

MSWG

MINORITY SHAREHOLDER WATCHDOG GROUP

Badan Pengawas Pemegang Saham Minoriti Berhad

Incorporated in Malaysia * Company No. 524898-M

The Observer

12 of 2014
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MESSAGE FROM THE CEO



Kian Joo Can Factory Bhd's all-too-brief statement stating that it was "not in the position to mull over the non-binding letter of interest made by Toyota Tsusho Corp (TTC)" warrants, we think, closer scrutiny.

Why did Kian Joo not say why it was unable to consider TTC's superior offer of RM3.74 per share? Yes, it may have been non-binding, but it remains an offer nonetheless. Why did the board not consider this option worthy of consideration? Don't minority shareholders deserve it?

Bernas has been suspended because the offeror has reached the 90% threshold to delist and they have no intention to remain listed. Thus, those holding the shares have to be aware of the status in the non listed entity. Compulsory acquisition of the remaining minority shares can be only achieved if the threshold surpasses 98.37%.

On a separate matter, BNM's new reference rate framework to replace current BLR would mean that now the banks will have the flexibility to determine their own lending rates given to their customers which depends upon essentially the banks' own cost of funds topped up with the margin based on the risk profile of the customers. Therefore, it is really a flexible market rate.

On the foreign front, Hong Kong's loss (and New York's gain) in the mammoth listing of Alibaba Group Holding Ltd must go beyond the huge fees foregone as a result of e-commerce giant's decision to list in the United States instead.

Alibaba's request for the HKSE to bend its existing "one shareholder, one vote" rule to suit its purposes would have created a precedent. If Alibaba had gotten its way, any large and influential corporation with lots of money at stake would have been able to bend some rules to suit its own purposes.

The months of gridlock between the Hong Kong Stock Exchanges' owner, the Hong Kong Exchanges & Clearing Ltd. and its regulator, the Securities and Futures Commission has, therefore, not gone to waste.

In essence, Hong Kong stood firm in denying Alibaba's proposal that its partners could not nominate the majority of its board post-listing. Such a structure would have given Alibaba's founding partners

ongoing control of the board which would have materially violated Hong Kong's existing "one shareholder, one vote" rule.

The winds of change, it appears, are also blowing through the corridors of Berkshire Hathaway, where minority shareholders are asking for the CEO Warren Buffett, to pay a dividend to shareholders -- his first since 1967. The rationale is simple and compelling -- and which we at MSWG also agree with.

Not only does Berkshire have more money than it needs for its capital-growth needs, it has also grown to a point where repeating the stellar performance of years gone by will become that much more difficult.

Perhaps now is the time for Buffett and his partner Charlie Munger to introduce to Berkshire the kind of income-generating profile that he himself was so fond of investing in.

Regards,

Rita

MARKET AND REGULATORY UPDATE

NEW REFERENCE RATE FRAMEWORK

Bank Negara Malaysia ("BNM") announces today that effective 2 Jan 2015, the Base Rate will replace the Base Lending Rate ("BLR") as the main reference rate for new retail floating rate loans.

The Base Rate will be determined by the financial institutions' benchmark cost of funds and the Statutory Reserve Requirement (SRR). Other components of loan pricing such as borrower credit risk, liquidity risk premium, operating costs and profit margin will be reflected in a spread above the Base Rate. Under this cost-plus structure, spreads will always be positive as it would not be possible for financial institutions to offer lending rates below the reference rate. Financial institutions will be given the flexibility to determine their respective benchmark rates. The expected strong link between the Base Rate, market interest rates and the Overnight Policy Rate (OPR) will facilitate more complete adjustments to retail loan repayments when market interest rates adjust to an increase or decrease in the OPR.

The Base Rate will be used for new retail floating rate loans and the refinancing of existing loans extended from 2 January 2015 onwards. After the effective date, BLR-based loans prior to 2015 will continue to be referenced against the BLR. However, when a financial institution makes any adjustments to the Base Rate, a corresponding adjustment to the BLR will also be made. As such, financial institutions would be required to display both their Base Rate and BLR at all branches and websites.

The shift to the new Reference Rate Framework should have no impact on the effective lending rates charged to retail borrowers which are determined by various factors, including a financial institution's assessment of a borrower's credit standing, market funding rates and competitive considerations. It is also important to note that the changes do not represent a change in the Bank's monetary policy stance.

MSWG'S COMMENTS:

As stated in the announcement made by BNM, the new reference rate framework to replace current BLR should have no impact to the effective lending rates, instead it enhances transparency of lending rate structure and thus consumers will be more informed in making better decision to negotiate and choose loan products with competitive borrowing rates offered by the banks.

MSWG's QUICK TAKE ON ONGOING CORPORATE TRANSACTIONS

KIAN JOO CAN FACTORY BERHAD ("KJCFB")

The Board of KJCFB announced on 17 March 2014 that the company had written to Toyota Tsusho Corporation ("TTC") to inform that the company is in no position to consider their non-binding letter of interest dated 7 March 2014. TTC was informed to get appropriate advice on the relevant processes under the Main Market Listing Requirements of Bursa Malaysia and the Malaysian Code on Take-Overs and Mergers, 2010 in relation to their offer letter.

MSWG'S COMMENTS:

While the Board defers decision on the voluntary offer by TTC, we hope that the Board would have taken the best interest of shareholders on the deferral and not to enter any binding agreement with Aspire Insight Sdn Bhd on the offer to acquire the assets and liabilities before considering the offer by TTC.

