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

# The Observer

**17.09.2021**

***The Minority Shareholders Watch Group is now on Twitter. The presence at Twitter is the first step for us to create strong social media presence and engage with our stakeholders more effectively. Do follow MSWG's Twitter account at @MSWGMalaysia and share your thought on our tweets from time to time.***

## ❖ Ambiguous reasons for HB Global ED's resignation

With just seven months into the job, HB Global Limited director Lee Ping Wei ("Lee") announced his resignation from his role as an executive director (ED) of the Company with effect from 18 August 2021. In the announcement on Bursa Malaysia website, HB Global said the reason for Lee's resignation was due to other personal commitments which required his full attention.

Aside from Lee, it is also worthwhile noting that on 12 July 2021, the company's chief financial officer, Ang Kong Siang, had also resigned due to other personal commitments which required his full attention (similar to Lee's reason).

Strangely, HB Global had on 6 September issued a media release stating that Lee has repeatedly failed to dedicate adequate time and resources towards the company, resulting in unacceptable performance as expected from his position. Thus, the board had no choice but to accept Lee's voluntary resignation effective 18 August 2021.

Minority shareholders are left wondering how to reconcile the reasons for the resignation - whether it was due to other personal commitments which required his full attention or that he failed to dedicate adequate time and resources towards the company.

Resignation due to other commitments is a common reason for board members to relinquish their position, at least for HB Global, where the resignation of the CFO was accompanied with a similar reason.

Looking beyond Lee's resignation, one may also wonder what has prompted HB Global's action of issuing a press statement three weeks later to highlight Lee's departure. Besides the reason for his resignation, the purpose of the media release was also to inform the market that Lee no longer had the authority to act, represent or bind the company in dealings, negotiations, and discussions. The Company repeatedly stressed that Lee ceased to have any relationship with the Group, whether as a principal and agent or employer and employee.

Such announcement should have been made on a timely manner to avoid any risk of unauthorized dealings with the Company by Lee. Unauthorized dealing with third parties could happen even in days, let alone a period of three weeks.

Speculation of 'board tussle', or something similar, is inevitable judging from the re-designation of Keh Chuan Seng, 49, as the company's executive chairman from the non-independent non-executive chairman position on the same day that Lee resigned from the Company.

After all, Keh's emergence in HB Global has been quite meteoric, to say the least. He emerged as the single largest shareholder of the Company in July 2020 after he acquired 150 million shares (at two sen each) or a 32.1% stake from HB Capital's co-founder and CEO Shen Hengbao via an off-market transaction. He reduced his shareholding to 27.67% about two months later.

Suffice to say that, following Keh's emergence as a controlling shareholder, HB Global also saw a new lease of life injected into the Company.

This April, HB Global announced that it planned to acquire a 60% stake in Forward Resources & Construction Sdn Bhd (FRC) for RM66 million, to be satisfied via 208.41 million new shares representing a 27% stake in HB Global, at an issue price of 25.91 sen apiece, to the two vendors of FRC, together with RM12 million cash. Founded in 1993, FRC is mainly involved in the provision of construction and engineering solution services, including fifth-generation (5G) infrastructure, for the telecommunications industry.

HB Global was previously known as a gourmet convenient food producer that specialised in frozen vegetables and ready-to-serve duck meat products.

Financial performance-wise, it had done well in the 2QFY2021 with a net profit of RM5.85 million (2Q FY2020: net loss of RM1.91 million) while its revenue jumped 68% to RM22.1 million (2Q FY2020: RM13.13 million).

This enabled HB Global's 1H FY2021 earnings to hit RM10.18 million from a net loss position of RM8.45 mil in the corresponding period a year ago while its revenue rose 75% to RM38.37 million (1H FY2020: RM21.96 million).

The turnaround financial performance is akin to light at the end of the tunnel for minority shareholders after years of sub-performance.

Inevitably, ambiguous announcements lead to speculation among the investing fraternity, resulting in uncertainty which may impact the share price.

The share price of HB Global has tanked 27% from a high of 35 sen (the day of Lee's resignation) to close at 25.5 sen on 15 September despite significant improvement in the earnings for 1H2021.

