MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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The Observer

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❖ Executive pay cuts from the CG perspective

Who could have imagined that within a span of slightly more than three years in the aftermath of the COVID-19 pandemic, the market capitalisation of Top Glove Corporation Bhd (Top Glove) would nosedive almost 90% from the peak of RM74.03 billion on 13 October 2020 when the world's largest glove maker briefly became the second largest listed company on Bursa Malaysia after Maybank.

However, the rapid ascent was short-lived as the global vaccination exercise on a massive scale, coupled with a rapid decline in COVID-19 cases, eventually took a heavy toll on demand for gloves till the sector was brought down to its knees, as evident from Top Glove's market capitalisation of RM7.4 billion today.

Doubtlessly, Top Glove was not alone in this financial predicament as all Big Four glovemakers on the local bourse – Hartalega Holdings Berhad, Kossan Rubber Industries Berhad and Supermax Corporation Bhd – also faced a similar pattern of decline.

The top leads by example

Amid the projection of a slow market rebound and stiff competition-cum-price war (particularly from Chinese glove players), it is therefore commendable that Top Glove's board nomination and remuneration committee (BNRC) had in June 2023 recommended to the Board to accept a pay cut of additional 15% in the proposed directors' fee for the financial year ended 31 August 2023.

To recap, the Board had in its FY2022 undertaken a 10% reduction in the directors' fee due to the challenging business environment post-pandemic.

Subsequently, the Board unanimously agreed to the pay cut, and shareholders duly approved the proposal during its AGM on 10 January 2024. Meanwhile, the Board Committees' fees remain unchanged for FY2023.

In tandem with the spirit of leadership by example, Top Glove's executive chairman, Tan Sri Dr Lim Wee Chai, continued to accept a 30% salary cut, which took effect on 1 August 2022 in response to a plunge in the company's financial performance during this challenging period.

For the record, Lim's entire pay package totalled RM2.72 million, comprised of a salary of RM2.27 million plus other fringe benefits, while the remuneration of managing director Lim Cheong Guan stood at RM997,000 (salary of RM747,000 plus fringe benefits).

"However, with the continual unsatisfactory performance of the group, TS Lim has voluntarily further reduced his salary by 20% this year (2023)," noted Top Glove's Corporate Governance Report 2023.

"He was joined by senior management staff who also were seeing salary cuts ranging from 10% to 20% in the quest to enable Top Glove to ride out the storm."

It is worthwhile noticing that Top Glove ended its FY2023 in the red with a gargantuan net loss of RM926.64 million from a net profit position of RM222.56 million a year earlier. At the same time, its revenue plummeted almost 60% to RM2.26 billion for FY2023 from RM5.57 billion a year earlier.

However, the good news is that despite remaining in the red for the first quarter that ended 30 November 2023 in FY2024, Top Glove's net loss narrowed to RM57.71 million from RM168.24 million previously, although its revenue was still 22% lower from the previous corresponding period at RM493.46 million (Q1FY2023: RM632.53 million).

Moving forward, Top Glove expects to turn profitable by FY2025) on the back of an improved utilisation rate.

Symbolic, but it matters

It is not unusual to see directors, CEOs, and senior management taking voluntary pay cuts when companies' financial performance is badly hit during crises.

For instance, a news report pointed out previously that head honchos of about half (16 CEOs) of the top 30 Bursa Malaysia-listed companies (by market capitalisation) received lower compensation when the COVID-19 pandemic struck in 2020[1].

Of the 16 CEOs who took a pay cut, four had a cut of more than 25%, eight experienced a cut of more than 10%, two had a cut of less than 10%, and only two had a cut of less than 5%. The extent of the pay cut ranged between 0.21% and 45.48%.

Generally, the large bonuses paid to head honchos were based on the financial performance in the previous year; the impact would only be reflected in the financial statements of the current financial year.

In the context of the COVID-19 pandemic, if a CEO were to receive substantial bonus payouts tied to the company's 2019 performance, it could have detrimental repercussions for its reputation. This situation not only fails to demonstrate compassion and empathy from the leadership but also carries the risk of causing considerable reputational damage, particularly as workers grapple with income losses during these challenging times.

