

MSWG**MINORITY SHAREHOLDER WATCHDOG GROUP****Badan Pengawas Pemegang Saham Minoriti Berhad**

Incorporated in Malaysia * Company No. 524898-M

The Observer

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MARKET AND REGULATORY UPDATE

SPECIAL ADDRESS BY THE PRIME MINISTER ON CURRENT ECONOMIC DEVELOPMENTS AND GOVERNMENT'S FINANCIAL POSITION

This week, on Tuesday 20 January, the PM briefed the nation on the current economic developments and the government's financial position which essentially was intended to unveil the revised Budget 2015. The PM started off by stating his intention to address some concerns in particular on crude oil prices and performance of the ringgit. He said that the Government has been vigilantly monitoring the situation and several proactive measures will be taken to realign the Government's policies in line with the changing global economic scenario. He stressed that Malaysia is neither in a recession nor in a crisis as experienced in 1997/98, and 2009 which warranted stimulus packages.

The Budget 2015 was formulated a few months ago based on certain assumptions and premises; however as the global economic landscape has since changed significantly, this necessitates a review of some of the earlier macro and fiscal assumptions. Together with this review, the proactive measures to be undertaken is to ensure that Malaysia will continue to achieve creditable growth.

Among the key take-aways are:

- Forecast for average oil price in 2015 to be revised downwards to USD55 from original forecast of USD100;
- GDP growth estimates lowered to between 4.5% and 5.5% for 2015 compared with previous target range of 5% to 6%;
- Fiscal deficit target to be 3.2% of GDP in 2015 instead of the earlier target of 3%;
- Current account balance is expected to remain in surplus;
- Development expenditure of RM48.5 billion for 2015 will be maintained;
- Operating expenditure is expected to be reduced by RM5.5 billion through reprioritising expenditure;
- Review of transfers and grants to statutory bodies, GLCs and Government Trust Funds, with expected savings of RM3.2 billion;

- Optimisation of outlays on supplies and services, especially overseas travel, events and functions and use of professional services. This will result in savings of RM1.6 billion;
- Deferment of the 2015 Program Latihan Khidmat Negara with savings expected at RM400 million;
- Tourism industry to be intensified.

MSWG'S COMMENTS:

In the light of the significant changes in the global economic scenario, the Malaysian Government took stock of its financial position, revisited its 2015 Budget and undertook proactive measures to steer the nation for continued creditable growth. This pre-emptive measure is welcomed in terms of not only tightening the belt, cutting down expenditure but also intensifying efforts to generate more revenue.

Prioritisation is key; operating expenditure particularly expenses of less importance or priority were tightened. Development expenditure on transportation and more so flood mitigation project is a key area of focus, yet having the desired multiplier effect still needed under this challenging economic landscape.

Diversification of our earnings base is another key priority area while implementation should be monitored.

RE-ELECTION OF INDEPENDENT DIRECTORS AT AGMs AND MSWG'S TAKE

At some recent AGMs, we noted that certain independent directors with tenure exceeding 12 years were voted against and indeed were almost out-voted.

In line with the recommendations of the Malaysian Code on Corporate Governance 2012 and the Malaysian Code for Institutional Investors, asset owners are now more active at the AGMs to vote against independent directors with long tenure and specifically stating their voting policies.

In this regard, Boards of PLCs should be prepared and be aware that shareholders particularly institutional shareholders are becoming increasingly concerned about independent directors with tenure exceeding 9 years and more so those above 12 years. Such directors risk being voted against during their election. It is, therefore, good practice for the PLCs to understand the institutional shareholders' voting policies. Engagement between the two parties is encouraged.

MSWG'S QUICK TAKE ON ONGOING CORPORATE TRANSACTIONS

TENAGA NASIONAL BHD ("TNB") / INTEGRAX BERHAD ("INTEGRAX")

Integrax had on 16 January 2015 issued a circular/notice to shareholders to inform that the company had on 9 January 2015 received the notice of conditional take-over offer ("Offer") from TNB to acquire all the remaining shares of Integrax which are not already owned by TNB for a cash offer of RM2.75 per offer share.

The Board of Integrax had deliberated on the Offer and announced that the Board would not be seeking another person to make an alternative take-over for the offer shares. However, if the company

receives an alternative or competing offer(s), the company will make the necessary announcement(s) to Bursa Malaysia.

