek clarification from the Chairman as to the section of CA2016 under which the resolutions were being withdrawn. There was no answer. The same question was repeated; and again, there was no reply from the Board.

Out of desperation and exasperation, the MSWG representative queried why all the questions raised earlier were not being answered. Again, there was no answer.

The AGM was adjourned for poll voting at around 10.30 am. It ended at around 10.45 am after the polling results were announced.

As far as the representative could note, only two other questions were raised during the AGM. The first question was in relation to e-voucher. The second question was in relation to financial statements. The Chairman said that the second question required a lengthy explanation and that he would get the external auditors to respond to the shareholder after the meeting.

The second question was not read out at the meeting; thus, the attending shareholders had no idea what the question was. Questions raised at a general meeting should be answered at the general meeting and not later, privately to the shareholder who raised the question.

At the time of writing, the corporate representative has not received any acknowledgement from Menang on the questions raised nor has the representative received any replies to the questions raised.

These are some of the frustrations of attending a virtual meeting. Obviously, the virtual setting of the meeting is uncondusive for shareholder activism as compared to a physical meeting...at least in the above instance.

At a physical meeting, shareholders will ask questions and the Board/Management is obliged to answer the question at the general meeting. Then there may be related follow-up questions by other attending shareholders. The shareholders questions cannot be ignored with impunity.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 11 – 15 January 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
11.01.21 (Mon) 10.00 am	Notion VTEC Bhd (EGM)	Notion VTec is seeking shareholders' approval to diversify its business activities to the glove manufacturing business. The diversification is to provide additional revenue stream to the Company and to reduce the reliance on existing business. It plans to set up nine new double former glove production lines over 2 phases in year 2021. The first three glove production lines are expected to commence production in July 2021.
13.01.21 (Wed) 10.00 am	Concrete Engineering Products Bhd (AGM)	CEPCO's pre-tax loss increased by 56.16% from RM11.56 million in FYE 2019 to RM18.06 million in FYE 2020 due to lower revenue from local infrastructure projects and slow take-off from secured orders. Besides, it is estimated that the mandatory business shutdown under the MCO had costed the Company RM4.23 million, representing around 36.59% of its FYE 2020's net loss.
13.01.21 (Wed) 11.00 am	Trive Property Group Bhd (AGM)	Trive Property recorded a marginally higher revenue of RM4.39 million in FY20 (FY19: RM4.19 million) thanks to the rental income contribution from Menara Persoft during the year. The contribution has mitigated the impact of lower revenue in the Solar division, which recorded a 33% decline in revenue to RM2.8 million (2019: RM4.19 million) with net loss of RM5.48 million in FY20 (FY19: LAT of RM5.47 million).

		In view of the highly challenging operating environment in 2020/2021, Trive Property's financial performance is likely to be under pressure.
13.01.21 (Wed) 01.00 pm	Poh Kong Holdings Bhd (AGM)	<p>Poh Kong's net profit slipped 3.3% to RM24.43 million in FY20, as compared to RM25.27 million a year earlier. Meanwhile, its revenue declined 25.2% to RM748.8 million from RM1.0 billion due to the impact of Covid-19 pandemic and weak market sentiment.</p> <p>The decent bottomline performance was primarily due to the uptrend of gold prices and cost control initiatives implemented.</p> <p>Poh Kong expects the FY2021 will be another challenging year due to the prolonged impact of COVID-19 pandemic and the prevailing global conditions.</p>
15.01.21 (Fri) 10.00 am	Eduspec Holdings Bhd (EGM)	The EGM is to seek shareholders' approval for the proposed variation on the terms and conditions of Eduspec's RCPS programme, (Proposed Variation), and the proposed amendments to the Company's Constitution. The proposed amendments on the Company's Constitution is to facilitate the implementation of the Proposed Variation and the implementation of the Proposed 20% General Mandate.

One of the points of interest to be raised:

Company	Points/Issues to Be Raised
Concrete Engineering Products Bhd (AGM)	What is the expected impact of the pandemic on CEPCO 's operations and financial position in FY2021?
Trive Property Group Bhd (AGM)	<p>1. 'Realised loss on quoted shares' amounted to RM1.8 million (2019: Nil) (page 58 of AR2020).</p> <p>a) To which quoted shares do the loss relate to?</p> <p>b) Why did the Board decided to sell the quoted shares at a loss?</p> <p>c) Given that the investments in quoted share are acquired under the name of a director (Note 15, page 101 of AR2020), how has the Board ensured that the sale of the quoted shares is in the</p>

	<p>best interest of the Company and shareholders interest had been safeguarded?</p> <p>d) Why are the quoted shares acquired under the name of a director instead of the Company? Please identify the director under whose name the quoted shares are registered?</p> <p>2. The Company purchased additional motor vehicles amounting to RM300,000 (Note 5, page 90 of AR2020). A motor vehicle of the Group and of the Company with net carrying amount of RM466,430 (2019: RM277,383) is registered under the name of a director (Note 5, page 93 of AR2020)</p> <p>a) Given that Trive is making losses, what is the justification to purchase additional motor vehicles?</p> <p>b) How many motor vehicles were purchased (and models) during the financial year ended 2020?</p> <p>c) Please identify the director under whose name the said motor vehicle is registered?</p> <p>d) Why is the said motor vehicle registered under the name of a director instead of the Company?</p> <p>e) What constitute the increase of the motor vehicle's net carrying amount to RM466,430?</p> <p>f) Given that the motor vehicle is registered under the name of a director, why was there no disclosure of benefits-in-kind under the Directors' remuneration on page 21 of AR2020?</p> <p>3. The Board has committed to meet at least 4 times a year with additional meetings to be held when need arises to consider urgent proposals or matters that required expeditious decision or deliberation of the Board. For FYE2020, three Board Meetings were held with full attendance of all Directors (page 19 of AR2020).</p> <p>a) What is the reason for the low number of Board meetings held during the year?</p> <p>b) Does this mean that some of the quarterly results were not tabled at Board meetings for approval?</p> <p>4. The total cost incurred for the internal audit function was RM10,000 (FYE2019: RM10,000) for the financial year ended 31 July 2020 (page 22 of AR2020).</p> <p>a) Given that the fee is rather small (approximately RM833.33 per month), how does the audit committee assure itself that there would be adequate coverage and an effective audit function?</p>
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	b) How many internal audit reports were issued during FYE 2020? What were the areas of coverage during the year?
Poh Kong Holdings Bhd (AGM)	For FYE 2020, the Group has recognised in its financial statement a write down of inventories amounting to RM4,648,999 (Page 106 & 185 of the Annual Report 2020). a) What type of inventories that have been written down in FYE 2020? b) What factors had triggered the need to write down the value of the inventories? c) With the economic uncertainties resulting from the COVID-19 pandemic which may impact the saleability of inventories, are further write down of inventories expected in the FYE 2021?

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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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