**Devanesan Evanson**
**Chief Executive Officer**

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 |
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| 20.09.21 (Mon)<br>10.00 am | Ajinomoto (M) Bhd<br>(AGM) | Ajinomoto recorded a 21.2% decline in pre-tax profit to RM61.3 million in FY2021, from RM77.7 million in previous year. The lower profit was due to reduced revenue from the consumer business segment, higher advertising expenses, and reduction in distribution from its investment securities and interest income.<br><br>Its food service business continued to be affected by lower consumer spending and businesses.<br><br>Ajinomoto will continue to monitor the effectiveness of its business strategies and take appropriate actions to remain competitive and retain market share in this challenging environment. |
| 21.09.21 (Tue)<br>10.00 am | Superlon Holdings Bhd<br>(AGM) | Superlon recorded post-tax profits of RM RM13.2 million (FYE 2020: RM8.6 million) mainly due to the diligent efforts from its team and improvement in gross profit margins. |
| 21.09.21 (Tue)<br>03.00 pm | Kumpulan Fima Bhd<br>(AGM) | Kumpulan Fima recorded a 4.5% decline in its revenue to RM478.3 million, mainly due to lower contributions from Manufacturing and Bulking segments.<br><br>Its pre-tax profit increased by 77.2% to RM91.8 million in FY2021 thanks to higher profit contribution from the Plantation and Bulking segments.<br><br>The Group remains resilient due to its diversified businesses. It is committed to re-invest in its existing businesses and continue to focus on the ESG agenda. |

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| 22.09.21 (Wed)<br>10.00 am | ELK-Desa Resources Bhd<br>(AGM) | FY2021 had been a challenging year for ELK-Desa with a rare decline in its net hire purchase receivables to RM522.78 million compared to RM610.42 million a year ago.<br><br>Nonetheless, this is in line with its strategy to preserve asset quality by tightening disbursements and credit recovery during the Covid-19 crisis |
| 22.09.21 (Wed)<br>10.00 am | Genting Malaysia Bhd<br>(Postponed from 2 June 2021)<br>(AGM) | Against the backdrop of the COVID-19 pandemic, GENM recorded a 56% decline in revenue to RM4.53billion. The decrease was primarily caused by the unprecedented disruptions to the Group's leisure and hospitality operations worldwide arising from the outbreak of COVID-19. It reported a net loss of RM2.36 billion in FY2020 after taking into consideration depreciation and amortisation, impairment losses and finance costs.<br><br>Due to its involvement in the leisure and hospitality industry, GENM's performance is very much dependent on the improvement and recovery of the COVID-19 pandemic situation. |
| 22.09.21 (Wed)<br>10.00 am | QL Resources Bhd<br>(AGM) | QL's revenue rose 5.5% y-o-y to RM4.38 billion (FY2020: RM4.15 billion), while PBT saw significant improvement, up 40.9% to RM432.6 million (FY2020: RM306.9 million) including a one-off remeasurement gain from its previous equity interest in Boilermech Holdings Berhad. The Group ended the financial year with the successful consolidation of Boilermech as a subsidiary, marking another extension to QL's value chain. |
| 22.09.21 (Wed)<br>10.30 am | ACME Holdings Bhd<br>(AGM) | ACME managed to turn around its performance in FY2021 with net profit of RM2.6 million as compared |

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| | | to a net loss of RM0.6 million in the previous year, mainly driven by the turnaround performance of the property division.<br><br>Meanwhile, its manufacturing division turned loss-making during the year with a net loss of RM0.2 million as compared to a net profit of RM0.1 million in the previous financial year. |
| 23.09.21 (Thur)<br>10.00 am | Genting Bhd (Postponed from 2 June 2021)<br>(AGM) | Genting recorded RM11.6 billion revenue in FY2020, representing a 47% decrease y-o-y. This resulted a net loss of RM1.1 billion in FY2020, as compared to a net profit of RM1.99 billion in FY2019. The Leisure & Hospitality segment continued to be badly hit by COVID-19 pandemic and registered deteriorating financial performance. The Plantation segment, however, recorded higher revenue and earnings mainly due to stronger palm products prices. All other segments also registered slightly poorer financial performances except for the Oil and Gas segment which recorded slightly higher EBITDA. |
| 23.09.21 (Thur)<br>10.30 am | RCE Capital Bhd<br>(AGM) | RCE's business operation had largely remained resilient amidst the latest lockdown. Its collections were healthy, with asset quality steady despite the allowance cut among civil servants. Correspondingly, it posted a higher net profit of RM124.6 million for FY2021, which is a 12.7% increase as compared to a year ago.<br><br>The overall improvement in financial performance also resulted in a higher earnings per share of 35.0 sen and a return on average equity of 17.2%. |
| 23.09.21 (Thur)<br>02.30 pm | ATA IMS Bhd<br>(AGM) | The Company had a very good FYE 2021 where it achieved its highest profit after tax. However, the Company must be cautious that it does not breach any labour |

