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

The Observer

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❖ Advancing Sustainability: Path to NSRF

KEY HIGHLIGHTS

- NSRF to improve the availability of reliable, comparable and decision-useful information on companies' material sustainability risks and opportunities.
- MSWG believes a 12-month lead time for implementation guidelines and regulatory requirement amendments is reasonable.
- We support ACSR's initiative to mandate NLCos to embrace the NSRF and external assurance for sustainability disclosures.

To be aligned with the evolving global sustainability reporting standards, the Securities Commission Malaysia (SC)'s Advisory Committee on Sustainability Reporting (ACSR) recently released a Consultation Paper to seek public feedback on incorporating the sustainability and climate-related International Financial Reporting Standards (IFRS) S1 and S2 standards by the International Sustainability Standards Board (ISSB) into Malaysia's National Sustainability Reporting Framework (NSRF).

Using the ISSB Standards as the baseline standard, NSRF aims to improve the availability of reliable, comparable and decision-useful information on companies' material sustainability risks and opportunities.

Why international standards matter

First and foremost, the decision to align with international reporting standards stems from various factors, notably the role of foreign direct investments (FDIs) in Malaysia's economic growth.

FDIs have been instrumental in driving industrialisation, technology transfer, and job creation in the country. Malaysia ranks as the fourth-largest recipient of FDIs in the ASEAN region, trailing behind Singapore and Indonesia. The pursuit of FDIs has been a consistent policy objective of the Malaysian Government, which has implemented various measures and incentives to attract foreign investors. Given the importance of FDIs, aligning with international reporting standards enhances Malaysia's attractiveness to investors and promotes competitiveness in the global market.

Additionally, the adoption of ISSB Standards is crucial for addressing climate-related risks, such as the Carbon Border Adjustment Mechanism (CBAM). CBAM, set to be fully implemented in 2026, aims to impose a price on carbon emissions associated with the production of carbon-intensive goods imported into the European Union (EU).

The implications of CBAM for the economy are manifold. Products such as aluminium, iron and steel, electrical appliances, electronics, machinery, rubber products, and vegetable oils, which constitute a significant portion of Malaysia's exports to the EU, will be affected by CBAM. By adopting ISSB Standards, Malaysian companies can develop effective carbon reduction strategies and address CBAM transition risks.

Furthermore, the reporting of reliable sustainability information is essential for supporting national targets outlined in strategic plans like the 12th Malaysia Plan. This includes commitments to reduce greenhouse gas (GHG) emissions by 45% by 2030 and achieve net-zero emissions by 2050. Achieving these ambitious goals requires robust climate-related information.

Current and future sustainability reporting landscape

The foundation for sustainability reporting was laid out in the Listing Requirements introduced in October 2015 and subsequently enhanced in September 2022. The existing sustainability reporting requirements mainly apply to listed issuers and financial institutions with voluntary adoption by non-listed companies.

The Enhanced Sustainability Reporting Requirements (ESRR, announced in September 2022) mandates the disclosure of information across various themes and indicators deemed material for all listed issuers.

Come 2025, Main Market-listed issuers must disclose their climate-related risks and opportunities aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in their sustainability statements.

In addition, ACE Market-listed issuers are required to disclose a basic transition plan towards a low-carbon economy in 2026.

Moving forward, ACSR is considering to extend the adoption of IFRS S1 and S2 to both listed and large non-listed companies (NLCos) with annual revenue of RM2 billion and above.

MSWG comments to the proposed NSRF consultation paper

MSWG was invited by the SC to participate in the NSRF consultation paper. On the implementation timeline, we believe that providing a 12-month lead time for implementation guidelines and regulatory requirement amendments is reasonable. This timeframe considers several factors:

(i) TCFD recommendations are already part of the current Bursa Listing Requirements and are included within IFRS S2.
(ii) IFRS S2 incorporates built-in relief measures, including transition reliefs.
(iii) The proposed additional reliefs by ACSR align with the implementation timeline of the Enhanced Sustainability Reporting Requirements under the Bursa Listing Requirements.

Apart from the proposed adoption of NSRF by Main and ACE-Market listed issuers, MSWG also echoed ACSR's initiative to mandate NLCos to embrace the NSRF, given the pivotal significance of climate-related disclosure in fostering business resilience, enhancing competitiveness and facilitating access to financing for companies.

Additionally, MSWG supports mandating external assurance for sustainability disclosures, be it limited or reasonable assurance. The scope of assurance should cover Scope 1, Scope 2, and Scope 3 GHG emissions, common sustainability matters outlined in the ESRR, and sustainability matters prioritised by the company.

External assurance enhances investor confidence in the reported information, aiding informed investment decisions. It also helps to mitigate the risk of greenwashing, which can undermine the credibility of sustainability information.

