

MSWG

MINORITY SHAREHOLDER WATCHDOG GROUP

Badan Pengawas Pemegang Saham Minoriti Berhad

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MESSAGE FROM THE CEO



The upcoming IPOs of 1MDB, Axiata's telco tower assets and Westports can provide some indication of a still favourable market scenario despite the generally weaker conditions regionally for the more 'risky' assets like shares compared to the traditionally safer fixed-income investments.

While this would help explain the strong presence of cornerstone investors, which will give these issues a comfort level against a jittery regional market, retail investors ought to be given an opportunity to participate in these issuances.

Last week we discussed about China-based stocks listed in Bursa Malaysia in the press. To reiterate, there are 9 China-based companies listed in Bursa and all are trading below their IPO price levels. Many of them are viable ventures and generally profitable and trading at low PE levels. Thus, our view is that such companies must continue delivering value to shareholders to allay negative perception of China-based companies by investors. The companies should have more analysts' briefings to inform investors about their companies, be transparent and declare consistent decent dividends to entice investors.

In a separate issue, I want to share a report regarding "Women in leadership across the Commonwealth" by the Commonwealth Business Council-ACCA. Amongst recommendations made in the report, included the creation of a database of board-ready women and building a research monitor across the Commonwealth. However, we see that the take-up by boards across the region is still slow. Malaysia has only about 8.7% women on boards in 2012. The time has come for boards to take this matter up seriously, not merely paying lip-service as gender diversity is about risk management, and thus boards should no longer ignore this element of governance.

On the foreign front, we saw the withdrawal of Larry Summers as a potential candidate to succeed Ben Bernanke as Fed Chairman. This makes Janet Yellen, the Fed's vice chair, as the most probable candidate. Yellen is viewed as more mainstream, implying that the Fed would keep interest rates lower longer, and engineer a more gradual wind-down of its bond-buying programme. Following this, we witnessed the Fed refraining its tapering activity which was anticipated and unsurprisingly buoyed the emerging markets, especially in this region.

In our follow-up on JP Morgan's 'London Whale' trading scandal where the bank incurred US\$6.2 billion losses, it was fined US\$920 million by the regulators after admitting mistakes it made without acknowledging liability. This brings into question on the internal controls of the bank and what actions are being taken on wrongdoers.

Regards,

MSWG IN THE NEWS

Restoring lustre of China stocks on Bursa

<http://www.thesundaily.my/news/832603>

REGULATORY AND CAPITAL MARKET UPDATE

The power sector is set to be catalysed by long-awaited reforms including the implementation of the fuel cost pass-through (FCPT) mechanism and a more level playing field in new power generation bids via the unbundling of Tenaga Nasional's business units.

MSWG's COMMENTS:

Tenaga Nasional will now be allowed to recover its fuel costs through periodic tariff adjustments (every six months), bringing electricity tariffs in line with market prices. Independent power producers will need to compete on a more level playing field.

This should result in aligning Malaysia's energy costs with market prices. However, such reforms should not disadvantage lower-income households or hurt the all-important manufacturing and industrial sectors.

MSWG's QUICK TAKE ON CORPORATE TRANSACTIONS

KARYON INDUSTRIES BERHAD ("KIB")

The audit committee of KIB had on 24 April 2013 recommended Messrs Raki CS Tan & Ramanan ("Raki") to be reappointed as the auditor of the company and this was carried at the AGM on 23 June 2013.

However, KIB chairman Loh Chen Yook and non-executive director Loh Fatt Chong, had on 30 August 2013 issued a special notice of removal of the auditor at a proposed EGM. The auditor had on 6 September 2013 written to KIB's Board to seek explanation on the proposed removal of the firm as auditors of the company and stated in its letter to KIB dated 10 September 2013 that *"the audit committee has not engaged with us to hear any explanation we might have for the notice of removal especially so when the requisition is from the chairman himself"*.

The Board of KIB announced on 18 September 2013 that KIB had on even date received a letter from Loh Chen Yook and Loh Fatt Chong in relation to the reasons for the removal of Raki as auditors of the Company. The reasons for the removal of auditors are the oversight by Messrs CS Tan & Associates on the disclosure requirements under the Malaysian Financial Reporting Standards 1 and the unacceptable last minute disclosure by the auditors on the merger between Messrs CS Tan & Associates and Messrs Raki Thomas & Ramanan.

MSWG'S COMMENTS:

We are a bit surprised by the move of the Chairman and a director of the Company to seek shareholders' approval to remove the auditors after their reappointment about three months ago in the recent AGM. Although the law provides shareholder with a certain level of shareholding the right to call for an EGM to move a motion to remove the auditors of the company, we must be cognizance of the manner in which the auditors and reasons for their removal. Auditors as part of the CG make-up play an important role and the act of removal must be adequate with explanations by the Audit Committee, whose silence raises more questions.