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| | | standards as in May 2021 allegations surfaced that the Company was practising forced labour and had come under the scrutiny of Customs and Border Protection agency of the US. |
| 23.09.21 (Thur)<br>03.00 pm | Eksons Corporation Bhd<br>(AGM) | The Group recorded a profit after taxation of RM4.8 million (FY2020: Loss after taxation of RM36.2 million), mainly due to the significant contribution from other income. |
| 24.09.21 (Fri)<br>09.30 am | NTPM Holdings Bhd<br>(AGM) | The Company was affected by higher pulp prices which began rising in early 2021. The management of pulp prices is key to the Company's profitability as pulp is the main raw material for the Company. The Company has indicated that it will pass on the increase in pulp prices to its customers but this may affect demand towards its products. |
| 24.09.21 (Fri)<br>11.00 am | Emico Holdings Bhd<br>(AGM) | The Company's main business of trophy manufacturing suffered during the pandemic as lesser events were held around the world. The Company has ventured into the business of urban farming and early indications show that this new business looks promising to enhance the Company's revenue streams. |
| 24.09.21 (Fri)<br>03.00 pm | Pegasus Heights Bhd<br>{posponed from date 19th June 2021}<br>(AGM) | The overall financial result position of Pegasus was further improved in FY2020 due to the acquisition of ChinPakLoong Architect during the financial year. This acquisition had improved Pegasus' equity position and revitalise the Project Management Consultancy segment of the Company. As a result, the Group's financial result has further improved from the previous year. |

| **One of the points of interest to be raised:** | |
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| **Company** | **Points/Issues to Be Raised** |

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| Ajinomoto (M) Bhd (AGM) | Revenue from Consumer Business segment declined by 7.3% from RM334.4 million in FY2020 to RM309.9 million in FY2021. This was mainly due to lower demand of AJI-NO-MOTO® in both domestic and export markets as a result of the Movement Control Order (MCO) implemented by the Malaysian government and Middle East local authorities to contain the Covid-19 pandemic. Segment profit decreased from RM40.8 million in FY2020 to RM29.3 million or 28.2% due to lower revenue and higher advertising expenses (page 7 of Annual Report (AR) 2021).<br><br>a) The prolonged impact of the pandemic and renewed lockdown i.e., MCO 3.0 with restrictions on social activities are expected to continue impacting out-of-home consumption. What is the Group's online/delivery strategy going forward?<br><br>b) How has the Group adapted to the challenges caused by the pandemic? How will the Group prepare itself for a post-pandemic environment to ensure timely business recovery and sustainability? |
| Superlon Holdings Bhd (AGM) | 1. Other expenses have increased by approximately 251% from RM220,427 in FYE2020 to RM774,240 in FYE2021 (Page 56 of the Annual Report 2021).<br><br>What are the reasons for the significant increase in other expenses?<br><br>2. Superlon's factories in Malaysia resumed operations on 19 July 2021. Meanwhile, its factory in Vietnam continued its operations without interruptions which helped to partially mitigate the effects of the temporary shutdown (Page 2 of the Annual Report 2021).<br><br>a) What is the current capacity of the Company's factories?<br><br>b) What is the current and previous year's capacity utilisation rate for the Company's factories in Malaysia and Vietnam? |
| Kumpulan Fima Bhd (AGM) | Manufacturing division has shown a declining revenue and profit trend since FY2017. |

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| RM' million | FY2017 | FY2018 | FY2019 | FY2020 | FY2021 |
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| **Revenue** | 233.3 | 140.8 | 134.8 | 134.0 | 101.9 |
| **Profit before tax** | 59.6 | 22.8 | 30.6 | 26.0 | 14.6 |

a) What is the Group's strategic plan to address the manufacturing division's deteriorating financial performance, going forward?

b) Covid-19 pandemic adversely impacted sales of the division's local travel, transport, foreign travel and confidential documents, totalling RM34.46 million in FY2021 (page 35 of AR 2021). Given the disruption caused by the pandemic and the uncertainties over the pace of recovery, how has the Group finetuned its product mix and prepared itself for a post-pandemic environment to ensure timely business recovery and sustainability?