By Lam Jun Ket
Manager, Corporate Monitoring

MSWG AGM/EGM Weekly Watch 6 – 10 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
08.05.24 (Wed) 09.00 am	Dufu Technology Corp. Berhad (AGM)	DUFU recorded a 25% decline in revenue to RM227.8 million in FY2023 due to lower demand in the HDD-related business. Consequently, profit before tax fell by 60% to RM33.6 million. In FY2023, The Group invested RM17.75 million in capital expenditure, adding to the RM83.55 million spent in FY2021-2022. The Group anticipates that the revenue projection for HDDs in the first half of 2024 will gradually improve as compared to the second half of 2023.
08.05.24 (Wed) 09.30 am	British American Tobacco (Malaysia) Berhad (AGM)	The Group recorded revenue and net profit of RM2.31 billion and RM195 million, representing decreases of 11% and 26%, respectively, compared to the previous financial year. Lower revenue was mainly attributable to lower industry volume in the combustible space driven by the increase in vapour usage as well as the persistent tobacco black market. In 2023,

Date & Time	Company	Quick-take
		the Group expanded its business into the vapour category. It invested in building brand visibility and credentials, which resulted in a lower net profit margin.
08.05.24 (Wed) 10.00 am	MISC Berhad (AGM)	MISC revenue of RM14.27 billion for FY2023 was 2.9% higher than FY 2022 revenue of RM13.87 billion, mainly contributed by higher revenue from new and ongoing projects in the Marine & Heavy Engineering segment, coupled with improved freight rates in the Petroleum & Product Shipping and Gas Assets & Solutions segments. The Group reported a higher profit before taxation of RM2.0 billion in FY2023, an increase of 11.7% from RM1.87 billion recorded in FY2022, mainly due to a higher share of profit from joint ventures and lower impairment charges compared to the previous year.
08.05.24 (Wed) 11.00 am	Public Bank Berhad (AGM)	For FY2023, Public Ban achieved a higher net profit of RM6.65 billion. With that, the Bank continued to sustain its leading position with a net return on equity of 13.0% and an efficient cost-to-income ratio of 33.7%. With the resilient performance, it declared a total dividend of 19.0 sen, equivalent to a total dividend payout of RM3.69 billion for FY2023.
08.05.24 (Wed) 11.00 am	Technodex Berhad (EGM)	The EGM will seek shareholders' approval for the proposed reduction of the issued share capital of Technodex Bhd. pursuant to Section 116 of the Companies Act 2016. The proposal is to reduce the Company's accumulated losses via cancellation of its issued share capital.
10.05.24 (Fri) 09.30 am	RHB Bank Berhad (AGM)	RHB recorded a 4.8% y-o-y increase in net profit to RM2.8 billion for FY2023, supported by growth in non-fund based income and lower expected credit losses (ECL). ECL reduced 28.4% y-o-y to RM301.5 million primarily due to the writeback of management overlay. The Bank kept its dividend payout constant with a distribution of 40 sen per share.

Points of interest:	
Company	**Points/Issues to Be Raised**
Dufu Technology Corp. Berhad (AGM)	Practice 5.9 of the Malaysian Code of Corporate Governance (MCCG) stipulates that 30% of the Board should comprise women. As of FY2023, there was only one woman director out of the 6 directors on the Board. What steps are being taken to achieve a 30% women representation on the Board as stipulated by the MCCG? What specific plans and strategies does the Board have in place to work towards this goal?
British American Tobacco (Malaysia) Berhad (AGM)	1. 2023 has been extremely challenging for BAT Malaysia on the back of strong economic headwinds and continued inflationary pressures that reduced the disposable income of consumers. This in turn forced consumers to downgrade or choose alternative nicotine products such as vapour. Meanwhile, BAT Malaysia has identified that "accelerated combustibles market reduction & downtrading" as one of the key risks to BAT Malaysia (Page 15 & 35 of AR2023). BAT Malaysia's revenue is mainly derived from the sales of tobacco cigarettes, however, the revenue decreased significantly from RM4.6 billion in FY2015 to RM2.3 billion in FY2023 partly due to the increasing market share of illegal cigarettes in Malaysia. The net return on shareholders' funds has also decreased from 166% in FY2015 to 52% in FY2023 (page 6 of AR2023 and page 3 of AR2015). a) What are the Group's plans and mitigating measures to address the risks of accelerated combustibles market reduction & downtrading, to prevent further decline in the Group's overall market share and shareholders' return? b) Please provide market research data on BAT Malaysia's current market share and number of consumers of combustibles and vapour products in Malaysia. To consider disclosing data on market share of combustibles and vapour products in the annual report to provide more insight to shareholders. c) Which category of customer groups have switched their preferences from combustibles to vapour products? 2. Fostering a circular economy has been a priority for BAT Malaysia and it has focused its attention on increasing recyclability of the product packaging as well as implementing the New Category device Take-Back Scheme. (Page 57 of AR2023)

