



MINORITY SHAREHOLDER WATCHDOG GROUP

Badan Pengawas Pemegang Saham Minoriti Berhad

Incorporated in Malaysia \* Company No. 524898-M

# The Observer

17 April 2015

MESSAGE FROM THE CEO

## ***TIME TO HAVE A SAY ON PAY***

In many developed markets around the world, the 'appropriateness' of executive and non-executive board compensation has rightly come under the close scrutiny of shareholders.

These developments came in the wake of massive and systemic abuses, and it appears that Malaysia could be approaching this stage if boards and shareholders ignore the matter of excessive compensation. It is indeed for this specific reason that a need to highlight this matter though sensitive and unpopular is imperative.

Amidst the onset of this AGM season, we in the MSWG have witnessed instances where resolutions on directors remuneration that were proposed were substantially higher -- in some cases increases of almost a hundred percent.

From statistics compiled by MSWG, it showed that the average total remuneration in over 800 companies of PLCs for non-executive directors was in the region of RM90,000 to RM100,000 per year for the past 2 years. Whereas the finance industry topped the averages, about RM200,000 ringgit when you take out the outliers. The figures appear to be reasonable comparable to regional averages.

We noted, however, that this year the amount had surpassed RM600,000 per director in some of the finance companies without clear justification for the increase. Some went as high as RM800,000.

Typically in the finance industry, a non- executive director would devote around 60 days in a year to the company assuming there were 15 meetings a year with about 4 days for reading the board papers for each meeting. When annualized this average surpasses 3 million ringgit a year if they were full time employees.

We would think that this kind of compensation would be appropriate for executives whose role amongst others would include the day to day operations of the business encompassing marketing and bringing in the top line and bottom line numbers in a highly competitive environment. A non-executive director is not expected to undertake this role. They are appointed to the company to provide the oversight role in the company with a check and balance function.

We acknowledge that being a director in the finance sector is a complex one thus scouring for talent is vicious and thus fair remuneration is critical to attract, retain and motivate directors so that they work for the betterment of the company.

Similarly, the said remuneration packages must also appropriately reflect the extent of the responsibilities, requisite expertise and technical complexity the director brings to the role.

The subject of appropriate compensation goes far beyond merely justifying a fee increase.

It also equates to a need for disclosure of each individual director's compensation.

The reasons are quite simple. Company shareholders can decide if the directors are adequately compensated for the role he or she is fulfilling.

Where external consultants are deployed to manage this key function, the recommendation ought to be provided and fees adequately justified. A proper rationale must be offered, with detailed information on the parameters and benchmarks proffered in its decision on the director's compensation package.

Special consideration is given to a company Chairman for his leadership role in the board and the company. And more so if in the finance sector where he or she is expected to be devoted to one specific financial institution.

Special consideration is also given to directors who sit on the boards of group subsidiary companies or committees and, therefore, are entitled to higher compensation for these additional duties.

However, the requisite procurement of shareholder approvals on the total compensation ought to be tabled for good governance practices and not just the fee in the holding company. We observed that in several cases the bulk of the non-executive directors total remuneration resided in the subsidiaries where approval was not sought from shareholders.

One thing must also be added.

Financial entitlements like bonuses and ESOS ought not be given to non-executive directors including independent directors whether in the main board or subsidiaries.

The reason is simple.

Independent non-executive directors (INEDs) are supposed to remain exactly that: independent.

They are present to oversee the governance aspects of the company and must therefore at all times remain independent, while endeavouring to negate any conflicts of interest that may arise.

We reiterate that INEDs should instead be paid a fee that is commensurate with their role and responsibilities, and the size and operation of the company.

In summary, the message is that there must be adequate disclosure of directors' compensation and justification for any substantial increase.

A reasonable trade-off must, therefore, be achieved between paying directors a fair compensation, that while attractive enough to retain and attract their talents, nonetheless prevents them from retreating into a "comfort zone" that can impair or be perceived by shareholders to impair their independence.

