MSWG
MINORITY SHAREHOLDER WATCHDOG GROUP
Badan Pengawas Pemegang Saham Minoriti Berhad
Incorporated in Malaysia * Company No. 524898-M

The Observer

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MESSAGE FROM THE CEO

Hello everyone, and welcome to 2012!

It's been just two weeks into the new year and already we seem to be awash with fresh corporate exercises hogging the headlines, including Kian Joo/CanOne, Khazanah's sale of Proton to DRB-Hicom, the KFC/QSR takeover by JCorp and the competing offer from the Malay Chamber of Commerce, and developments in the takeover of OSK Investment Bank by RHB Capital. It looks like despite the worsening global outlook, Malaysia's 2012 could be a healthy one for capital market activities. However, we would as ever warn minority shareholders to invest wisely and do proper research before spending even one sen.

If we look back at 2011, there was no shortage of CG disasters, with MF Global and Olympus still fresh in our memories. In Malaysia, much the same can be said, and this is a situation echoed in polls conducted by The Edge newspaper on their website over the course of the year, which demonstrated a keen desire for much more regulatory oversight of our markets. In one such poll, 86 percent of respondents felt that quarterly reporting should be maintained. This is a stance with which we agree, since minorities have so little access to company officers and are already prejudiced in terms of available information, as compared to fund managers and investment analysts that readily have more access to management.

The fact that many of these respondents want even more severe penalties - on top of the jail terms being imposed - confirms this. Hopefully, this will be a year where we see significant progress being made on the CG front, to add to the progress we collectively made last year.

Cheers!

Rita Benoy Bushon

Rita In The News

Kulim board to discuss Malay Chamber of Commerce counterbid before CNY
http://biz.thestar.com.my/news/story.asp?file=/2012/1/12/business/10243869&sec=business

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MSWG's Quick Take on Ongoing Corporate Transactions

Jerneh Asia Berhad (JAB): **The take-over offer by Kuok Brothers Sdn Bhd has become unconditional as of 3 January 2012 as the company held 94.49 percent of the voting shares of JAB as a result of valid acceptances by the holders of more than nine-tenths in nominal value of JAB's voting shares. As Kuok Brothers does not intend to maintain Jerneh's listing, the trading of JAB's shares and warrants shall be suspended upon the expiry of five (5) market days from the announcement dated 3 January 2012. The offer is open for acceptance up to 5:00pm on 17 January 2012. Kuok Brothers will proceed to invoke Section 222(1) of the Capital Markets and Services Act (CMSA), 2007 to compulsorily acquire any remaining offer shares for which valid acceptances have not been received within approximately two (2) months from the date of this announcement.**

MSWG's COMMENT: ***As acceptances have been received for more than nine-tenths of Jerneh's voting shares (excluding those already held by them at the offer date), Section 222 of the CMSA will be invoked to acquire all the remaining shares. As such, the minority shareholders should consider accepting the offer before the closing date so that settlement for their shares would be received sooner (within 10 days of valid acceptance) than by way of compulsory acquisition (which could take up to 2 months).***

Kulim (Malaysia) Bhd (Kulim) / QSR Brand Bhd (QSR) / KFC Holdings (Malaysia) Bhd (KFC): **Kulim (Malaysia) Bhd has announced that its board of directors has rejected Dewan Perniagaan Melayu Malaysia's (DPMM) unsolicited offer for the proposed acquisition of Kulim's entire stake in QSR Brands Bhd. DPMM's unsolicited offer valued QSR shares at RM6.90 per share.**

Company	Top 4 Non-Interested Substantial Shareholders*	Financial Highlights	Shareholders' Approval Threshold
Kulim	• Skagen Kon-Tiki Verdipapirfond (5.47%) • Waqaf An-Nur Corporation Berhad (4.00%) • EPF Board (5.66%) • ASW 2020 (1.10%)	• 9 year revenue CAGR: 25.7% • 9 year net profit CAGR: NA (due to negative base) • NA/ share: RM3.26 • Basic EPS: 123.45 sen (FY2010)	50% + 1 share of non-interested shareholders
QSR	• Deutsche Bank AG London (Prime Brokerage) (2.65%) • JPMorgan Chase Bank, National Association (U.K.) (1.61%) • Asia Landmark Master Fund Ltd (1.57%) • Public Islamic Sector Select Fund (1.33%)	• 9 year revenue CAGR: 26.3% • 9 year net profit CAGR: 22.1% • NA/ share: RM3.08 • Basic EPS: 40.02 sen (FY2010)	75% of non-interested shareholders
KFC	• Lembaga Tabung Haji (21.95%) • Great Eastern Life Assurance (Malaysia) Berhad (PAR 1) (2.78%) • Skim Amanah Saham Bumiputera (1.89%) • Public Islamic Dividend Fund (1.74%)	• 9 year revenue CAGR: 10.0% • 9 year net profit CAGR: 14.1% • NA/ share: RM1.33 • Basic EPS: 19.8 sen (FY2010)	75% of non-interested shareholders

