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

The Observer

Deloitte is conducting the 2024 Conduct Watch Survey to gain insight into organisational attitudes and capabilities toward whistleblowing. Participants, especially senior management, c-suite, or board-level executives who oversee whistleblowing from diverse backgrounds such as legal, internal audit, risk, compliance, and integrity, are encouraged to participate.

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26.04.2024

❖ Exploring Cross-Shareholdings: A Closer Look at Malaysia's Corporate Landscape

KEY HIGHLIGHTS

- Cross-shareholdings among Malaysian PLCs have become prominent, sparking discussions on their economic and corporate governance implications.
- While cross-shareholdings can offer strategic advantages like risk mitigation and access to new markets, excessive diversification or straying from core competencies can pose risks such as conflicts of interest and diluted managerial focus.

In the intricate tapestry of corporate structures, a peculiar trend has emerged in recent years. This trend involves public listed companies (PLCs) making substantial investments in other PLCs, sometimes without having a meaningful core activity of their own. While cross-shareholdings are not uncommon in the business world, the scale and frequency of such investments in Malaysia have raised eyebrows and prompted discussions about their implications for the economy and from a corporate governance standpoint.

Cross-shareholdings have deep historical roots, dating back to the early days of industrialisation. Family-owned conglomerates, known as "keiretsu" in Japanese parlance, dominate the corporate landscape. These conglomerates, or "corporate giants," typically have interests spanning multiple sectors, including finance, manufacturing and real estate. Cross-shareholdings among these conglomerates are widespread, forming intricate webs of corporate relationships.

These investments often take the form of equity stakes, strategic partnerships, or even outright acquisitions. While such transactions can bring synergies and strategic advantages, they also raise questions when companies deviate from their core activities.

Holding companies often wield significant influence and control over their investee companies, leveraging their stakes to shape corporate strategies and decision-making processes. The motivations behind these cross-shareholdings vary widely and can be influenced by a multitude of factors. One key driver is the pursuit of diversification and risk management. By spreading their investments across multiple companies and industries, firms aim to mitigate risks associated with economic downturns or sector-specific challenges. Additionally, cross-shareholdings can offer access to new markets, technologies, or talent pools, bolstering competitiveness and long-term growth prospects.

While cross-shareholdings may offer strategic advantages, they are not without risks and challenges, particularly when companies stray too far from their core competencies. One concern is the potential for conflicts of interest, especially in cases where a company's management is simultaneously involved in multiple entities within the same industry or value chain. This situation can blur the lines of accountability and raise questions about market transparency.

Moreover, excessive diversification or investment in unrelated businesses can dilute managerial focus and strain resources, leading to suboptimal performance and value destruction. Investors may also be wary of companies that lack a clear strategic direction or coherent business model, preferring instead to allocate capital to companies with a focused and disciplined approach to value creation.

Cross-holdings and their intricacies

An illustration shall elucidate the irregularities of cross-holdings observed amongst some PLCs. PLC A recorded approximately RM10.00 million in revenue for its last financial year. Its investment in quoted securities amounted to RM50.00 million with minimal disclosure made in the annual report.

Upon inquiry from a shareholder, it was revealed that PLC A has invested in quoted securities in various unrelated industries, but no specific name was provided. During the said financial year, PLC A incurred impairment losses on quoted securities of RM10.00 million, together with a loss on fair value changes of about RM8.00 million. Exacerbating the situation, PLC A made additional investments in quoted securities of approximately RM60.00 million during the same financial year.

One of the key listing criteria for admission to the Main Market or ACE Market of Bursa Malaysia Securities Berhad is that the core business of the entity seeking listing must not be the holding of investments in other listed companies. However, it has been observed that the core business of PLC A is now mainly that of a holding company for other listed entities, given its meagre revenue recorded.

PLC A isn't navigating the cross-shareholdings field alone. PLC B’s primary involvement is in industrial automation, and despite its loss-making position for the last five financial years, the company has invested RM140.00 million in quoted shares across various unrelated industries. These investments include a 26% equity stake in a packaging solution provider, a 26% equity stake in a green energy solution provider, and a 31% stake in a printed circuit board manufacturer. The market value of these quoted shares is only RM50.00 million.

