



# The Observer

17.12.2021

*MSWG's The Observer Newsletter will take a break next week. The publication shall resume on 31<sup>st</sup> December 2021.*

*With that, we would like to wish all our Christian friends and readers a joyful and wonderful Christmas celebration. May your holiday be blessed with the love and warmth of family and friends.*

*Merry Christmas.*

## ❖ ESG gains momentum as institutional investors look beyond profitability

Undoubtedly, the electronics manufacturing service (EMS) industry has become the latest testbed – after the glove and plantation sectors – for institutional investors in Malaysia to flex their muscles or to assert their rising concerns on ESG (environmental, social and governance)-related matters.

This ideally set the tone for 2022 on how, in a major way, fund managers will move forward. Fund managers will prioritise “in a bigger way” ESG considerations in their investment decisions – something which could ultimately outweigh their financial interest.

Institutional investors such as Employees Provident Fund (EPF) certainly did not mince its words when it said that it wanted to work with its investee companies in terms of better disclosure and transparency on ESG data by looking beyond short-term returns. This they intend to do through the incorporation of sustainability parameters into the investee companies' key performance indicators.

Confronted by the forced labour issue surrounding the country's three key EMS providers, the retirement fund had on 2 December disposed 21.67 million shares of V.S. Industry Berhad, thereby ceasing to be a substantial shareholder of V.S Industry.

In addition, the Retirement Fund Inc (KWAP) had on the same day disposed 6.58 million of VS Industry's shares. This further exacerbated the downfall of V.S. Industry's share price to reach a 52-week low of 99.5 sen before paring loses to close at RM1.15 on 2 December. As of 13 December, KWAP held 7.444% direct and 1.496% indirect stake in V.S. Industry.

Coincidentally, the sell-downs of V.S. Industry shares by institutional funds occurred on the same day that migrant worker rights activist Andy Hall made a reference of several

local EMS companies, including V.S. Industry, in an investor briefing on the topic of migrant workers' welfare in Malaysia.

### **Remedies taken**

To remedy the situation, V.S. Industry had swiftly initiated an engagement with Hall pertaining to his concerns raised during an investor briefing.

On 6 December, in a joint media statement with V.S. Industry, Hall clarified that his comments during the briefing "were not meant as a direct reference to indicate irremediable migrant worker issues at V.S."

Also, he had no intention to launch further public campaigns against any specific companies that are open to constructive dialogue on migrant worker rights, given the inherent risks of publicity to the well-being of all concerned, especially the workers and their families. He added it was also essential to ensure migrant workers' livelihoods are sustained, while not compromising their welfare.

"It would not be an ideal situation if in the end, any workers, whether Malaysian or migrant, lose their jobs due to exploitation of situations that could and should be remedied," he said.

At the same time, V.S. Industry management had stepped in to stem the bleeding. Its chairman and executive director Datuk Beh Kim Ling had mopped up 6.358 million shares himself while his daughters had collectively acquired 1.6 million shares between 2 and 8 December. This raised Beh's direct and indirect shareholding in V.S. Industry to 7.277% and 7.242% respectively.

Then, V.S. Industry managing director Datuk Gan Sem Yam bought 800,000 shares (direct interest) between 7 and 10 December. As of 14 December, Gan owned 4.389% direct and 0.681% indirect stake in the Company.

Nevertheless, the disposals of 28.25 million shares by EPF and KWAP may be deemed as "too big a chunk", so much so that it may have sent shockwaves that could potentially trigger a herd mentality among other institutional investors (thus dragging down the counter further).

### **Shockwave sent across other EMS players**

Similarly, another EMS player, SKP Resources Bhd had also engaged with Hall after the latter claimed that he had received a complaint from workers of SKP Resources' with regard to excessive overtime and payment of recruitment fees.

In a joint media statement with SKP Resources, Hall said both parties had discussed the issues he raised. He was confident that the Company would address the issues and remain open to address the other challenges that may arise in relation to the management of migrant workers.

SKP Resources, however, did not encounter similar major backlash from its institutional investors. KWAP, which is a substantial shareholder of SKP Resources, had disposed its 353,000 directly held shares and 1.6 million indirectly held shares between 2 and 8

December, and acquired 4.05 million shares indirectly through its fund managers. It held a 7.47% direct and 2.06% indirect interest in SKP resources as of 8 December.

Besides, SKP Resources' executive chairman-cum-managing director Datuk Gan Kim Huat had also acquired 1 million shares from the open market on 8 December, which raised his direct and indirect stake in the company to 4.53% and 35.56% respectively.

As of 15 December, the share price of V.S. Industry had recovered to RM1.27 while SKP Resources closed at RM1.61.

