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MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

(Incorporated in Malaysia . Registration No. 200001022382 (524989-M))

The Observer

01.03.2024

❖ Navigating the Evolving Sustainability Reporting Landscape: The Crucial Role of Internal Audit

The sustainability reporting landscape saw paradigm shifts and transformations in recent years, driven by the increasing demands of diverse stakeholders. These calls resonate with the urgent need for enhanced sustainability practices and more robust, comparable disclosures from listed issuers.

With the impacts of climate change increasingly felt across businesses and industries, investors and financial institutions are pressing for greater emphasis on environmental, social and governance (ESG) reporting for better and informed investment decision-making.

As ESG reporting gains momentum, it warrants equitable treatment on par with financial reporting. Organisations must acknowledge that effective ESG reporting is built upon a strategically crafted system of internal controls. It should accurately portray how an organisation's ESG initiatives interconnect with its financial performance and overall value creation. Amid this, internal audits are crucial in providing objective assurance, insights, and guidance to the governing body and management on ESG-related matters.

Regulatory changes

Locally, regulatory bodies have stepped up their efforts to push for credible and transparent sustainability reporting among listed issuers.

While over the years, listed issuers have publicly disclosed non-financial metrics such as greenhouse gas emissions, energy consumption, and workforce diversity, these metrics often lack validation or independent assurance.

In September 2022, Bursa Malaysia Securities Berhad (Bursa Malaysia) unveiled an enhanced sustainability reporting framework to elevate the sustainability practices and disclosures of listed issuers. Main Market and ACE Market listed issuers will gradually adopt the changes, commencing from the financial year ended 31 December 2023 onwards.

A pivotal aspect of the enhanced sustainability disclosures is to strengthen the credibility of the Sustainability Statement. Main Market listed issuers are mandated to include a

statement indicating whether the Sustainability Statement has been subjected to an assurance process.

If the Sustainability Statement has been subjected to an assurance process, companies must divulge in their Statement of Assurance whether it underwent an internal review by internal auditors or independent assurance in accordance with recognised standards.

At the same time, the industry is transitioning towards embracing International Sustainability Standards Board (ISSB) standards to establish a common framework for the disclosure of sustainability information, including climate-related risks and opportunities.

With that, the Advisory Committee on Sustainability Reporting (ASCR), chaired by the Securities Commission Malaysia, recently issued a Public Consultation Paper on the Proposed National Sustainability Reporting Framework. This paper seeks feedback on the adoption and application of IFRS S1 and IFRS S2 issued by the ISSB.

The adoption of the ISSB standards reinforces the broader shift towards sustainability-related disclosures, extending well beyond the typical financial-related disclosure.

Crucial roles of internal audit

With these changes in motion, the role of internal audit becomes increasingly crucial. Internal auditors are tasked with scrutinising the completeness and accuracy of underlying data, bridging the gap between reporting and any industry standards or protocols, and evaluating management's reporting processes and controls.

As audit methodologies and procedures evolve to encompass sustainability disclosure, internal auditors must possess an in-depth understanding of relevant standards and the associated reporting requirements. This necessitates a solid grasp of sustainability principles, frameworks, and relevant regulations to enable them to effectively assess the risks inherent in sustainability reporting and prioritise audit focus areas.

Exchanges between internal stakeholders such as sustainability teams are essential to facilitate intellectual discourse of sustainability frameworks and reporting methodologies.

Additionally, ongoing professional development and training initiatives are imperative to ensure internal auditors remain abreast of emerging trends and best practices in sustainability reporting.

In the past, internal auditors play minimal roles in ESG initiatives or reporting. Nevertheless, as listed issuers gear up to adhere to Bursa Malaysia's enhanced sustainability reporting framework and the IFRS S1 and S2 standards, internal auditors are being thrust to the forefront of ensuring the reliability, accuracy, and transparency of sustainability disclosures. This, in turn, fosters trust and confidence among investors and stakeholders in the sustainability reporting of listed issuers. Ultimately, it bolsters informed investment decision-making and fosters sustainable value creation for all stakeholders.