c) The key trends and drivers for the next 5 years for the security printing industry will see the shift from physical security printing to digital IDs/documents, for example, a rise in card and mobile payments will impact the demand for physical banknotes, and e-passports to biometrics (facial recognition) will reduce the demand for IDs in printed forms (page 39 of AR 2021). What efforts are being taken to deal with the increasing threat from digitalisation on traditional security printing?

d) Currently, the division mainly services the public sector i.e. Government agencies. What are the opportunities, if any, for the Group to diversify its customer base locally or regionally to reduce its dependence on the public sector?

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| ELK-Desa Resources Bhd (AGM) | ELK-Desa's non-performing loan (NPL) ratio spiked to 4.9% in FY2021 (the highest since FY2017) from 1.4% a year ago, while the loan loss coverage ratio also declined substantially to 121% (the lowest since FY2017) from 220% a year ago.<br><br>Nonetheless, the Company said the higher NPL ratio was expected as part of the effects of the assistance offered to borrowers (page 24 of AR2021).<br><br>a) What is the assistance offered by the Group to affected borrowers? How does the assistance offered |

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<td>by the Company to borrowers give rise to the increased NPL ratio?<br><br>b) As of 30 June 2021, what is the size of outstanding HP loans that is still under ELK-Desa's repayment assistance program? What is the percentage of these outstanding loans in relation to total loan book?<br><br>c) Notwithstanding the management's view that the NPL ratio remains at a manageable level, does the Group foresee further deterioration in hirers' repayment ability moving forward? What is the Management's target NPL ratio?<br><br>d) How is the recoverability of the current NPLs?</td>
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<td>Genting Malaysia Bhd<br>(Postponed from 2nd June 2021)<br>(AGM)</td>
<td>Group revenue had declined by 56% from FY 2019 to FY 2020 while a net profit of RM1,332.2 million in FY 2019 had turned into a net loss of RM2,361.5 million in FY 2020 (a sharp drop of 277.3%). With such poor financial performance, for FY 2020, three executive directors namely the Deputy Chairman and Chief Executive, Tan Sri Lim Kok Thay, Deputy Chief Executive and Executive Director, Mr. Lim Keong Hui and President and Chief Operating Officer and Executive Director, Dato' Sri Lee Choong Yan still received substantial remuneration though in Tan Sri Lim's case there was a decrease compared to the amount received in FY 2019. The percentage of decrease was, however, far much lower than the deterioration in the Group revenue and net profit.<br><br>A summary of their total remuneration is as follows:<br><br>
<table>
<tr><th></th><th>FY 2020 (RM Million)</th><th>FY 2019 (RM Million)</th><th>Change (%)</th></tr>
<tr><td>Tan Sri Lim Kok Thay</td><td>49.57</td><td>67.72</td><td>-26.8</td></tr>
<tr><td>Mr. Lim Keong Hui</td><td>9.2</td><td>9.12</td><td>0.8</td></tr>
<tr><td>Dato' Sri Lee Choong Yan*</td><td>10.32</td><td>-</td><td>N/A</td></tr>
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* appointed to the Board on 1 January 2020</td>
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| | Kindly justify these directors' remuneration in the context of the Group's deteriorating performance. |
| QL Resources Bhd<br>(AGM) | On 9 August 2021, a lawsuit was initiated against QL subsidiaries, PT Pipit Mutiara Indah and QL Mutiara (S) Pte Ltd, as well as Chia Seong Fatt (a director of QL) in his capacity as a director of PMI. Based on the Bursa Announcement made on 23 August 2021, the Court had on 19 August 2021 granted an adjournment and the hearing date was postponed to 2 September 2021.<br><br>a) To-date, are there any updates or further development in relation to the matter mentioned above?<br><br>b) In view of the litigation, how and to what extent does the Board proactively monitor, evaluate and anticipate the reputational risks that the Group may face? |
| ACME Holdings Bhd<br>(AGM) | The Group's manufacturing and property development segments have significant concentration of credit risks in the form of outstanding balance due from 2 customers (2020: 2 customers) representing 59% (2020: 25%) of total receivables. (Page 103 of AR)<br><br>a) What is the actual number of customers the Company has from the manufacturing and property development segments respectively as of FYs 2021 and 2020?<br>b) Please provide the trade receivables from the 2 customers from the manufacturing and property development respectively as of FYs 2021 and 2020?<br><br>c) Please provide the provision of Expected Credit Loss ("ECL") due from these two customers as a percentage of the Group's ECL for FY2021 and FY 2020? |
| Genting Bhd<br>(Postponed from 2 June 2021)<br>(AGM) | Practice 4.2 of Malaysian Code on Corporate Governance (MCCG) states that the tenure of an independent director does not exceed a cumulative term limit of nine years. Upon completion of the nine years, an independent director may continue to serve on the board as a non-independent director.<br><br>If the board intends to retain an independent director beyond nine years, it should justify and seek annual |