HONG LEONG CAPITAL BERHAD ("HLCAP")

Bursa Malaysia alerted investors in relation to the recent sharp rise in the price of HLCAP shares on 18 March 2014. The company had previously on 8 March 2013 in response to Bursa Malaysia's Unusual Market Activity query confirmed that it was not aware of any corporate development or explanation that could give rise to the unusual trading activities in its shares. The company had further advised investors to trade with caution in HLCAP shares. In this regard, Bursa Malaysia would like to advise investors to exercise caution and to make informed decisions in the trading of HLCAP shares. Bursa Malaysia will not hesitate to take appropriate regulatory action to ensure fair and orderly trading in HLCAP shares.

MSWG'S COMMENTS:

HLCAP is trading at a price-to-book ratio ("PBR") of approximately 5.6x, which is much higher than the average between 1.3x and 1.9x book value of the most recent transactions for the financial sector that was highlighted in our newsletter dated 17 January 2013. Shareholders should be aware that the free-float shares of HLCAP are thin so the share price could be easily manipulated and thus shareholders must take extra precautions on holding such a high Beta stock!

MSWG's WATCHLIST

PADIBERAS NASIONAL BERHAD (“BERNAS”)

According to the announcement released by BERNAS on 14 March 2014, the joint-offerors had acquired up to 96.06% of total shares of Bernas, including 4.39% stake which is subject to verification. In this regard, Bursa Malaysia will suspend the trading of Bernas shares with effect from 9.00 a.m., Friday, 21 March 2014.

PATIMAS CORPORATION BERHAD (“PCB”)

The Board of PCB had on 18 March 2014 announced that Bursa Malaysia had vide its letter dated 18 March 2014 decided to dismiss the company’s further appeal for an extension of time until 14 April 2014 to submit the regularisation plan to the regulatory authorities and de-list the securities of the company from the official list of Bursa Malaysia. The securities of the company will be removed from the official list of Bursa Malaysia upon the expiry of two market days from the date of the letter i.e. on Friday, 21 March 2014.

TROPICANA CORPORATION BERHAD (“TCB”) / ECO WORLD DEVELOPMENT GROUP BERHAD (“ECW”)

Both companies TCB and ECW had announced on 19 March 2014 that TCB had sold 308.7 acres of land in Tropicana Aman (or Canal City) to ECW for a cash consideration of RM471 million. The sale and purchase agreement is targeted for completion by the second half of 2014.

The Group CEO of TCB, Tan Sri Danny Tan Chee Sing mentioned that the disposal of the 308.7 acres of land is enabling the company to bring in a developer who can complement the company’s development approach in creating vibrant and unique self-contained communities and also in line with the company’s transformation strategy to unlock the value of sizeable landbank, and monetise the assets to strengthen the company’s balance sheet.

LOCAL NEWS AND DEVELOPMENTS

New Reference Rate Framework

http://www.bnm.gov.my/index.php?ch=en_press&pg=en_press_all&ac=2976&lang=en

New Pricing for Cheques will now take effect on 2 January 2015

http://www.bnm.gov.my/index.php?ch=en_press&pg=en_press_all&ac=2983&lang=en

New rulings on Islamic banking raise concern

<http://themalaysianreserve.com/main/news/corporate-malaysia/5593--new-rulings-on-islamic-banking-raise-concern>

Bursa Securities warns of action to ensure fair, orderly trading of HLCap shares

<http://www.thestar.com.my/Business/Business-News/2014/03/18/Bursa-Securities-warns-of-action-to-ensure-fair-orderly-trading-of-HLCap-shares/>

Reports by financial journalists must be fair, accurate and responsible, SC says

<http://www.theedgemaalaysia.com/business-news/279915-reports-by-financial-journalists-must-be-fair-accurate-and-responsible-sc.html>

Solar plant deal expected to be signed during Obama's visit next month

<http://www.thestar.com.my/Business/Business-News/2014/03/17/Solar-plant-agreement-expected-to-be-signed-during-Obamas-visit-next-month/>

Kian Joo: We're in no position to consider Toyota Tsusho's offer

<http://www.thesundaily.my/news/988877>

Dewan Rakyat rejects motion to debate Bernas delisting

<http://www.themalaymailonline.com/malaysia/article/dewan-rakyat-rejects-motion-to-debate-bernas-delisting>

1MDB's mega solar power plant secure a tariff rate

<http://klse.i3investor.com/blogs/valueinvestorresearchklse/48411.jsp>

GLOBAL NEWS AND DEVELOPMENTS

The yuan trading band has been widened - now what

<http://www.cnbc.com/id/101498269>

Berkshire Shareholders: Don't Hold Your Breath for That Dividend

http://blogs.wsj.com/moneybeat/2014/03/14/berkshire-shareholders-dont-hold-your-breath-for-that-dividend/?mod=wsj_streaming_markets

China Will Soon Liberalize Deposit Rates, Says Central Bank Head

<http://www.businessweek.com/articles/2014-03-11/china-deposit-rate-liberalization-within-two-years-says-head-of-chinas-central-bank>

Billionaire CEO Lau resigns after court verdict: Chinese Estates

<http://www.cnbc.com/id/101498232>

Hong Kong Exchange Presses for Rule Changes

<http://online.wsj.com/news/articles/SB10001424052702304747404579443163005343416>

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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 save for Eco World Development Group Berhad.*
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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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