MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia . Registration No. 200001022382 (524989-M))

The Observer

02.07.2021

The Minority Shareholders Watch Group is now on Twitter. The presence at Twitter is the first step for us to create strong social media presence and engage with our stakeholders more effectively. Do follow MSWG's Twitter account at @MSWGMalaysia and share your thought on our tweets from time to time.

❖ Employees should be prioritised in ESOS exercises

Employee share option scheme (ESOS) is a tool to incentivise, motivate and reward employees through the creation of a sense of belonging and ownership in the company they work in.

ESOS is often granted to eligible employees to allow them to subscribe for company's new shares at a pre-determined exercise price. The shares which are not exercised will lapse at the end of the exercise period.

The strongest rationale for granting ESOS to employees is to align their interest with that of shareholders; both like to see the company performs better. The better performance will then translate into an increase in share price and, hopefully, better dividend payout.

Such better performance will encourage employees to tag along with the increased valuation of the company. On the Company's side of the equation, ESOS allows the company to reduce the cash outflow that would have resulted from paying high salaries and/or high bonuses.

KNM's ESOS

The KNM Group Berhad had awarded substantial ESOS shares to an executive director and to persons connected to that director.

In a reply to MSWG queries, KNM stated that, of the ESOS option allocated on 27 March 2019 (194.34 million shares at exercise price of 11 sen per share), 73.6% or 143 million were granted to Madam Gan Siew Liat and to persons connected to her.

Madam Gan was the executive vice chairman of KNM before she resigned from the company with effect from 26 June 2021 "to pursue personal interest". Her resignation was announced on 28 June - a day prior to the KNM's 19th annual general meeting.

In contrast to the substantial grant to Madam Gan and persons connected to her, the portion for employees and directors of subsidiaries stood at 23.1% (44.84 million option shares) while the portion for board members was at 3.3% or 6.5 million shares.

Options allocated on 27 March 2019	Option Shares	Percentage (%)
Madam Gan Siew Liat and persons connected to her	143,000,000	73.6
Board Members as at the date of allocation	6,500,000	3.3
Employees and directors of subsidiaries	44,838,000	23.1
	194,338,000	100.00

KNM's ESOS was established in April 2014 with an option size of not exceeding 15% of the issued and paid-up share capital of the Company. Since the establishment of the ESOS, it has granted approximately 342 million share options to eligible employees within the Group (Source: KNM's Annual Report 2020).

As of 21 June 2021, Madam Gan had 1.49% direct interest and 8.49% indirect interest in KNM.

ESOS for INEDs

Some Malaysian PLCs grant ESOS options to non-executive directors including independent directors (INEDs). MSWG does not encourage the granting of ESOS to independent directors, though there are allowed to do so under the listing requorements.

A common argument used by PLCs to justify the grant of ESOS to INEDs is that they wish to recognise the independent directors' contribution to the company and/or to enable independent directors to participate in the company's future growth.

INEDs are required to be impartial. There is a risk that receiving shares under the ESOS may compromise their independence and/or impartiality or at least create such a perception.

A company can always reward outstanding INEDs by increasing their remuneration – it does not necessarily have to be by way of granting ESOS shares. Independent directors should be paid a fee that is commensurate with their roles, responsibilities and according to the skills and experience that they bring to the company.

There is a risk – or perceived risk – that INEDs who also hold shares under the ESOS, may be 'fixated' by share price considerations when making decisions, especially of a financial nature. A typical example of this would be a decision whether, or not, to make an impairment to their assets in the financial statements; impairments lower profits and profits have a correlation to share prices.

Paragraph 7.23 (Remuneration of Directors) of Bursa Securities Listing Requirements states that the fees payable to non-executive directors shall be by a fixed sum, and not by a commission on or percentage of profits or turnover.

By granting ESOS shares to non-executive directors including INEDs, the above provision might be indirectly violated as independent directors might be remunerated based on share price movement which is highly correlated with the financial performance of a company. The intention of paragraph 7.23 is to give them a fixed sum of benefits; an ESOS gives them a varying sum of benefits.