The company had also announced on 16 January 2015 that it had appointed M&A Securities Sdn Bhd as the Independent Adviser to advise the non-interested directors and non-interested shareholders of Integrax on the fairness and reasonableness of the Offer.

MSWG'S COMMENTS:

Even though the offer of RM2.75 from TNB represents a premium of 33% to Integrax's audited net asset book value of RM2.06 as at 31 December 2013, the founding shareholder, Encik Amin Halim Rasip, also Integrax's director was reported to have viewed the offer as not fair nor reasonable.

The latest Annual Report of Integrax for FY 2013 does not seem to indicate that its assets comprising mainly the ports and the surrounding lands have been revalued since acquisitions many years ago. The issue of revaluation is an important matter which could result in a much different net asset value of the company and, therefore, to have a clearer picture and a better informed decision-making, non-interested shareholders will have to await the receipt of the Offer Document and Independent Advice Circular.

AMALGAMATED INDUSTRIAL STEEL BERHAD ("AISB")

AISB had on 16 January 2015 announced that the company proposes to undertake a proposed diversification in operations carried on by AISB to include property development business ("Proposed Diversification"). Before the announcement of the Proposed Diversification, AISB had just completed an exercise of par value reduction during the end of last year.

MSWG'S COMMENTS:

It is probable the company will either do a cash call, raising debt or combination of both or selling some assets to diversity into another business. Whether the new business of property development will bring shareholder value and thus the company needs to explain to their shareholders as to the reasons they want to venture into this area.

LOCAL NEWS AND DEVELOPMENTS

Budget 2015 no longer realistic, says Najib

<http://www.themalaymailonline.com/malaysia/article/budget-2015-no-longer-realistic-says-najib>

New rules may dampen prospects for banks

<http://www.thestar.com.my/Business/Business-News/2015/01/19/New-rules-may-dampen-prospects-for-banks-Islamic-reclassification-expected-to-hurt-their-bottom-line/?style=biz>

Bank Negara to rectify rising 3-month Klibor rate

<http://www.thestar.com.my/Business/Business-News/2015/01/17/Bank-Negara-to-rectify-rising-3month-Klibor-rate/?style=biz>

New MEGB shareholders' big plans to improve Masterskill's fortunes

<http://www.thestar.com.my/Business/Business-News/2015/01/19/Big-plans-for-MEGB-New-shareholders-working-on-improving-Masterskill-fortunes/?style=biz>

AISB to diversify into property development
<http://www.thesundaily.my/news/1299776>

Companies in the news: Integrax major shareholder declines TNB's takeover offer
<http://www.theedgemarkets.com/my/article/companies-news-integrax-major-shareholder-declines-tnb%E2%80%99s-takeover-offer>

IFCA MSC queried over sudden gain in share price, volume
<http://www.thesundaily.my/news/1299780>

MISC share price slips after aborting subsidiary sale
<http://www.nst.com.my/node/69868>

Foreigners offloaded RM1.42 billion last week
<http://www.theedgemarkets.com/my/article/foreigners-offloaded-rm142-billion-last-week>

GLOBAL NEWS AND DEVELOPMENTS

Eurozone QE set to arrive, but with conditions
<http://www.ft.com/intl/cms/s/0/6aaf3482-9f0e-11e4-ba25-00144feab7de.html#axzz3PEQqkTtK>

Swiss Franc Bets Turned on a Dime
<http://www.wsj.com/articles/swiss-franc-bets-turned-on-a-dime-1421453922>

India cuts key interest rate in surprise move
http://money.cnn.com/2015/01/15/news/economy/india-reserve-bank-interest-rate-cut/index.html?iid=SF_E_River

China Stocks Plunge on Margin-Trading Suspensions as Citic Sinks
<http://www.bloomberg.com/news/2015-01-19/china-s-stock-index-futures-plunge-on-margin-trading-suspensions.html>

MSCI to allow overseas listings to be included in major indexes
<http://www.reuters.com/article/2015/01/16/us-msci-indexes-idUSKBN0KP1QT20150116>

UK Watchdog To Focus On Company Culture And Behaviour
<http://www.forbes.com/sites/dinamedland/2015/01/14/uk-watchdog-to-focus-on-company-culture-behaviour/>

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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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Feedback

We welcome your feedback on our newsletter and our work. Email us at mswg.ceo@mswg.org.my with your comments and suggestions.

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