[1] *Cover Story 2: How much did Malaysia's top guns take home in 2020? (n.d.). The Edge Malaysia.* https://theedgemalaysia.com/article/cover-story-2-how-much-did-malaysias-top-guns-take-home-2020

On another note, executive pay cuts are more of a signal to the public and employees than a cost-saving move to prevent worker layoffs. The gesture shows those companies are taking stakeholders' perceptions and viewpoints into consideration.

All in all, the cut of executive pay, while largely a symbolic gesture, reflects the accountability among senior executives and reinforces the idea that leaders are willing to take responsibility for their performance. Ultimately, it demonstrates a commitment to ethical leadership, responsible management, and the long-term interests of the company and its stakeholders.

By MSWG Team

MSWG AGM/EGM Weekly Watch 22 – 26 January 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
22.01.24 (Mon) 11.00 am	Homeritz Corporation Berhad (AGM)	The Group is operating in global economic uncertainties as well as facing increases in its production costs and fluctuation in foreign exchange rates. Moving forward, the Group will continue to remain focused on its core business and to develop new products, new designs for existing products, derive better cost efficiencies and effective cost management across all functions.
24.01.24 (Wed) 11.00 am	FCW Holdings Berhad (EGM)	The Company is seeking shareholders' approval for the proposed acquisition by Urban Reach Sdn Bhd, a 55%-owned subsidiary of FCW, from JKB Development Sdn Bhd of a parcel of leasehold industrial land in Setapak, Kuala Lumpur for RM43.08 million in cash.
26.01.24 (Fri) 10.30 am	Jasa Kita Berhad (EGM)	JKB Development Sdn Bhd, a wholly-owned subsidiary of the Company had, on 5 October 2023, entered into the Sale and Purchase Agreement with Urban Reach Sdn Bhd, to dispose of a parcel of leasehold industrial land in Setapak for RM43.08 million ("Land"). This is an opportunity for the Group to unlock the value of its investment on the Land. The proceeds from the disposal shall be distributed as special dividend of 1 sen per Share and used

		for acquisition of new business/ asset to be identified.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Homeritz Corporation Berhad (AGM)	<u>Financial Performance</u> Financial Year End 31 August ("FYE") | 2019 RM'000 | 2020 RM'000 | 2021 RM'000 | 2022 RM'000 | 2023 RM'000 Revenue | 147,709 | 155,366 | 164,903 | 243,294 | **162,644** Profit before tax ("PBT") | 27,678 | 30,490 | 27,709 | 53,650 | **33,387** *(Page 3 of the Annual Report 2023/AR2023)* As reported, Homeritz recorded a lower revenue of RM162,644,000 in FYE2023 compared to RM243,294,000 in FYE2022. This represents a 33.15% or RM80,650,000 year-on-year decrease, mainly due to the decreased volume sold. In line with the lower revenue in FYE2023, the Group recorded a lower profit before tax of RM33,387,000 in FYE2023 compared to RM53,650,000 in FYE2022. This represents a 37.77% or RM20,263,000 year-on-year decrease. a) What has caused the decrease in volume sold, and how does the Group intend to address this situation moving forward? b) What is the Group's top-line and pre-tax earnings outlook in FYE2024?
Jasa Kita Berhad (EGM)	The table below set forth the cash held by the Group for the past 3 financial years: | FYE 2023 | FYE 2022 | FYE 2021 **Deposits with licensed banks (RM)** | 24,199,112 | 23,532,935 | 26,575,394 **Cash and bank balances (RM)** | 5,748,960 | 5,963,455 | 5,812,110 a) What are the reasons for not utilising the said cash for acquisition of the new business/ assets for the past 3 years? b) In view of the substantial cash held by the Group, why is there a need to allocate RM37.18 million of disposal consideration for acquisition of new business/ assets?

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DISCLOSURE OF INTERESTS

•*With regard to the companies mentioned, MSWG holds a minimum number of shares in all* the companies covered in this newsletter.

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