*Based on latest Annual Report

MSWG's COMMENT: ***KFC is a prized asset with tremendous upside potential around the region, and should not in any case be taken private since it would deprive minority investors of a quality and lucrative investment. Investors being aware of KFC's lost potential will need to be incentivised - even with Kulim's board rejecting DPMM's offer. Note that the approval of 75***

percent of the non-interested shareholders need to agree to Massive Equity Sdn Bhd's RM6.80 per share offer for QSR, which is 10 sen a share lower than DPMM's offer. Hence, we would suggest that Massive Equity Sdn Bhd at least match or improve on DPMM's offer of RM6.90 per share for QSR to improve its chances of securing this buy-in, since no other offer is being sought. This is particularly necessary in light of a competing bid and, moreover, it is also in the interest of minority shareholders who may wish to exit.

MBM Resources Bhd (MBM) / Hirotako Holdings Berhad (HHB):

The offer by MBM to take over HHB closed on 3 January 2012, two weeks after MBM secured valid acceptance of not less than nine-tenths of the Offer Shares on 20 December 2011. As MBM does not intend to maintain the listing status of HHB, it intends to invoke Section 222 of the Capital Markets and Services Act, 2007 to compulsorily acquire any remaining shares for which valid acceptances have not been received.

MSWG'S COMMENT: *While a premium was provided for HHB's shares, the holders of HHB warrants were offered an unfair price, as the offer consideration of 5 sen per share warrant did not take the time value of the warrants into consideration, especially when the warrants still have 4 years until expiry. In the Independent Advice Circular, the Independent Adviser said that the offer price for the warrants was unfair in view of the warrants' theoretical value of RM0.125 and their historical price, but was reasonable after taking into consideration the tradability and uncertainties in holding unlisted warrants. Did the Independent Adviser not take the offer price for the warrants into consideration when concluding the so-called "reasonableness" of the offer?*

Proton Holdings Bhd (Proton) / DRB-Hicom Bhd (DRB):

DRB will acquire Khazanah's 42.7 percent stake in Proton for RM5.50 per share, or RM1.3 billion in cash. DRB will have two months to complete the purchase, during which time non-interested shareholders will meet in an EGM to vote on the exercise. Ministry of International Trade and Industry (MITI) approval also needs to be sought. Following this, there will be an MGO for the remaining shares in Proton at the same price. The total acquisition price, assuming the MGO is fully accepted, will amount to RM3.01 billion. Any dividends declared by Proton during this period will be adjusted accordingly in the acquisition price. Additionally, DRB will de-list Proton if it achieves the required acceptance levels in the MGO. The proposed acquisition is conditional, subject to the approval of DRB-Hicom shareholders and MITI.

MSWG's COMMENT: *From a cursory view, DRB seems to be getting Proton at a 30 percent discount to FY12 NTA and at a FY12 EV/EBITDA multiple of just 5.2 times. The discount and the offer price need to be attractive to DRB shareholders, especially since DRB might incur costs in revamping Proton. With such a discount, DRB will enjoy a significant upside if their revamp efforts succeed. This could include cost rationalisation exercises and contract assembly, which would quickly address capacity utilisation concerns at its Tanjung Malim plant and give it additional revenue streams. However, net gearing will rise to 0.73x and translate to annual finance costs of over RM200 million. It would therefore not be too surprising if a cash call or other asset disposal were to be conducted later.*

For Proton, it needs to become competitive and that means economies of scale, high levels of capacity utilisation, and access to technology and markets. DRB can help, given its tie-up with Volkswagen which intends to set up a large ASEAN production hub in Malaysia. DRB's ability to gear up would also be welcomed at Proton, given its heavy capex requirements, essential R&D activities, and Lotus roll-out plan. Note also DRB's recent announcement that it is raising RM500 million from the sukuk market, which can be bumped up to RM1.8 billion.

Once and if Proton is in DRB's fold, a sale of VW is a potential outcome, and this could help

DRB to repay the loans it has needed to swallow Proton.