Regards,

Rita

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## MARKET AND REGULATORY UPDATE

### **SC INVITES SUBMISSIONS FROM PROSPECTIVE EQUITY CROWDFUNDING OPERATORS**

The Securities Commission Malaysia (SC) announced today that operators interested in establishing and operating an equity crowdfunding (ECF) or Shariah-compliant ECF platform can now submit their application to the Securities Commission Malaysia.

On 10 February 2015, the SC released the revised Guidelines on Regulation of Markets under Section 34 of the Capital Markets and Services Act 2007 (Guidelines) which introduced requirements for the registration of ECF platforms. These platforms will enable start-ups and small and medium enterprises to obtain capital through small equity investments from relatively large numbers of investors, using online platforms.

The Guidelines provide a framework for the regulation of registered ECF Platform, duties and responsibilities of an ECF operator and the type of issuers and investors who can participate in ECF. The Guidelines and the application form are available at the SC website.

*[Source: Press Release dated 10 April 2015 on SC's website]*

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## MSWG's QUICK TAKE ON ONGOING CORPORATE TRANSACTIONS

### **LAY HONG BERHAD (LHB)**

LHB announced on 14 April 2015 that Bursa had, vide its letter 13 April 2015, resolved to approve the following:

- (i) the listing of and quotation for up to 7,624,000 Placement Shares to be issued pursuant to the Proposed Private Placement; and
- (ii) the listing of such number of new LHB Shares, representing up to fifteen percent (15%) of the issued and paid-up share capital of LHB (excluding treasury shares, if any), to be issued pursuant to the exercise of options under the Proposed SIS.

The approval by Bursa is subject to the following conditions:

#### Proposed Private Placement

- (i) the Placement Shares should be placed out only to institutional investors;
- (ii) TA Securities should submit the list of identified placees for Bursa's clearance prior to placing out the shares to the institutional investors;
- (iii) LHB and TA Securities must fully comply with the relevant provisions under the Listing Requirements pertaining to the implementation of the Proposed Private Placement;

- (iv) LHB and TA Securities to inform Bursa upon the completion of the Proposed Private Placement;
- (v) LHB to furnish Bursa with a written confirmation of its compliance with the terms and conditions of Bursa's approval once the Proposed Private Placement is completed; and
- (vi) incorporation of Bursa's comments in the circular to shareholders.

#### Proposed SIS

- (i) TA Securities is required to submit a confirmation to Bursa of full compliance of the Proposed SIS pursuant to Paragraph 6.43(1) of the Listing Requirements and stating the effective date of implementation together with a certified true copy of the resolution passed by the shareholders at the general meeting approving the Proposed SIS;
- (ii) TA Securities is required to furnish Bursa on a quarterly basis a summary of the total number of shares listed pursuant to the exercise of options under the Proposed SIS as at the end of each quarter together with a detailed computation of listing fees payable; and
- (iii) incorporation of Bursa's comments in the circular to shareholders.

*[Source: LHB's announcement on Bursa's website on 14 April 2015]*

#### MSWG'S COMMENTS:

We believe that with the amendment made by LHB to reduce the placement portion from 30% to 15% of the total paid-up shares of LHB along with conditions imposed on Proposed Private Placement and Proposed SIS by Bursa, the dilutive effect to existing shareholders is more reasonably contained. At the outset when the original new issue of shares was proposed, there were already concerns not only on the substantial dilutive effect but also whether there was a compelling need and strong justification for the massive issue. We look forward to the list of potential institutional shareholders identified to be the placees and the value-add that these placees can bring to LHB.

#### **CAHYA MATA SARAWAK BERHAD (CMSB)**

The Board of Directors of CMSB announced on 2 April 2015 that CMSB had on 2 April 2015 entered into a conditional share purchase agreement with the State Financial Secretary of Sarawak (SFS) for the proposed acquisition of 42,435,817 ordinary shares of RM1.00 each in Sacofa Sdn. Bhd. (Sacofa), representing 50.0% of the issued and paid-up ordinary share capital of Sacofa for a total purchase consideration of RM186,790,429 to be satisfied entirely in cash (Proposed Acquisition).