KUMPULAN PERANGSANG SELANGOR BERHAD (“KPSB”)

On 6 March 2013, the company announced that both KPSB and Kumpulan Darul Ehsan Berhad (“KDEB”), the holding company of KPSB, agreed that the purchase consideration for 56.57% equity interest of Kumpulan Hartanah Selangor Berhad (“KHSB”) shall be at a minimum premium of RM0.76 per KHSB share (“Proposed Disposal”). Eventually, the offer price was revised to RM0.836 per KHSB share on 28 June 2013.

The Independent Adviser (“IA”), Crowe Horwath had issued an independent advice letter on 26 August 2013 which endorsed that the terms of the Proposed Disposal were fair and reasonable for the non-interested shareholders of KPSB and the Proposed Disposal was in the best interest of KPSB and not detrimental to the non-interested shareholders of KPSB. In view of this, the IA recommended that the shareholders of KPSB vote in favour of the Proposed Disposal at the EGM which was held on 18 September 2013. The resolution pertaining to the Proposed Disposal was approved by shareholders during the EGM.

MSWG’S COMMENTS:

We were of the view that the offer price was low and deemed not fair as it was at a big discount of 43% to the RNAV. However, the resolution pertaining to the Proposed Disposal was approved by 99% of shares voted. The Board agreed to distribute 46.6% of the disposal proceed to shareholders as special dividend of 26.67 sen per share amounting to RM99.2 million.

PATIMAS COMPUTERS BERHAD (“PATIMAS”)

On 1 March 2013, Dato’ Seri Abdul Azim bin Mohd Zabidi acquired another 10,000,000 shares in Patimas bringing his total shareholding to 6.6%. Subsequently on 14 May 2013, the Board of Directors of Patimas announced the summarised key findings of the Investigative Audit Report. On 23 May 2013, Dato’ Seri Abdul Azim bin Mohd Zabidi, through his company Syawaras Sdn Bhd. divested its entire stake in Patimas. On 30 May 2013, the Chairman of the Audit Committee made a police report based on the findings of the Investigative Audit Report.

MSWG’S COMMENTS:

The company has up to 31 October 2013 to submit its regularisation plan to Bursa Malaysia. Patimas will hold its 21st AGM on 25 September 2013.

Local News and Developments

Eco World buys 65% of Focal Aims, paves way for RTO?

<http://www.thestar.com.my/Business/Business-News/2013/09/18/Eco-World-buys-into-Focal-Aims.aspx>

Malaysia's Axiata plans \$500 mln tower assets IPO-sources

<http://finance.yahoo.com/news/malaysias-axiata-plans-500-mln-045723369.html>

Malaysia's 1MDB lifts IPO target to \$3billion as debt swells: source

<http://www.reuters.com/article/2013/09/13/us-malaysia-1mdb-ipo-idUSBRE98C07420130913>

Westports IPO may be priced at RM2.30-RM2.50

<http://www.thestar.com.my/Business/Business-News/2013/09/18/Westports-IPO-may-be-priced-at-RM230RM250.aspx>

Shareholders must be informed

http://www.btimes.com.my/Current_News/BTIMES/articles/mesej/Article/

Global News and Developments

JPMorgan expects to settle Whale probes for about \$800 million

<http://www.cnbc.com/id/101038720>

Paving the way to opportunities:women in leadershipacross the Commonwealth

<http://www.accaglobal.com/content/dam/acca/global/PDF-technical/human-capital/pol-tp-ptwto.pdf>

Vince Cable's corporate governance proposals

<http://www.freshbusinessthinking.com/news.php?NID=19851&Title=Vince+Cable%92s+corporate+governance+proposals#.UjnKhD-F2lw>

JPM's Whale troubles may not end with civil settlement

<http://www.cnbc.com/id/101043240>

Debt ceiling, not tapering, is the bigger market risk

<http://www.cnbc.com/id/101042572>

This is how we pick Fed chief? A horrible way to fill the second most powerful job in America

http://edition.cnn.com/2013/09/17/opinion/gergen-larry-summers-fed/index.html?hpt=ibu_c2

Less Tapering Becomes Tighter Credit No Matter What Fed Says

<http://www.bloomberg.com/news/2013-09-17/less-tapering-becomes-tightening-credit-no-matter-what-fed-says.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.

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- *With regard to the companies mentioned, MSWG holds a minimum number of shares in all these companies covered in this newsletter save for Karyon Industries Berhad.*

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