Recall that the sell-downs of shares in EMS counters started with ATA IMS Berhad after it posted a quarterly net loss of RM11.17 million for its Q2FY2022 and the contract termination by Dyson Ltd on grounds of labour abuse allegations.

These events had collectively sent the share price of ATA IMS to a 52-week low of 38 sen on 30 November before consolidating at the current price range of 70 sen.

### **Minority shareholders be forewarned**

Based on these developments, we believe that ESG is going to be featured prominently in fund managers investment decisions going forward. It will not be profit at-all-costs for these fund managers – they will be prepared to take a lower profit or even a loss to send the right message to the market – that ESG matters.

Given that fund managers invest substantially in the shares of Malaysian companies, fund managers' preferences and inclinations will have an impact on share prices. This is another consideration that minority shareholders should take note of when making their informed investment decisions.

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

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### **MSWG AGM/EGM Weekly Watch 20 – 24 December 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](http://www.mswg.org.my).

<b>Date &amp; Time</b>	<b>Company</b>	<b>Quick-take</b>
20.12.21 (Mon) 11.00 am	MLABS System Bhd (AGM)	MLABS' revenue had increased 27% y-o-y to RM10.58 million in FY2021 (FY2020: RM8.32 million), generated mainly from collaborative digitilisation operation and fintech operation. With the higher GP, the Group recorded a lower LBT of RM15.95 million (FY2020: RM26.01 million). However,

		shareholders should note that the Company's auditors had expressed their qualified opinion on the Audited Financial Statements for FYE2021.
21.12.21 (Tue) 10.00 am	Parkson Holdings Bhd (EGM)	The EGM is to seek shareholders' approval for the proposed reduction of RM2.0 billion of the issued share capital of the Company pursuant to Section 116 of the Companies Act 2016.
22.12.21 (Wed) 09.30 am	MCE Holdings Bhd (AGM)	MCE's revenue grew 13.38% y-o-y to RM84.82 million (FY2020: RM74.81 million) mainly due to the sales tax exemption on national cars which had boosted the demand for Proton and Perodua cars. Its net loss of RM0.83 million for FY2021 was 85.57% lower than net loss of RM5.79 million in the preceding year. Going forward, the Company expects that its financial performance will be driven by strong orders from national car manufacturers and new contracts secured.
22.12.21 (Wed) 10.00 am	D'Nonce Technology Bhd (AGM)	D'nonce had recorded strong financial performance in FY2021 with highest net profit ever of RM13.8 million recorded (16-month FPE 30 April 2020: RM0.73 million), driven by the upsurge in demand for its packaging products from healthcare players and increased orders from its E&E customers. However, it did not pay any dividend to shareholders despite it has been making profit since FY2017.
22.12.21 (Wed) 10.30 am	Yong Tai Bhd (EGM)	Yong Tai Bhd has proposed to undertake the issuance of up to 180.0 million new redeemable convertible preference shares (RCPS) at an issue price of RM1 per RCPS

		and amendments to its constitution to facilitate the issuance of the shares.
22.12.21 (Wed) 10.30 am	RCE Capital Bhd (EGM)	The EGM is to seek shareholders' approval for the proposed distribution of 18.778 million treasury shares on the basis of 1 treasury share for every 20 RCE shares held. It also seeks to approve a proposed bonus issue exercise Of up to 360.25 million shares on the basis of 19 bonus shares for every 21 shares held.
23.12.21 (Thur) 10.00 am	Xidelang Holdings Ltd (AGM)	The Company experienced its first loss after tax of RMB34.6 million in 5 years in FYE 2021 due to sluggish sales owing to the pandemic. For FYE 2022 , the Company will pivot more aggressively into online sales and this will determine its performance as sales through stores has been not doing very well.
23.12.21 (Thur) 10.00 am	Prolexus Bhd (AGM)	The Company has significant reliance on foreign labour to man its operations especially in the textile and apparel businesses and with the Government introducing more stringent measures in hiring foreign labour, the Company must find ways to reduce its dependence on foreign labour. It may have to enhance its investments in automation as this will reduce labour requirements vis a vis the need for fewer foreign workers.
23.12.21 (Thur) 10.00 am	Vitrox Corporation Bhd (EGM)	The EGM will seek shareholders' approval for a bonus issue exercise and a proposed establishment of an employees' share grant scheme of up to 5% of the total number of issued share of Vitrox.