Subsequent to the announcement, Bursa had queried CMSB on 3 April 2015 in relation to the Proposed Acquisition and CMSB replied Bursa's queries on 7 April 2015 on inter alia as regards the CP outstanding warrants and its dilutive effects and the valuations derived for the purchase consideration.

CMSB highlighted in the reply that there were no direct comparable precedent transactions involving companies in similar business with Sacofa in Malaysia. CMSB has considered and evaluated the price-to-earnings multiple (PE Multiple) and price-to-book multiple (PB Multiple) of the past one (1) year precedent transactions of cash acquisitions of various local companies with PE Multiple and PB Multiple of an average of 15.07 times and ranges between 4.83 times and 33.33 times and an average of 1.61 times and ranges between 0.57 times and 4.40 times, respectively.

The purchase consideration of the Proposed Acquisition represents a PE Multiple of 7.23 times and PB Multiple of 1.08 times over the audited PAT for the FYE 31 December 2013. In addition to the above evaluation and having considered the potential effects of the warrants, CMSB is of the view that the purchase consideration is justified.

In addition, CMSB has considered factors, amongst others, the remaining concession period under the concession agreement and the historical past financial performance of Sacofa in arriving at the purchase consideration.

*[Source: CMSB's announcement on Bursa's website on 7 April 2015]*

<http://www.bursamalaysia.com/market/listed-companies/company-announcements/1926749>

**MSWG'S COMMENTS:**

Shareholders of CMSB can ask further on the justification of the purchase consideration at CMSB's upcoming AGM. Hence, we hope that the Board of CMSB ought to provide clear explanations whether the purchase is earnings accretive, the potential of gain in the future and also the risks involved.

Shareholders might also want to raise questions on how much capital expenditure (CAPEX) will be allocated since the business requires an extensive capital, especially on constructing and managing the towers and structures in Sarawak and also the competitive edge of CMSB in spearheading the mandate of the State Government of Sarawak as this will be the first venture of CMSB in the telecommunication industry after having a business diversification over the past 40 years.

Apart from the CAPEX, since Sacofa was given the "deemed native status" which allows it to acquire native lands in the state for construction of telecommunication facilities, CMSB is expected to make some initial cost provisions after the acquisition of the 50% interest in Sacofa is completed.

As the acquisition of Sacofa has raised some public concerns including Bursa raising queries on it, we have enumerated Bursa's queries as well as our own queries on this matter

We have enumerated some of them here.

- Whether any independent valuation has been conducted on the assets of Sacofa and how the price has been arrived at.
  - How would Sacofa's acquisition fit into CMSB's vision, and also considering that the concession of Sacofa would have only another seven years to expire? What is the probability of the concession being renewed after the expiry date?
  - What is the Board's plan beyond 2022 in respect of the construction of more towers?
  - What would be the estimated recurring income and percentage contribution to the Group's total revenue annually?
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## MSWG's WATCHLIST

### **FABER GROUP BERHAD (FGB) / UEM EDGENTA BERHAD (UEB)**

The shareholders of FGB at the Extraordinary General Meeting held on 27 March 2015 had by way of special resolution approved the proposed change of name from “Faber Group Berhad” to “UEM Edgenta Berhad” (Proposed Change of Name). Subsequently the company had received the Certificate of Incorporation on Change of Name of Company (Form 13) dated 9 April 2015 issued by the Companies Commission of Malaysia. As such, the Company’s shares are traded and quoted under the new name with effect 14 April 2015.

*[Source: UEB’s announcement on Bursa’s website on 10 April 2015]*

### **IJM LAND BERHAD (ILB)**

ILB announced that Bursa had, vide its letter dated 10 April 2015, informed that IJM Land will be removed from the Official List of Bursa with effect from 15 April 2015 pursuant to Paragraph 16.07(b) of the Main Market Listing Requirements of Bursa.