Loyalty of independent directors can be secured in many ways apart from the granting of ESOS shares. The many ways include a competitive remuneration package and a conducive work environment, good governance and good board culture, among others.

Likewise, a competitive remuneration package can be used to entice quality independent directors. Another important point in attracting quality directors is the performance, good governance and reputation of the company. Increasingly, more and more potential independent directors are doing a 'due diligence' on the company that they intend to join.

Based on the abovementioned reasons, MSWG has always been advising minority shareholders to vote against the resolution of granting ESOS shares to INEDs.

ESOS can be an effective tool for aligning the interest of managers or employees, with those of shareholders, and provides a stronger link between pay and performance. However, granting ESOS to independent directors may contribute to some unintended consequences which may be to the detriment of minority shareholders.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 5 – 9 July 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.

Date & Time	Company	Quick-take
08.07.21 (Thur) 10.30 am	JKG Land (AGM)	JKG posted another satisfactory financial performance in FY2021 with profit before tax of RM29.9 million on the back of RM187.2 million revenue. The Property Development segment remained the key driver of JKG's operations and accounted for 99% of the Group's total revenue, whereas the revenue from Cultivation of Oil Palm and Other operations in total make up the remaining 1%.

08.07.21 (Thur) 11.00 am	KYM Holdings Bhd (AGM)	KYM ended FY2021 with a lower net loss of RM1.06 million as compared to RM8.8 million in FY2020 due to better performance from its Carton Box division as the division was least affected by the COVID-19 pandemic, while the paper sacks division continued to be underperformed.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
JKG Land (AGM)	The shops and factories in Taman Industri Makmur & Sepakat with 59% sales were completed and delivered to the purchasers ahead of time, in February 2021. (Page 24of AR) a) What is the number and value of completed shops and factories in Taman Industri Makmur & Sepakat that are unsold as at April 2021? b) What are the measures taken by the Group to sell the completed unsold shops and factories? c) Does the Group have the intention to turn the completed unsold shops and factories into investment properties to generate a regular income stream for the Company?
KYM Holdings Bhd (AGM)	KYM continued to be loss-making with net loss of RM1.06 million in FY2021, as compared to net loss of RM8.8 million in the preceding year. The improved performance was attributed to better financial results from the Carton Box division and the absence of fair value loss on investment properties. Does the Group foresee better financial performance in FY2022? Will the Group be able to turn around in FY2022?

MSWG TEAM

Devanesan Evanson, Chief Executive Officer, (devanesan@mswg.org.my)
Linnert Hoo, Head, Research & Development, (linnert.hoo@mswg.org.my)
Norhisam Sidek, Manager, Corporate Monitoring, (norhisam@mswg.org.my)
Lee Chee Meng, Manager, Corporate Monitoring, (chee.meng@mswg.org.my)
Elaine Choo Yi Ling, Manager, Corporate Monitoring, (elaine.choo@mswg.org.my)
Lim Cian Yai, Manager, Corporate Monitoring, (cianyai@mswg.org.my)
Ranjit Singh, Manager, Corporate Monitoring, (ranjit.singh@mswg.org.my)
Rita Foo, Manager, Corporate Monitoring, (rita.foo@mswg.org.my)
Nor Khalidah Mohd Khalil, Executive, Corporate Monitoring, (khalidah@mswg.org.my)

DISCLOSURE OF INTERESTS

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

DISCLAIMER

The contents and the opinions expressed in this newsletter are based on information in the public domain and are intended to provide the user with general information and for reference only. Best efforts have been made to ensure that the information contained in this newsletter is accurate and current as at the date of publication. However, MSWG makes no express or implied warranty as to the accuracy or completeness of any such information and opinions contained in this newsletter. No information in this newsletter is intended to be or should be construed as a recommendation to buy or sell or an invitation to subscribe for any, of the subject securities, related investments or other financial instruments thereof.

MSWG must be acknowledged for any part of this newsletter which is reproduced.

MSWG bears no responsibility or liability for any reliance on any information or comments appearing herein or for reproduction of the same by third parties. All readers or investors are advised to obtain legal or other professional advice before taking any action based on this newsletter.