		<p>It also seeks shareholders' approval for the proposed granting of ESOS options to its INED Mary Yeo Chew Yen, under its existing ESOS that was established in 2014.</p> <p>In line with better CG, MSWG does not encourage the practice of giving options to INED as they do not play an executive role in the Company and are responsible for monitoring the option allocation to employees and executive directors.</p>
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**One of the points of interest to be raised:**

<b>Company</b>	<b>Points/Issues to Be Raised</b>
MLABS System Bhd (AGM)	<p>Messrs. PKF had expressed their qualified opinion in the Company's Audited Financial Statements for FYE2021. Basis for the Qualified Opinion were on Investment in Coinful Capital Fund and bank confirmation. (page 48 of AR2021)</p> <p>a) What is the rationale for the Board to approve the investment in Coinful Capital Fund?</p> <p>b) Unquoted investments - trust assets at fair value through profit or loss decreased significantly to RM1.7 million (FYE2020: RM4.1 million) (Note 15, page 91 of AR2021). What is the reason for the significant decrease?</p> <p>c) How does the Board manage the risks associated with unquoted investments?</p>
MCE Holdings Bhd (AGM)	<p>The entry into e-bike segment through the joint-venture signed on 12 October 2021 will pave the way for MCE Group to venture into the assembly, including the manufacture of core components e.g., battery pack, internet of vehicles and charging stations which will provide the Group with a new stream of revenue from an industry segment which is expected to have huge potential as it is considered to still be in its infancy stage. (page 39 of AR2021)</p> <p>a) Does the Group's current manufacturing plants have the capacity to cater for the manufacturing of components for the e-bike segment? Or will expansion be required for the new joint venture?</p> <p>b) What is the estimated capital expenditure to be incurred by the Group to bring onstream the manufacturing for the e-bike segment?</p>

	c) To what extent does the Group expect the e-bike segment to contribute to the Group's earnings?
D'Nonce Technology Bhd (AGM)	<p>1. On 10 September 2021, AT Systematization Berhad had emerged as the controlling shareholder with a 21.67% stake acquired from Blackstream Investments Pte Ltd. As of 10 December 2021, AT Systematization's stake in D'nonce had increased to 23.207%. Following the change, new board members were appointed while a few directors (including ED/CEO) resigned from the Board. This represents another major change in D'nonce's controlling shareholder, board and management in less than three years.</p> <p>a) Will such change affect D'nonce's business strategy and direction?</p> <p>b) As the previous Board and CEO had steered D'nonce to better financial performance and improved operating cashflow, in what way is the current Board and management better equipped to perform better than the previous board?</p> <p>2. D'nonce did not pay dividend to shareholders though it has been making profit since FY2017. Will the Board consider rewarding shareholders with dividends moving forward?</p>
Xidelang Holdings Ltd (AGM)	<p>In view of the rapid growth of e-commerce trend in recent years, the Company has also embarked on online-to-offline marketing strategy after communication and coordination with the authorised distributors. Products are listed on third-party China-based online marketplaces to generate additional market awareness, with the ultimate aim to attract consumers to the physical retail outlets which are positioned as the "experience store". (Page 9 of AR 2021)</p> <p>a) What was the percentage on of online sales compared to total sales for FYE 2021?</p> <p>b) What are the Company's strategies to further develop its online presence?</p>
Prolexus Bhd (AGM)	<p>The Company relies extensively on foreign labour to operate its factories especially for its apparel and textile businesses.</p> <p>a) What was the ratio of foreign labour to total workforce in FYE 2021?</p> <p>b) In view of the Government tightening the requirements to hire foreign labour, what are steps taken by the Company to mitigate this?</p>

### MSWG TEAM

Devanesan Evanson, Chief Executive Officer, ([devanesan@mswg.org.my](mailto:devanesan@mswg.org.my))  
Linnert Hoo, Head, Research & Development, ([linnert.hoo@mswg.org.my](mailto:linnert.hoo@mswg.org.my))

Norhisam Sidek, Manager, Corporate Monitoring, ([norhisam@mswg.org.my](mailto:norhisam@mswg.org.my))  
Lee Chee Meng, Manager, Corporate Monitoring, ([chee.meng@mswg.org.my](mailto:chee.meng@mswg.org.my))  
Elaine Choo Yi Ling, Manager, Corporate Monitoring, ([elaine.choo@mswg.org.my](mailto:elaine.choo@mswg.org.my))  
Lim Cian Yai, Manager, Corporate Monitoring, ([cianyai@mswg.org.my](mailto:cianyai@mswg.org.my))  
Ranjit Singh, Manager, Corporate Monitoring, ([ranjit.singh@mswg.org.my](mailto:ranjit.singh@mswg.org.my))  
Rita Foo, Manager, Corporate Monitoring, ([rita.foo@mswg.org.my](mailto:rita.foo@mswg.org.my))  
Nor Khalidah Mohd Khalil, Executive, Corporate Monitoring, ([khalidah@mswg.org.my](mailto:khalidah@mswg.org.my))

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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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