*[Source: ILB’s announcement on Bursa’s website on 10 April 2015]*

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## LOCAL NEWS AND DEVELOPMENTS

World Bank cuts East Asia growth forecast, oil exporter Malaysia to slow

<http://www.themalaymailonline.com/money/article/world-bank-cuts-east-asia-growth-forecast-oil-exporter-malaysia-to-slow>

RHB Cap proposes a reorganisation and fund-raising exercise

<http://www.thestar.com.my/Business/Business-News/2015/04/13/RHB-Cap-proposes-reorganisation-and-fund-raising-exercise/?style=biz>

EPF mulls realigning withdrawal age close to 60

<http://www.nst.com.my/node/80137>

KWAP aims to be full-fledged pension fund

<http://www.thestar.com.my/Business/Business-News/2015/04/11/KWAP-aims-to-be-fullfledged-pension-fund/?style=biz>

SC invites submissions from prospective equity crowdfunding operators

[http://www.sc.com.my/post\\_archive/sc-invites-submissions-from-prospective-equity-crowdfunding-operators/](http://www.sc.com.my/post_archive/sc-invites-submissions-from-prospective-equity-crowdfunding-operators/)

Whistleblow for a bright future

<http://www.thestar.com.my/Business/Business-News/2015/04/11/Whistleblow-for-a-bright-future/?style=biz>

Index of Industrial Production Malaysia February 2015

[http://www.statistics.gov.my/index.php?r=column/ctHEMEByCat&cat=91&bul\\_id=cGU5Y2hxR2UzbXVPb2Qydk9SWGEydz09&menu\\_id=SjgwNXdiM0JlT3Q2TDBlWXdkdUVldz09](http://www.statistics.gov.my/index.php?r=column/ctHEMEByCat&cat=91&bul_id=cGU5Y2hxR2UzbXVPb2Qydk9SWGEydz09&menu_id=SjgwNXdiM0JlT3Q2TDBlWXdkdUVldz09)

Integrax shares to be suspended from Apr 21

<http://www.thestar.com.my/Business/Business-News/2015/04/10/integrax-to-be-suspended/?style=biz>

Change of name: Faber Group Berhad to UEM Edgenta Berhad

<http://www.bursamalaysia.com/corporate/media-centre/media-releases/3253>

Palm seen sinking to six-year low by Mistry as output swells

<http://www.theedgemarkets.com/my/article/palm-seen-sinking-six-year-low-mistry-output-swells?type=Markets>

IJM Land shares to be delisted from Bursa on April 15

<http://www.theedgemarkets.com/my/article/ijm-land-shares-be-delisted-bursa-april-15?type=Markets>

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## GLOBAL NEWS AND DEVELOPMENTS

China's export numbers miss expectations

<http://www.bbc.com/news/business-32281957>

Singapore stands pat on policy as economic growth exceeds forecast

<http://www.themalaymailonline.com/money/article/singapores-economic-growth-sputters-on-weakened-manufacturing>

U.S. Import Prices Fall 0.3% in March

<http://www.wsj.com/articles/u-s-import-prices-fall-0-3-in-march-1428669112>

Greece prepares for debt default if talks with creditors fail

<http://www.ft.com/intl/cms/s/0/c5964f9c-e1ef-11e4-bb7f-00144feab7de.html#axzz3XFF0WjuS>

Hong Kong becomes world's largest exchanges operator

<http://www.ft.com/intl/cms/s/0/38dd0a68-e1be-11e4-8d5b-00144feab7de.html#axzz3XFF0WjuS>

Hillary Clinton launches second presidential bid

<http://www.cnn.com/2015/04/12/politics/hillary-clinton-president-2016-election/>

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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](mailto:mswg.ceo@mswg.org.my) with your comments and suggestions.

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