Elaine Choo
Manager, Corporate Monitoring

MSWG AGM/EGM Weekly Watch 4 – 8 March 2024

For this week, the following are the AGMs/EGMs of companies 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
04.03.24 (Mon) 09.00 am	Revenue Group Berhad (AGM)	<p>Revenue Group shifted its fiscal year end from 30 June to 30 September, reporting a revenue of RM531.9 million during the 15-month period.</p> <p>However, it turned loss-making with a net loss of RM89.3 million compared to a net profit of RM4.5 million in FYE2022.</p> <p>Lower gross profit in the Electronic Transaction Processing and EDC terminals segments and impairment assessments on various assets led to the decline.</p> <p>The Group ended FPE2023 with a net debt position of RM18.7 million, contrasting with a net cash position in the previous year.</p>
06.03.24 (Wed) 10.00 am	XOX Berhad (AGM)	<p>XOX's revenue decreased by RM19.96 million to RM273.65 million for FY2023 (FY2022: RM293.62 million), attributed to intensified competition where the blended ARPU decreased despite an increase in the number of subscribers. Further, revenue from e-commerce declined as consumers preferred an in-person shopping experience.</p> <p>For its investment portfolio, the Group recorded an impairment loss on</p>

		investments in associates, which amounted to RM34.44 million during FY2023 (FY2022: RM67.13 million).
06.03.24 (Wed) 10.00 am	Kumpulan Perangsang Selangor Berhad (EGM)	KPS's wholly owned subsidiary, Bold Approach Sdn Bhd, has entered into a conditional share sale agreement with AI Dream (HK) Ltd, outlining the planned divestment of shares in Kaiserkorp Corporation Sdn Bhd for RM265.5 million in cash. KPS said the anticipated gross proceeds of RM188.7 million will be used for debt repayments over the next 12 months.
08.03.24 (Fri) 10.00 am	Digistar Corporation Berhad (AGM)	Digistar's revenue decreased by 4.6% y-o-y to RM47.61 million (FY2022: RM49.89 million). Nevertheless, the Group managed to record a small profit before tax of RM0.27 million instead of a loss before tax of RM2.03 million in FY2022. The Group's loss for the financial year narrowed to RM1.94 million compared to a loss of RM4.61 million in the year before.

One of the points of interest to be raised:	
Company	Points/Issues to Be Raised
Revenue Group Berhad (AGM)	<p>The digital payment services segment recorded the highest revenue contributor with a revenue of RM459.9 million or 86.5% of the Group total sales in financial period ended 30 September 2023 (FPE2023, 15-months reporting) compared to EDC and ETP business segments (page 23 of AR2023).</p> <ol style="list-style-type: none"> Why does the modest increase in sales of digital payment services, contributing 86.5% of revenue in FPE2023 compared to 83.9% in FYE2022, lead to a substantial reduction in gross profit margin from 9.2% in FYE2022 to 5.0% in FPE2023? How much is the revenue contribution for the EDC and ETP business segments to the Group in FYE2022 (after restated), and what are the primary reasons for the drop in sales for the EDC and ETP business segments in FPE2023?
XOX Berhad (AGM)	<p><i>"Price wars impact the profit margins, prompting XOX to innovate and maintain a competitive edge. In addition, customer shifting their preferences pose a risk, in which case, XOX needs to leverage on data analytics for tailored offerings to mitigate subscriber retention risks."</i></p> <ol style="list-style-type: none"> Please provide some examples of the innovative plans/ strategies XOX has executed to maintain a competitive edge to-date. What is the outcome of these executed plans/ strategies?

Kumpulan Perangsang
Selangor Berhad
(EGM)

2. How much was spent on implementation of data analytics? What are the actionable strategies executed or planned based on the findings from data analytics?

The Group aims to address the loss of contribution from KaiserCorp Group by focusing on the manufacturing and infrastructure segments (page 10 of Circular 2024).

