MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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❖ Understanding directors' remuneration

It is always sensitive when it comes to discussing non-executive directors' remuneration. Sometimes the board and major shareholders will have different ideas as to what is fair remuneration compared to minority shareholders.

There have been cases where the board and the major shareholder did not see eye to eye when it comes to increases in directors' remuneration. The major shareholder defeated the resolution for the increase in remuneration. Even different groups of minority shareholders may have opposing views as to what is fair remuneration.

This is because we are traversing an area laden with much subjectivity. Effort and hard work must be recognised, and it is no different when it comes to directors' efforts and hard work. Workmen should be rewarded a fair remuneration for an honest day's work. No one should begrudge that entitlement.

A particular distinction that needs to be drawn is the role of the non-executive directors and executive directors. The former does not do a full-time job like the latter. Thus, increases in remuneration of the former will often come under greater scrutiny.

Amid the inflationary environment, following closely on the heels of the COVID-19 pandemic onslaught, it comes as no surprise that everyone is feeling the pinch. Many have lost jobs or taken substantial pay cuts.

At times like these, increasing fees and remuneration substantially without a valid reason will incur the wrath of many. It will be viewed as not being empathetic with the sufferings of minority shareholders and other stakeholders. The board is expected to be empathetic regardless of what their Human Resources functions and consultants may opine or recommend. After all, these are only opinions and recommendations. The board is expected to exercise good judgement.

Factors to look at

The remuneration of the non-executive directors should correlate to parameters which are within their control. Non-executive directors (including boards) and management should be evaluated on how effective they are, how efficient they are, and how economic they are as compared to their sector peers. These are the measures that should be used to justify remuneration increases.

Market capitalization has little correlation to performance and is not a just basis to increase remuneration. Effectiveness and efficiency matter. Cost control matters.

Bottom-line improvements per se should not be a factor to justify remuneration increases. This is because bottom-line improvements arise from two factors; one that is within the control of the board and management and the other, which is outside their control such as macroeconomic factors. Examples of the latter are higher CPO prices for plantation companies (substantially due to the Ukraine-Russia war and the Indonesian policy to curb exports), increase in average selling prices for glove companies (due to supply-demand mismatch at the height of the COVID-19 pandemic), and rising chip prices (due to global chip shortages) for semiconductor-companies.

For the board and management to take credit for the increased profits arising from these external factors is not right. The price increases do not arise from their doing.

When the improvement of bottom line is due to factors beyond the Board's control, directors should not take credit. Likewise, they should not be penalised when the bottom line is affected due to external headwinds that are out of their hands.

The increases in directors' remuneration should correlate to how they perform concerning matters within their control. For oil palm planters, these include the productivity and efficiency of the estate/company, e.g., the yield of fresh fruit bunch (FFB), oil extraction rate, mill utilization and replanting progress.

If they are in the upper quartile, then they are entitled to enjoy remuneration like their peers in the upper quartile. Also, aspects such as complying with the Malaysian Sustainable Palm Oil (MSPO) and Roundtable on Sustainable Palm Oil (RSPO), as well as resolution of the Withhold Release Order (WRO) issued by the US Customs and Border Protection (CBP) should be part of the KPI of both the board and management. The same goes to the glove companies and semiconductor companies.

Boards should also play their role in ensuring the right strategies are in place to ensure the company remains competitive against its peers. These include things such as the application of automation and mechanisation to address labour shortages and improved working conditions. Other important elements to consider in today's business environment would be the incorporation of material sustainability risks and opportunities in performance evaluation of the Board and management.

Lastly, large firms are inherently more complex and complicated, thus their executives and directors face greater issues and problems. As their responsibilities and risk are greater, their remuneration must be commensurate with the commitments and responsibilities of these directors.

These factors are used to evaluate where a company sits relative to its peers in the sector. If the company finds itself in the upper quartile when compared to its peers, it is legitimate for the board to expect remuneration like its peers.

Fair and just remuneration for directors

Generally, minority shareholders do not begrudge the increases in directors' remuneration. They reckon that quality comes at a price. Minority shareholders expect the basis used to increase remuneration be fair and just. They expect boards to enlighten them what it is that the board had achieved to justify the remuneration increases.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 27 June – 1 July 2022

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
04.07.22 (Mon) 10.30 am	Quality Concrete Holdings Berhad (AGM)	QCHB had achieved significant improvement in bottomline with a net profit of RM6.16 million recorded in FY2022, being the Group's best performance since FY2011. The better performance was mainly driven by the Construction & Property segment, while the Manufacturing segment remained in loss with a pre-tax loss of RM2.4 million. The profitability of the manufacturing segment would likely be a key concern for shareholders given that the division has been in losses for years.
05.07.22 (Tue) 10.00 am	Xin Hwa Holdings Berhad (EGM)	Xin Hwa proposes to seek shareholders' greenlight for its acquisition of Micron Metal Engineering Sdn Bhd and to diversify its business activities into the manufacturing of precision machining components and parts.
07.07.22 (Thur) 11.00 am	Greenyield Berhad (EGM)	The EGM is to seek shareholders' approval for its proposed acquisition of 65.0% equity interest in Greenyield Rubber Holdings (M) Ltd ("GRHM") for RM87.9 million. The acquisition will be satisfied via cash and issuance of new Greenyield shares and irredeemable convertible preference shares. Meanwhile, it also seeks shareholders' approval for

		proposed amendments to its existing constitution to facilitate the creation and issuance of the irredeemable convertible preference shares.
08.07.22 (Fri) 02.30 pm	Sarawak Cable Berhad (EGM)	SCB proposed to issue redeemable convertible debt (RCD) of RM19.16 million and redeemable convertible Islamic debt (RCD-i) of RM29.98 million to settle its RM49.14 million outstanding debt to AmBank (M) Bhd and Bank Muamalat Malaysia Bhd. It also proposed to establish and implement an employees' share option scheme (ESOS) to its executive directors and employees.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Quality Concrete Holdings Berhad (AGM)	QCHB recorded a substantial increase of about 50% in total loans and borrowings to RM101.74 million from RM67.86 million. Significant increases were recorded in bankers' acceptances, term loans, invoice financing and lease liabilities. a) Why was there significant increase in total loans and borrowings? b) About 77% (RM78.14 million) of the loans and borrowings would be matured in a year. Given the negative position of cash (- RM42,000) generated from operating activities recorded as at the end of FY2022, as well as a current ratio of 0.97 time, how would QCHB be able to manage its liquidity to meet its current liabilities (include short-term loans and borrowings) when due?
Xin Hwa Holdings Berhad (EGM)	One of the business diversification risks highlighted in the circular to shareholders dated 17 June 2022 was availability of labour for the manufacturing operations of the precision machining business. a) How labour intensive is Micron's precision machining business? b) Is there much room for further automation of Micron's existing operations? c) Is Micron facing any labour shortage issues currently?

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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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