PLC A and B have invested in quoted shares using shareholders' funds. The pinnacle of cross-shareholdings came when PLC C, mainly involved in the telecommunications business, drew down a security-backed advance facility of RM92.00 million to fund its investment in quoted securities. PLC C recorded RM270 million in revenue in the last financial year and has been in a loss-making position for the past five financial years. PLC C has also invested RM270 million in quoted securities in various unrelated industries as of the end of the last financial year. The market value of these quoted securities was merely RM94.00 million.

Cross-holding from CG and valuation perspective

From a corporate governance perspective, cross-shareholdings raise issues related to transparency, disclosure, and shareholder rights. Investors rely on accurate and timely information to assess companies' financial health and performance, yet complex ownership structures and interlocking directorates can obscure visibility and hinder effective oversight.

As such, regulators and policymakers play a crucial role in ensuring that corporate actions are conducted in the best interests of all stakeholders and accordance with applicable laws and regulations.

From a valuation perspective, cross-shareholdings can impact the valuation of individual firms and the overall market. When conglomerates hold significant stakes in each other's companies, fluctuations in one firm's share price can have cascading effects on others, amplifying market volatility.

Further, cross-shareholdings introduce complexity and uncertainty, as investors must assess the implications of interlocking ownership structures on cash flows and risk. Moreover, the presence of cross-shareholdings can obscure the true financial health of companies, making it difficult for investors to make informed decisions.

As Malaysia's corporate landscape continues to evolve, stakeholders and potential investors must navigate the complexities of cross-holdings with caution and foresight. Companies should articulate clear and coherent strategies that align with their core competencies and long-term objectives, avoiding indiscriminate diversification or speculative investments.

Transparent communication and robust corporate governance practices are essential for fostering trust and accountability among investors, regulators, and other stakeholders. Companies should disclose relevant information about their investment activities, ownership structures, and risk management practices, enabling stakeholders to make informed decisions and hold management accountable for their actions.

By MSWG Team

MSWG AGM/EGM Weekly Watch 29 April – 3 May 2024

For this week, the following are the AGMs/EGMs of companies on the 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
29.04.24 (Mon) 10.00 am	Netx Holdings Berhad (AGM)	The Group's revenue rose from RM13.65m to RM16.83 million due to increased sales in non-electronic payment services and money lending, offset by decreased GEM segment revenue due to reduced online orders post-COVID. Gross profit margin increased from 32% to 50%, driven by higher-margin projects in non-electronic payment services. However, administrative expenses surged to RM26.94 million, resulting in a reduced pre-tax loss of RM14.28 million. On a side note, the SST rate increase is expected to drive an increase in loan applications, particularly benefiting eMicro, the second-highest contributor to the Group's revenue.
29.04.24 (Mon) 10.00 am	Petronas Dagangan Berhad (AGM)	For FY2023, the Group recorded the highest revenue of RM37.5 billion and net profit of RM966.8 million within the last five financial years. The retail fuel business registered solid profitability, with record-breaking volume performance. The Group continues to work on diversifying its portfolio, with an emphasis on expanding into the convenience sector and providing low-carbon mobility solutions for its customers.
29.04.24 (Mon) 10.00 am	CIMB Group Holdings Berhad (AGM)	CIMB's pretax profit and net profit grew by 14.0% and 28.3% y-o-y to reach RM9.54 billion and RM6.98 billion, respectively. This translated to a return on equity (ROE) of 10.7%, compared to the reported ROE of 9.0% in FY2022. Its operating income grew by 5.9% y-o-y to hit RM21.01 billion, driven by strong

Date & Time	Company	Quick-take
		growth in non-interest income (NOII) of 36.5% y-o-y from investment and market-related income. This offsets the challenging net income margin (NIM) environment caused by the continued elevated cost of deposits, with net interest income (NII) dipping 3.5% to RM14.63 billion. Total gross loans, deposits and CASA grew strongly by 8.3%, 8.1% and 11.5% y-o-y, respectively, underpinned by growth across all countries and business segments.
29.04.24 (Mon) 11.00 am	Netx Holdings Berhad (EGM)	Netx Holdings Berhad proposes a bonus warrant issue to give entitled shareholders one free warrant for every two existing ordinary shares they hold. The exact entitlement date will be announced later.
29.04.24 (Mon) 11.30 am	Ajiya Berhad (AGM)	Ajiya reported a 3.7% y-o-y increase in revenue to RM304.8 million in FY2023 from RM294 million in FY2022, indicating its effective capitalisation in the rebounding construction sector. Its pre-tax profit increased by 60.8% in FY2023 to RM58.9 million from RM36.6 million in FY2022 in FY2023. The company's significant profitability improvement can be attributed to its strategic initiatives, efficient cost management, and the positive impact of a recovering economy on the building materials sector. In addition, other income, notably from share investments, contributed RM48.3 million to the bottom line.
30.04.24 (Tue) 10.00 am	Nestle (Malaysia) Berhad (AGM)	The Group recorded revenue of RM7.1 billion, reflecting a 5.8% year-on-year increase. This was mainly due to domestic sales, its core brands as a key growth driver, and innovative new offerings capitalising on emerging consumer trends. The Group has allocated RM1 billion for the 2023-2025 investment cycle. It focuses on strengthening its competitiveness and driving

