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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

In continuing my sharing on the ICGN Conference, I wish to add that at one of the sessions, I raised concerns on the relatively low audit fee in Malaysia which may affect the quality of audit and the industry as a whole. Auditors are important gatekeepers and are one of the premier line of defence in corporate governance for shareholders of a company. Considering the important role they play, they will face immense challenges if they have to deal with Boards who lower their fees. We hope that the shareholders play their part to serve as a "check" to balance the role of auditors in coming up with good quality audit and a reasonable level of audit fees that commensurate with the company size and complexity as well as audit quality.

Back at our doorstep, I wish to inform that MSWG has been entrusted by the SC, the owner of the CG Blueprint, to spearhead the formulation of a new code for institutional investors (Institutional Investors Code). A Steering Committee comprising key senior representatives from the institutional investor fraternity has been formed to develop the Code for Malaysia and the 1st Steering Committee meeting was held on **12 July 2013**. I was very encouraged by the support given by the heads from the various institutional funds who had also played their stewardship roles and shown their commitment for the project. I look forward to a series of engaging and insightful deliberations to deliver the Institutional Investors Code targeted to roll out by the 1st quarter of 2014. Stating this, we are extremely pleased to see EPF today releasing a new stricter set of guidelines for their fund managers appointed under the EPF Members Investment Scheme to safeguard members' retirement savings.

On the corporate front, the appointment of former DiGi CEO and Vodafone Group plc group chief commercial officer Morten Lundal as Maxis Bhd's new chief executive officer and executive director effective October 1 has addressed the leadership concerns of the Group.

In Sime Darby, we noted from reports that a relisting of its property unit is being considered. Only six years after a mammoth merger exercise valued at RM31 billion, an about-turn is being mulled. However, we can view positively the possible relisting of not only the property unit but other core units as well as, amongst others, there would be separate independent Boards who would be accountable to the shareholders to manage the units which would be less complex unlike a conglomerate. We believe it would create better transparency, and risk management and internal controls can be managed more effectively. By separating the units, it would also enable investors to invest in single-focused business entities instead of a conglomerate which could suffer some conglomerate discount in share price.

Aligned to our call for more disclosures we were also wondering whether public consultations with key industry members to discuss substantial changes to the Companies Act 1965 (called the 'Companies Bill') and the introduction of an Interest Schemes Bill were carried out. We note that the normal way by the SC and Bursa is to use focus groups and the public to solicit views. In addition, the consultation period of one month for such a massive document browsing through about 600 odd pages of Companies Bill and 100 odd pages of Interest Schemes Bill is just not sufficient.
Many of the changes are significant and wide-reaching, encompassing many key areas of governance, enforcement, company formation, management and closings.

Regards,

Rita

MARKET AND REGULATORY UPDATES

Via the Companies Bill, the Companies Commission of Malaysia is proposing wholesale changes to the Companies Act of 1965. It is also proposing the introduction of an Interest Schemes Bill. It has given the public one month to August 1 to publicly discuss and offer feedback to these two documents.

To view the complete set of documents, you may wish to click the following links:
http://www.ssm.com.my/
http://www.ssm.com.my/sites/default/files/announcement/PC%20Companies%20Bill.pdf
http://www.ssm.com.my/sites/default/files/announcement/Interest_Scheme_Bill.pdf

MSWG's COMMENTS:

In the next few issues of the newsletters, we may periodically summarise some of the salient points of the proposed changes.

Many of the changes proposed in the Companies Bill are significant and wide-reaching, encompassing many key areas of governance, enforcement, company formation, management and closings.

MSWG QUICK TAKE ON ONGOING CORPORATE TRANSACTIONS

AL-HADHARAH BOUSTEAD REIT ("AHB REIT")

The major unit holder of AHB REIT (the fund), Boustead Plantations Berhad ("BPB"), has proposed to privatize the fund at RM2.10 per unit, which comprises:
1) Proposed selective unit redemption exercise of RM1.90 per unit; and
2) Proposed special dividend of RM0.20 per unit.

The proposed price represents 1.5 times book value of the fund's net assets of RM1.83 per unit as at 31 December 2012.