YTL Corporation (YTL) / YTL Cement Bhd (YTLCMT): YTL Industries Bhd, a wholly-owned subsidiary of YTL, has made a share exchange offer to the holders of YTLCMT and YTLCMT-LA at a conversion ratio of 3.17 YTL shares for each YTLCMT share, and 1.56 YTL shares for each of YTLCMT-LA. It was stated in the circular to shareholders that the exercise could be a viable way to provide the shareholders of YTLCMT more liquidity for their investment in their shares by exchanging them for YTL shares. The offer also provides an opportunity to YTLCMT's shareholders to swap their investment in YTLCMT's more cyclical businesses for one in YTL's well-diversified stable of businesses which are anchored by the steady income streams of its utilities' businesses. YTL does not offer a premium to the holders of YTLCMT and YTLCMT-LA, saying that the offer is undertaken on the basis of a voluntary share exchange for consideration shares.

MSWG's COMMENT:* *As both YTL and YTLCMT are listed entities, YTLCMT shareholders likely invested in the company because they prefer businesses focused on cement, concrete and aggregates, trading at a less demanding P/E ratio, and offering a higher dividend yield. Investors could have bought into YTL directly if they preferred a well-diversified stable of businesses. Is the basis of a voluntary share exchange for consideration shares a strong justification for YTL not offering a premium to the holders of YTLCMT and YTLCMT-LA? In addition, YTL is not providing a cash option to YTLCMT shareholders. The YTL shares represent a change in business to shareholders: shouldn't this and the no-premium offer be grounds to provide these shareholders with a cash exit option?

To the YTLCMT-LA holders, the proposed conversion ratio of 1.56 YTL shares for each YTLCMT-LA share does not take into consideration the revision of YTLCMT-LA's conversion price from RM2.04 to RM1.82 that takes place on 10 November 2012, the seventh anniversary of the date of issue. The difference would be about 11 percent in a few months' time.

Not under MSWG's coverage:

Xidelang Holdings Ltd (XDL): Four separate announcements have been made by XDL to Bursa to clarify news reports that Navis Capital intends to acquire shares in XDL from the major shareholder, HongPeng International Holdings Ltd. (HongPeng), in which the Managing Director cum Chief Executive Director of XDL has a deemed interest. After the first announcement revealed that Navis Capital had indicated its intention to acquire HongPeng's entire shareholding in XDL, the share price of XDL surged and recorded its highest level in six months. In a subsequent announcement made in the later part of the day, it denied any discussion on the offer price equivalent to 1.2 times book value as mentioned in the daily. Four days later, an announcement was made to clarify that discussions with Navis were held several weeks earlier, and HongPeng had no intention of selling its stake at that juncture. The last announcement, two days later, was to clarify that the management had merely engaged in exploratory discussions to undertake various corporate proposals, however no concrete plans or proposals had been finalised at that point.

MSWG's COMMENT:* *Main Market Listing Requirements require the listed issuer to announce to Bursa, in a timely manner, sufficient facts to support the denial or to clarify any rumour or report. Not only was there an issue about the timeliness in revealing the facts, the incompleteness of information led to more confusion rather than giving a clearer picture of the matter to the public. More clarity would have emerged if the company had obtained and published all the clarifications from the major shareholder HongPeng in a single announcement.

Local News and Developments

The Edge Polls about Corporate Governance issues
http://www.asiasentinel.com/index.php?option=com_content&task=view&id=4118&Itemid=615

TPC Plus gets takeover offer from Huat Lai
http://www.btimes.com.my/Current_News/BTIMES/articles/felas/Article/

Tricubes losses at RM17m (not 7.3m, blaming typo errors)
http://biz.thestar.com.my/news/story.asp?file=/2011/12/29/business/10174044&sec=business

Public warned of bogus SC letters
http://www.btimes.com.my/articles/20111228235540/Article/

Sime Darby subsidiary files application to intervene in judicial review against SC
http://www.theedgemalaysia.com/business-news/198958-sime-darby-subsidiary-files-application-to-intervene-in-judicial-review-against-sc.html

Malaysia Regulator Lays Out 10-Year Strategic Blueprint
http://insurancenewsnet.com/article.aspx?id=320299

Global News and Developments

Top Corporate Governance Stories of 2011
http://www.forbes.com/sites/nathanielparishflannery/2011/12/28/top-corporate-governance-stories-of-2011/

The Top 5 Corporate Governance Challenges at Zynga
http://www.businessinsider.com/the-top-5-corporate-governance-challenges-at-zynga-2012-1#ixzz1jEcHyDUL

Will RIM Live To See 2013?
http://www.fool.co.uk/news/investing/2012/01/03/will-rim-live-to-see-2013.aspx

More room for women at the top
http://www.smh.com.au/executive-style/executive-women/more-room-for-women-at-the-top-20120101-1ph1c.html

Super funds must be forced into the open
http://www.smh.com.au/business/super-funds-must-be-forced-into-the-open-20111227-1pbfl.html#ixzz1jEdCMbAy

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Feedback

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

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