Date & Time	Company	Quick-take
		sustainable expansion across its operations and product portfolio.
30.04.24 (Tue) 10.00 am	Lotte Chemical Titan Holdings Berhad (AGM)	In FY2023, the Group's revenue decreased by 23.7% y-o-y from RM10 billion in FY2022, mainly due to lower average product selling prices and sales volume amid weaker demand for manufactured goods. The Group's pre-tax loss decreased marginally by RM2 million, mainly due to the reversal of inventory write-down. However, it was offset by a share of the loss from LOTTE Chemical USA Corporation, higher electricity costs, higher administrative expenses from the LOTTE Chemical Indonesia New Ethylene Project (LINE Project), and lower financial income.
30.04.24 (Tue) 10.00 am	Bintulu Port Holdings Berhad (AGM)	BPORT's operating profit decreased by RM31.10 million from RM226.38 million to RM195.28 million in FY2023, primarily due to lower operating revenue and higher operating expenditure in 2023. Meanwhile, manpower costs and other operating expenditures increased by 2.61% or RM9.19 million to RM361.04 million compared to RM351.85 million in the preceding year, mainly due to ad-hoc maintenance dredging work at Samalaju Industrial Port and service contract expenses incurred.
30.04.24 (Tue) 02.00 pm	Westports Holdings Berhad (AGM)	Westports recorded a resilient set of results and ended the year 2023 with a record container throughput volume of 10.88 million TEUs. The 8% overall volume growth was underpinned by the much-improved gateway volume arising from more foreign direct investments in Malaysia. The Company maintains a cautious stance and expects low single-digit container throughput growth for 2024. It thinks that if the Middle East conflicts were prolonged, they would weigh on the Europe-Asian trade.

Date & Time	Company	Quick-take
		The Company's commitment to green and decarbonisation efforts is commendable and has undoubtedly driven sustained growth.
30.04.24 (Tue) 02.30 pm	Boustead Heavy Industries Corporation Berhad (EGM)	The Company proposes the following: (I) Proposed disposal of 27,000,001 ordinary shares in Lumut Naval Shipyard Sdn. Bhd. ("LUNAS") held by Perstim Industries Sdn. Bhd., an indirect wholly-owned subsidiary of BHIC to Ocean Sunshine Berhad for RM1.00 and the waiver of trade receivables owing by LUNAS to BHIC and its relevant subsidiaries in the amount of approximately RM334.73 million pursuant to the proposed ITRSA. (II) Proposed Intercompany Trade Receivables settlement agreement (ITRSA) (Proposed ITRSA)

Points of interest:	
Company	**Points/Issues to Be Raised**
Netx Holdings Berhad (AGM)	<u>Corporate Governance Matters</u> 1. Mr Tan Sik Eek, an Executive Director (ED) of NetX, also sits on the Board of Mlabs Systems Berhad, XOX Bhd, Symphony Life Berhad as an Executive Director and managing director of Fintec Global Berhad (page 20 of AR2023). Considering that Mr. Tan Sik Eek is already a director holding a full-time executive position in the Group, would he be able to have the time commitment to carry out his duties as a director effectively and as full-time staff of four public listed companies? 2. The remuneration of Mr. Tan Sik Eek, an ED of NetX, is as follows:

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<tr><th colspan="2">Points of interest:</th></tr>
<tr><th>Company</th><th>Points/Issues to Be Raised</th></tr>
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<tr><th>ED Remuneration</th><th>2019</th><th>2020</th><th>2021</th><th>2022</th><th>2023</th></tr>
<tr><td>Fees</td><td>460,345</td><td>332,065</td><td>665,897</td><td>799,394</td><td>876,040</td></tr>
<tr><td>Salaries</td><td>110,500</td><td>78,000</td><td>289,500</td><td>372,000</td><td>378,000</td></tr>
<tr><td>Others</td><td>14,568</td><td>10,283</td><td>79,343</td><td>146,422</td><td>168,359</td></tr>
<tr><td>Total</td><td>585,413</td><td>420,348</td><td>1,034,740</td><td>1,317,816</td><td>1,422,399</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Revenue</td><td>9,993,000</td><td>14,897 000</td><td>11,722,000</td><td>13,654,000</td><td>16,832,000</td></tr>
<tr><td>Loss attributable to ordinary equity holders of the company</td><td>- 30,644,000</td><td>- 15,871,000</td><td>- 20,792,000</td><td>- 15,632,000</td><td>- 13,525,000</td></tr>
</table>
Source: NetX Annual Report 2019 to 2023

Despite the Group consistently reporting losses, there was still a significant increase in Mr Tan Sik Eek's director fees from 2021. Please justify.
</td></tr>
<tr><td>Petronas Dagangan Berhad
(AGM)</td><td>
<u>Operational & Financial Matters</u>
1. The economic impact has seen PDB effectively capitalise on the growing need for fuel and non-fuel-related products, serving customers across various industries. The surge in tourism and construction, increased vehicle ownership and improved road access synergistically boosted PDB's sales and market presence as it strategically positioned more stations to meet the heightened demand (page 48 of Integrated Report (IR) 2023).

Is the positive environment expected to improve further in 2024, leading to better financial performance for the Group? How many more stations does the Group plan to set up in FY 2024?

<u>Sustainability Matters</u>
2. PDB recognises significant potential in Sustainable Aviation Fuel (SAF) and is actively pursuing partnerships with international airlines to supply SAF. Focused on competitiveness and high-quality fuel, PDB aims to establish Malaysia as a preferred aviation hub and become the leading SAF supplier at Kuala Lumpur International Airport (KLIA) (page 29 of IR 2023).

a) Which international airlines have shown interest in procuring SAF from PDB operations at KLIA?

b) What specific competitive advantages does PDB leverage at KLIA that could make it the preferred SAF supplier for international airlines?
</td></tr>
<tr><td>CIMB Group Holdings Berhad
(AGM)</td><td>
<u>Corporate Governance Matters</u>
CIMB has applied Practice 4.4 of the Malaysian Code on Corporate Governance, which states that performance evaluations of the board and senior management include a review of the performance of the board and senior
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Points of interest:	
Company	**Points/Issues to Be Raised**
	management in addressing the company's material sustainability risks and opportunities (pages 24 & 25 of Corporate Governance Report 2023). a) What was the weightage of sustainability-related KPIs (by percentage) vis-à-vis operational and financial metrics in the overall evaluation of the Board and senior management? b) How did the Board and senior management perform in relation to these metrics? c) Which area requires more focus and attention from the Board and management?
Ajiya Berhad (AGM)	<u>Sustainability Matters</u> 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. 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 sought feedback on the adoption and application of International Financial Reporting Standards ("IFRS") S1 – General Requirements for Disclosure of Sustainability-related Financial Information ("IFRS S1") and IFRS S2 - Climate-related Disclosures ("IFRS S2"). Adopting the ISSB standards will require the Main Market listed issuers to apply the Standards mandatorily in the foreseeable future. (a) Does the Group have the relevant resources to achieve its sustainability-related goals? If not, how does the Group plan to obtain/ allocate the resources required? (b) During FY2023, one of the seven directors attended the Mandatory Accreditation Programme Part II: Leading for Impact. When will the other directors attend the new mandatory programme on sustainability, as required by Bursa Malaysia?
Nestle (Malaysia) Berhad (AGM)	<u>Operational & Financial Matters</u> 1. "2023 witnessed an economically volatile landscape, marked by persistent inflationary pressures, heightened commodity prices and unfavourable exchange rates, as well as geopolitical tensions, aggravated by the conflicts