Segment Results	3 months ended		12 months ended	
	31.12.2023	31.12.2022	31.12.2023	31.12.2022
	RM'000	RM'000	RM'000	RM'000
Manufacturing	(21)	4,079	37,930	62,360
Trading	1,359	1,255	8,327	7,802
Infrastructure *	1,046	130,571	2,876	123,459
Investment holding	(2,748)	(81,792)	(35,798)	(105,081)
Property investment	(1,386)	(3,682)	1,468	(2,214)
Oil & Gas *	524	805	1,842	1,716
(Loss)/Profit Before Tax and Zakat on Continuing Operations	(1,226)	51,236	16,645	88,042
Manufacturing	(1,128)	(1,420)	1,166	(2,114)
Licensing	9,548	6,275	24,258	32,436
Profit Before Tax and Zakat on Discontinuing Operations	8,420	4,855	25,424	30,322
Total Profit Before Tax and Zakat	7,194	56,091	42,069	118,364

* Inclusive of share of profit of associates

a) Referring to the above segmental result from page 9 of the latest Quarterly Report of KPS released on February 26, 2024, did the decline in the manufacturing segment from RM62.4 million in FYE2022 to RM37.9 million in FYE2023 align with expectations? What strategies does the Group have in place to navigate the downcycle in demand within the electrical and electronic sector, and what is the projected timeframe for the segment to rebound and return to growth?

Segment Revenue	12 months ended					
	31.12.2023			31.12.2022		
	External Revenue	Inter-Segment Revenue	Total Revenue	External Revenue	Inter-Segment Revenue	Total Revenue
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Manufacturing	877,757	(184)	877,573	989,034	-	989,034
Trading	160,078	-	160,078	158,335	-	158,335
Infrastructure	302	-	302	5,204	-	5,204
Investment holding	2,446	(2,446)	-	2,275	(2,275)	-
Property investment	8,162	-	8,162	8,957	-	8,957
Total Continuing Operations	1,048,745	(2,630)	1,046,115	1,163,805	(2,275)	1,161,530
Discontinuing Operations						
Manufacturing	138,889	-	138,889	148,217	-	148,217
Licensing	43,505	-	43,505	50,871	-	50,871
Total Discontinuing Operations	182,394	-	182,394	199,088	-	199,088
Total Revenue	1,231,139	(2,630)	1,228,509	1,362,893	(2,275)	1,360,618

b) Referring to the above segmental revenue from page 8 of the latest Quarterly Report of KPS released on February 26, 2024, how does KPS plan to stimulate growth in the infrastructure segment given the minute revenue contribution (0.4% in FYE2023) to the Group sales? Are there any significant projects in the pipeline for KPS-HCM and Smartpipe that could substantially enhance this segment's contribution to the Group?

Segment Revenue	12 months ended					
	31.12.2023			31.12.2022		
	External Revenue	Inter-Segment Revenue	Total Revenue	External Revenue	Inter-Segment Revenue	Total Revenue
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Manufacturing	877,757	(184)	877,573	989,034	-	989,034
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Infrastructure	302	-	302	5,204	-	5,204
Investment holding	2,446	(2,446)	-	2,275	(2,275)	-
Property investment	8,162	-	8,162	8,957	-	8,957
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Total Discontinuing Operations	182,394	-	182,394	199,088	-	199,088
Total Revenue	1,231,139	(2,630)	1,228,509	1,362,893	(2,275)	1,360,618

c) Referring to the above segmental revenue from page 8 of the latest Quarterly Report of KPS released on February 26, 2024, if no projects are underway for KPS-HCM and Smartpipe, what are the Group's rationale behind choosing the infrastructure segment as the second priority over other segments, especially when trading and licensing segments hold a higher revenue contribution of 11.6% and 3.7% to KPS sales in FYE2023 respectively?

The revenue for the Imperial Heritage hotel was RM16.14 million for FY2023, an increase of 14% compared to previous year (page 9 of AR2023). Rental income remains at RM66,000 (FY2022: RM66,000) (Note 5 (a), page 113 of AR2023), however profit contribution from the rental and hotel segment decreased substantially by 32% to RM5.01 million (FY2022: RM 7.34 million) (Note 35, pages 156 & 159 of AR2023).

Given the increased in revenue contribution from Imperial Heritage hotel, what were the main reasons for the drop in profitability of the Group's rental and hotel segment?

Digistar Corporation Berhad (AGM)

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