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

The Observer

(Since the imposition of Movement Control Order (MCO) by Malaysian government beginning from 18 March 2020, public listed companies have postponed their general meetings while some have proceeded with virtual general meetings.)

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China's capital market influence to escalate multi-folds post COVID-19

It is not a new normal that China has been dictating the direction/movement in today's capital markets – whether stocks, bonds or foreign exchange. China has been consistently showcasing its capability to cause sizeable ripple effect on the global economy for some time now.

In February 2011, the world's most populous country outpaced Japan as the world's second-largest economy, a title the Land of the Rising Sun held for more than 40 years.

Also within a short span of 40 years, China has rallied its 1.4 billon inhabitants to embrace high technology as evident in the rolling out of high speed trains and infrastructures in the likes of mega expressways, railway networks, bridges and power plants.

Having transitioned from a centrally-planned system to a more market-oriented economy, China has also created internet giants like Alibaba, Tencent, Baidu and Huawei apart from embarking on an ambitious space programme.

As the global economy is left paralysed with devastation of the COVID-19 pandemic, China is already very much on the recovery path from the health crisis even as many developed economies are still struggling to contain the spread of the deadly respiratory disease.

Henceforth, its influence on the global financial markets is likely to rise multi-folds to the extent that optimism is unfolding among economists that the adage "when China sneezes, the world catches a cold" is on course to become a reality – sooner rather than later.

The reckoning is such that if there is a country in the world capable of unseating the US as the world's largest economy today, it has to be China.

Ditching economic projection

Of significance in recent times would be the key outcome from the National People's Congress (NPC) which would unleash China's future political and economic policies.

Delayed for two months due to the COVID-19 outbreak, the NPC would provide Chinese leaders an opportunity to highlight their battle against the virus while underscoring the leadership of the Chinese Communist Party which faces international backlash over its initial handling of the crisis.

Investors are waiting to see if the Chinese Government's policy initiatives can arrest global economic slowdown now that the International Monetary Fund has downgraded its projected global growth in 2020 to -3% in mid-April (with prospect of further downward revision looming) from 3.3% in January 2020.

Of interest is how China's recent rare decision of ditching its economic growth target for 2020 in view of uncertainties stemming from the impact of COVID-19 had sent global stock markets reeling on 22 May.

For the record, China's economy contracted by 6.8% in the first quarter – its worst plunge since quarterly records began in 1992. In late March, Beijing-based China International Capital Corporation (CICC) notably lowered China's real GDP growth estimate for 2020 to 2.6%, down from 6.1% the previous year.

Like the US, China's unemployment rate remained near historic highs in April, highlighting the challenges the world's second largest economy still faces in recovering fully from the COVID-19 economic shock.

Its official – but highly doubted – urban unemployment rate rose to 6.0% in April from 5.9% in March (meaning more than 27 million people were jobless), according to figures released on May 22 by the National Bureau of Statistics.

Flashpoints

Amid mounting concerns over a second wave of COVID-19 infection further unsettling the already fragile global economy, a US-China Trade War 2.0 is brewing following the latest move by the US Commerce Department to add 33 Chinese companies and other institutions to a blacklist for human rights violations and to address US national security concerns.

This flare-up of hostility has its root in the tensed Sino-US diplomacy with the administrations of President Donald Trump and President Xi Jinping trading barbs over the COVID-19 'ownership' and cover-up.

Beside the US, it is also worthwhile to note that relations between China and the UK has also soured of late with Conservative politicians pressing for tighter controls to protect struggling UK companies from Chinese takeovers.

In this regard, the UK has announced an emergency review of the deal to allow the Chinese telecoms firm Huawei to help run the country's forthcoming 5G mobile network.

To a lesser extent – and much closer to home – a proposed move by the NPC to pass a hugely controversial national security law for Hong Kong has prompted the Hang Seng Index to nosedive 5.6% (its worst day in nearly five years) on 22 May.

The move which is feared to be the biggest blow to the city's autonomy and civil liberties since its handover to Chinese rule in 1997 drew the ire of citizens who defied social distancing rules and protested on streets – the maiden post COVID-19 demonstration in the former British colony which was rocked by over six months of increasingly violent anti-government unrest last year.

The law, which is expected to ban sedition, secession and subversion of the central government in Beijing, will be introduced through a rarely used constitutional method that could effectively bypass Hong Kong's legislature.

The US Government has reacted by threatening sanctions against China if the communist government forges ahead to implement the proposed national security law.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 1 - 5 June 2020

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
01.06.20 (Mon) 10.00 am	DIGI. Com. Bhd (AGM)	Group revenue declined from RM6.527 billion in FY2018 to RM6.297 billion in FY2019 and profit after tax also dropped from RM1.542 billion to RM1.495 billion. However, the Group is still able to

		sustain its industry-leading EBITDA margin at 46%, and maintain its close to 100% dividend payout at least over the last 5 years.
05.06.20 (Fri) 11.00 am	Borneo Oil Bhd (EGM)	Borneo Oil proposed to establish new ESOS of up to 15% of the total number of issued shares in the Company. It also seeks shareholders' approval to allocate the ESOS options to its directors including three independent non-executive directors.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
DIGI. Com Bhd (AGM)	1. Allowance for expected credit losses on trade receivables and contract assets has increased significantly from RM48.020 million in FY2018 to RM77.660 million in FY2019 (page 124 of IR). What are the reasons for the significant increase? How much is attributed to contract assets and what is its nature? What is the probability of recovery and measures taken to recover the trade receivables and contract assets? 2. Group's trade receivables and contract assets with 91 to 180 days past due and more than 181 days past due increased significantly from RM8.744 million in FY2018 to RM25.105 million in FY2019 and from RM3.122 million in FY2018 to RM58.054 million in FY2019 respectively. (Page 150 of IR) What are the reasons for the significant increase? What are the measures taken to recover the overdue trade receivables and contract assets?
Borneo Oil Bhd (EGM)	<u>Proposed Establishment of New Employees' Share Option Scheme</u> In line with better corporate governance, MSWG does not encourage the practice of giving option to independent

	non-executive directors as they play the governance role (and not an executive role) in the Company and are responsible for monitoring the option allocation to employees and executive directors. Under the Proposed Allocation of ESOS, there are three independent and non-executive directors (INEDs) namely Tan Kok Chor, Seroop Singh Ramday, and Michael Moo Kai Wah who are eligible to subscribe for new shares (Resolution 2, 6 and 7, Notice of EGM). a) Why is the ESOS extended to the three INEDs since they do not perform executive roles; the directors' fee and other benefits they receive are supposed to be adequate to compensate the services rendered by them? b) It is stated that the Proposed ESOS is to recognize and reward the Eligible Persons (including non-executive directors) for their contributions and services to Bornoil. (page 6 of the Circular on Proposed Termination of Existing ESOS and Proposed New ESOS). What were the performance metrics adopted by the ESOS Committee to assess the eligibility of INEDs under the Existing ESOS? Are such metrics applicable to INEDs under the Proposed New ESOS? c) Is it feasible for the Company to grant shares to non-executive directors based on a target Ringgit value rather than a specified number of shares as price of shares fluctuates from time to time?

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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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