Points of interest:	
Company	**Points/Issues to Be Raised**
	a) What are the current approaches to dispose the New Category device collected from the Take Back Scheme to ensure minimal environment contamination? Can the scrap of the devices be utilised in the production of new devices? b) Would BAT Malaysia consider providing incentives to its customers to encourage participation in the Take-Back Scheme?
MISC Berhad (AGM)	The Marine & Heavy Engineering segment's revenue of RM3,309.2 million was RM1,657.6 million or more than 100% higher than the previous year's revenue of RM1,651.6 million, mainly due to higher revenue from new and ongoing projects for Heavy Engineering sub-segment. The segment recorded operating loss of RM467.7 million compared to operating profit of RM60.8 million in the previous year mainly due to the additional cost provisions resulting from revised schedule on ongoing heavy engineering projects during the year. (page 110 of IAR 2023) How could the additional cost provisions from the revised schedule escalate to such a magnitude that caused the segment to record operating loss? What is the 2024 outlook for the segment?
Public Bank Berhad (AGM)	<u>Operational & Financial Matters</u> SME lending, a key loan growth driver for Public Bank, grew marginally by 1% y-o-y in FY2023 to RM67.87 billion, which accounted for 18.2% of the Group's domestic loans portfolio. As a comparison, Public Bank reported overall loan growth of 5.9% in FY2023. a) On top of this, the largest bank in Malaysia by market capitalisation report SME loan growth of 9% y-o-y in FY2023. Its SME loan book amounted to RM36.3 billion as of FY2023. Was the low single-digit SME lending growth recorded by Public Bank due to a high-base effect? Why did the Bank's SME lending segment record a tepid growth compared to its peers and overall loan growth in FY2023? b) On the other hand, Public Bank posted a lower market share of 17.9% in SME lending compared to 18.6% and 21.6% in the previous years. What does the declining market share suggest? Does it mean the Bank's SME products gradually lose their appeal among SME

Points of interest:	
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	customers? What is the targeted loan growth for this segment in FY2024? <u>Corporate Governance Matters</u> Upon the recommendation of the Nomination and Remuneration Committee, the Board has engaged an independent external consultant to conduct the assessment of the Board, Board Committees and individual Directors for FY2023 (page 40 of Corporate Governance Report 2023, CGR2023). a) What key areas did the independent expert assess when conducting the Board Effectiveness Evaluation (BEE) exercise? On average, how did the Board score in each respective area? b) Based on the outcome of the BEE exercise, Public Bank mentioned that "there is an opportunity for enhancing the Boardroom configuration, particularly by reinforcing digital expertise and upskilling on the ESG front at the Board level" (page 285 of IAR2023). How did the Board perform in terms of digital expertise and ESG matters? What should the Board do to improve the relevant skillsets among board members? What are the plans and steps to be taken to upskill board members with respect to these areas? c) We note that Public Bank has incorporated sustainability-related matters in assessing board members and senior management (page 21 of CGR2023). i) Please provide the list of quantitative ESG KPIs included in the evaluation of C-Suites in FY2023. How did the senior management perform in relation to these KPIs? ii) What was the weightage of the ESG KPIs (by percentage) vis-à-vis operational and financial metrics in the overall performance evaluation of the Board and senior management? iii) Moving forward, what are the sustainability matters that are closely related to the Bank's operations that warrant more focus and attention from the Board and senior management?
RHB Bank Berhad (AGM)	As of the end of FY2023, the Group's loan loss coverage (LLC) ratio, excluding regulatory reserve, dropped to 71.7% from

Points of interest:	
Company	**Points/Issues to Be Raised**
	112.8% in the previous year. The ratio, an indicator of a bank's ability to absorb potential losses from non-performing loans, was also below the pre-pandemic level of circa 85%. Generally, Malaysian banks record an LLC ratio of around 100% (excl. regulatory reserve) or above 150% for certain banks. The concern of the low LLC is whether the Group has adequately provided for any potential loan loss in the future and the ability to absorb any short-term increase in the gross impaired loans (GIL) ratio. a) RHB's allowance for credit losses on financial assets was lower at RM301.53 million compared to RM421.18 million (page 9, Financial Report 2023). Banks may shore up their LLCs by providing higher provisions for impaired loans, advances and financing (LAF). Why did RHB not provide a higher allowance for LAF in FY2023 to ensure LLC is on par with industry level? Please guide shareholders on RHB's asset quality in FY2024. b) *The Edge Malaysia Weekly* reported that RHB's management expects LLC to improve to around 100% after it restructures a specific corporate loan. *(Source: RHB Bank's low LLC ratio a point of discomfort for some analysts, The Edge Malaysia Weekly on December 4, 2023 - December 10, 2023)* i) What is the size of the corporate loan, the client's business activities, the operating country and the industry involved? ii) What led to the impairment of this loan? What steps were taken to recover the loan before the Group impaired it? iii) How does RHB Bank restructure the account, and the progress of restructuring? Ultimately, what is the optimal LLC that the Bank is looking at? c) What will be the impact of this on RHB's credit cost? Please provide management guidance on net credit cost for FY2024.

MSWG TEAM

Dr Ismet Yusoff, Chief Executive Officer (ismet@mswg.org.my)
Rita Foo, Head, Corporate Monitoring (rita.foo@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)
Jackson Tan, Manager, Corporate Monitoring (jackson@mswg.org.my)
Nur Amirah Amirudin, Manager, Corporate Monitoring (nuramirah@mswg.org.my)
Yan Lai Kuan, Manager, Corporate Monitoring (yan.laikuan@mswg.org.my)
Lam Jun Ket, Manager, Corporate Monitoring (lam.junket@mswg.org.my)

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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