Points of interest:	
Company	**Points/Issues to Be Raised**
	and humanitarian crises." (Page 15 of Annual Report 2023 ("AR2023")) Given the economically volatile landscape in 2023, how did the Company mitigate risks associated with inflationary pressures? Did the Company manage to pass on the rising costs to consumers? How does the Company balance between passing on the higher costs and remaining competitive in terms of pricing? <u>Sustainability Matters</u> 2. Please provide insights into the impact and outcomes of the Company's community engagement initiatives, such as the MILO Malaysia Breakfast Day (MBD) and MAGGI's "*Wanita Cukup Berani*" mentorship programme. How does the Company measure the effectiveness of these programs in creating positive social change?
Lotte Chemical Titan Holdings Berhad (AGM)	<u>Sustainability Matters</u> 1. As governments worldwide implement carbon pricing mechanisms and stringent regulations to mitigate climate change, companies relying on naphtha, which is derived from crude oil and emits greenhouse gases when processed, may face increased costs or limitations on emissions. How will the implementation of carbon tax impact LCT's operations? What are the specific measures to be undertaken by LCT to mitigate such an impact? 2. *"LCT recognises the importance of mitigating GHG emissions to enhance resilience and ensure business sustainability. Thus, we measure and report our Scope 2 emissions, aiming to develop a comprehensive climate strategy that goes beyond mitigation. This involves creating awareness and sharing knowledge to empower communities to adapt to climate change."* (Page 75 of the IAR2023) Why were Scope 1 emissions not reported in the IAR2023? What challenges did the Company face in disclosing this information?
Bintulu Port Holdings Berhad (AGM)	<u>Operational & Financial Matters</u> 1. The Group managed to attract a major RORO (Roll-on/Roll-off) player to make Bintulu Port its port of call, contributing to additional cargo and vessel calls to the Group. From the biomass sector, the Group had signed a long-term agreement with a grass pellet producer and

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exporter to utilise Bintulu Port as its home port (Page 29 of IAR 2023).

Are these two positive developments expected to contribute significantly to the Group’s financial performance? What is the tenure of the long-term agreement with the grass pellet producer and exporter?

<u>Corporate Governance Matters</u>
2. The number and rate of recordable work-related injuries over the last three years was on a rising trend. This happened despite the decreasing number of hours worked. What lessons have been learned from the worsening trend, and what actions have been taken to reduce or mitigate such incidences?

<table>
<tr><th>Recordable work-related injuries</th><th>2021</th><th>2022</th><th>2023</th></tr>
<tr><td>Number</td><td>3</td><td>6</td><td>7</td></tr>
<tr><td>Rate</td><td>0.64</td><td>1.20</td><td>2.12</td></tr>
<tr><td>Number of hours worked</td><td>4,654,816.69</td><td>4,997,102</td><td>3,302,446.67</td></tr>
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(Page 65 of IAR 2023)
</td></tr>
<tr><td>Westports Holdings Berhad
(AGM)</td><td>
<u>Operational & Financial Matters</u>
1. Westports’ has practised a dividend payout of 75% of its consolidated profit attributable to equity holders. Its dividend payout ratio has been consistently in the range of 70% to 75% for the past five years except for the year 2020 when it was temporarily reduced to 60% due to the onset of the pandemic and potential financial uncertainties arising thereof (page 28 of Annual Report (AR) 2023).

A substantial capex of RM5.0 billion is required for Westports 2.0 port expansion, which will be allocated to be utilised between 2024 and 2028 (page 2 of Westports Malaysia Sdn Bhd credit rating report by RAM, December 2023).

(a) How does the Group plan to finance its committed capital expenditures of RM5.0 billion?

(b) In view of the abovementioned huge capital outlay, what is the outlook for dividends going forward? How
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Points of interest:	
Company	**Points/Issues to Be Raised**
	does the Company plan to balance returns to shareholders through dividends while also supporting the Group's expansion initiatives? <u>Corporate Governance Matters</u> 2. The Company has adopted Practice 4.4 of the MCCG, which encourages PLCs to evaluate the board and senior management's performance, including a review of their performance in addressing the company's material sustainability risks and opportunities. However, the explanation of the practice's application is brief (page 23 of the Corporate Governance Report 2023). (a) What material sustainability risks and opportunities were incorporated in the performance evaluation of the Board and senior management? (b) What was the weightage of sustainability-related KPIs (by percentage) vis-à-vis operational and financial metrics in the overall evaluation of the Board and senior management? How did the Board and senior management perform in relation to these metrics? (c) Which area requires more focus and attention from the Board and management? Please note that Guidance 4.4 of the MCCG further provides that the company's shareholders should also be informed of the evaluation outcomes and next steps.

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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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