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| | shareholders' approval. If the board continues to retain the independent director after the twelfth year, the board should seek annual shareholders' approval through a two-tier voting process.<br><br>There is an independent director, with tenure exceeding nine years, where no resolution was proposed to seek shareholders' approval to retain him as an independent director beyond nine years.<br><br>The Company departs from the Practice and proposes a timeframe of 9 years to apply the Practice. The timeframe of nine years is unreasonably long and the application of the Practice should be expedited to, say, 3 years or below.<br><br>Practice 4.5 of Malaysian Code on Corporate Governance (MCCG) stipulates that the board discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.<br><br>The Company departs from the Practice and proposes a timeframe of 9 years to apply the Practice. The timeframe is unreasonably long and the application of the Practice should be expedited to, say, 3 years or below. |
| RCE Capital Bhd<br>(AGM) | RCE also extends assistance such as loan moratorium to borrowers to mitigate the COVID-19 pandemic's impact on its customers.<br><br>What are the terms and conditions imposed to qualify for the moratorium? What is the size of loan placed under moratorium against RCE's total loan book? |
| ATA IMS Bhd<br>(AGM) | The Company was embroiled in a forced labour controversy in May 2021 where there were serious allegations made about the treatment of foreign labour at the Company's factory. (https://www.theedgemarkets.com/article/ata-ims-denies-allegation-forced-labour-share-price-tumbles) |

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| | a) What were the steps taken by the Company to ensure that the foreign labour working at its factories were given fair treatment?<br><br>b) b) Does the Company have any plans to reduce its dependence on foreign labour as the Government has become more stringent in its policies to hire foreign labour? |
| Eksons Corporation Bhd (AGM) | 1. Eksons recorded a profit after taxation of RM4,774,345 in FY2021(FY2020: Loss after taxation of RM36,242,998), mainly due to the significant increase in other income from RM5,233,315 in FY2020 to RM22,805,494 in FY2021. Without the significant increase in other income, Eksons would have incurred an operating loss in FY2021 (Page 52 & 86 of the Annual Report 2021).<br><br>Will Eksons be able to remain profitable without the significant contribution from the non-core business income, going forward?<br><br>2. In FY2021, the Group's other income increased significantly to RM22,805,494 from RM5,233,315 in FY2020, mainly due to unrealised gain on investment securities of RM15,414,526 (FY2020: Nil) (Page 86 of the Annual Report 2021).<br><br>When does the Group expect to realise the gain? What are the internal targets that the Company has set to realise gains on investment securities? |
| Emico Holdings Bhd (AGM) | The total fee for the internal audit function of the Company during FYE 2021 was RM 21,000. (Page 30 of AR 2021)<br><br>a) Given that the fee is rather small (approximately RM1,750 per month), how does the audit committee assure itself that there would be adequate coverage and an effective audit function?<br><br>b) What are the areas covered by the internal auditors during FYE 2020?<br><br>c) How many internal audit reports were issued during FYE 2020? |

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| Pegasus Heights Bhd {posponed from 19 June 2021} (AGM) | The Trading Division revenue grew by RM40.3 million or 485.0% to RM48.6 million in FY 2020 from RM8.3 million in FY2019.<br><br>However, there was a higher loss of RM17,000 in FY2020 as compared to a loss of RM9,000 in FY2019. The trading segment is mainly involved in trading of home appliances.<br><br>a) What was the reason for the higher loss despite the 485% growth in revenue in FY2020?<br>b) What are the measures taken by the Group to turnaround the Trading Division? |

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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.*

## *DISCLAIMER*

*advised to obtain legal or other professional advice before taking any action based on this newsletter.*