The rationale for the proposals are, amongst others, as follows:

(i) the challenge of maintaining its dividend yield in view of the scarcity and high market prices of mature plantation assets with prime yielding trees. Conversely, whilst plantation assets with younger tree profile may be acquired at lower prices, the high cost of maintenance and capital expenditure required to maintain the plantation assets, and the low yield from such plantation assets may have a dilutive effect on the Fund's per unit earnings. Moreover, the Fund is limited with regard to its ability to acquire non-yielding plantation assets;

(ii) the existing lease agreements between the lessors and the Fund are subject to automatic renewals over a 12-year period, comprising 4 tenancy terms of not exceeding 3 years each. There is no assurance that the lease agreements will be renewed on comparable or more favourable terms which may compromise the Fund's ability to sustain its yield levels in the future;

(iii) the Fund as a collective investment scheme distributes at least 90% of its distributable earnings to unitholders to qualify for tax exemption of its earnings. Thus the Fund is unable to retain sufficient internally generated funds to engage in growth strategies via acquisitions of mature plantation assets.

(iv) the Units have experienced a relatively thin level of trading in the past. Therefore, the proposals would provide an opportunity to the unitholders to realise their investments in the Fund in an efficient and expeditious manner at a premium to the market price of the units.

MSWG's COMMENTS:

This is an interesting development as it is the first privatization of a REIT to take effect in Malaysia. Given that one of the rationales of the proposals stated that the 90% earnings distribution policy has restricted the funds to engage in growth strategies such as acquisitions of mature plantation assets or replantation, does it mean that this point had not been considered earlier and any new REITs in the plantation sector would have to consider this?

Just for information, a special resolution in relation to the proposals of the fund is required to be approved by at least 50% in number of the fund's disinterested unitholders and 75% in value of the votes attached to the Units held by the disinterested unitholders that are cast either in person or by proxy at the EGM to be convened. In addition, the special resolution must not be voted against by more than 10% in value attached to the units held by disinterested unitholders.

LTAT and BPB cannot vote on the resolutions which means that only disinterested unitholders (minority interest) who hold 33.8% of the fund's units can vote in the forthcoming unitholders' meeting and they will have to make the decision whether to accept the proposal. To reiterate, for approval, at least 50% in number of fund's disinterested unitholders (minority interest) and 75% in value of the votes must give consent and not more than 10% in value must object.

MSWG's WATCHLIST

ALLIANCE FINANCIAL GROUP BERHAD ("AFGB")

The Company had initially scheduled to hold an EGM in relation to the proposed establishment of a new long term incentive plan of issuing up to 15% of the total issued and paid-up capital of AFGB for the eligible employees of AFGB Group ("Proposed LTIP") on 16 July 2013. The Proposed LTIP comprises a share option plan and a share grant plan.

However, the Board of AFGB deliberated and decided that the EGM be postponed to a date to be determined subsequent to feedback received from shareholders for the Proposed LTIP.

Local News and Developments

Maxis gets new CEO
http://www.thestar.com.my/Business/Business-News/2013/07/16/Maxis-gets-a-new-CEO.aspx

Ranhill fixes IPO price at RM1.85 a share
http://www.btimes.com.my/Current_News/BTIMES/articles/RAN/Article/index_html

Frost & Sullivan raises total industry volume for motor vehicle forecast for 2013
http://www.thesundaily.my/news/772037

Iclif, Mohammed Bin Rashid School Of Government Ink MoU For Executive Education Programmes
http://www.bernama.com.my/bernama/v7/bu/newsbusiness.php?id=963348

Executive Forum On Islamic Finance To Focus On Corporate, Shariah Governance
http://www.bernama.com.my/bernama/v7/bu/newsbusiness.php?id=963594

Global News and Developments

New Spitzer Book Shows Corporations in His Sights
http://online.wsj.com/article/SB10001424127887323848804578606231095477710.html

Emerging world needs a new economic model
http://www.ft.com/intl/cms/s/0/5f67af5a-e3d0-11e2-91a3-00144feabdc0.html

The 40-Year Club: America's Longest-Serving Directors
http://online.wsj.com/article/SB10001424127887323664204578607924055967366.html?KEYWORDS=Corporate+Governance

OECD jobless rates forecast to remain stubbornly high
http://edition.cnn.com/2013/07/16/business/oecd-jobless-rates/index.html?hpt=ibu_c1

Singapore Exports Fall 8.8% in Longest Slump Since Global Crisis
http://www.bloomberg.com/news/2013-07-17/singapore-exports-fall-8-8-in-longest-slump-since-global-crisis.html

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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.

DISCLOSURE OF INTERESTS

- *With regard to the companies mentioned, MSWG holds a minimum number of shares in Sime Darby Berhad and Alliance Financial Group Berhad.*

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