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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



The markets continued to chart new highs in most of the ASEAN market almost on a daily basis despite data showing a slowing global growth. The market is more liquidity driven and should be a stock picker's market where unless you have very good analytical eye, do be cautious with speculative stocks with little fundamentals. Defensive stocks in the real economy with blue chip fundamentals are expected to be resilient during uncertainties in the longer term.

Positive news flowed from BHP which could be an eye opener for local companies to take the cue. BHP CEO Marius Kloppers announced to Australian press, that he would give his up his bonus worth millions of dollars after the company informed the ASX that it would take a huge writedown of US\$3.3 billion arising from depressed commodities prices. This gesture reflects his professionalism for taking accountability of the company's largely disappointing result and evidence of good governance which is rarely seen these days.

Malaysians paid tribute to Dato Lee Chong Wei for bringing home, Malaysia's first silver medal, in the London Olympic games. In a nail biting 79 minutes match, which kept viewers clinging to their chairs, Chong Wei fought tooth and nail with his long-time foe to vie for the gold medal. After a good headstart in the first set, he finally succumbed to the reigning gold medallist champion Lin Dan of China with a narrow 21-19 results in the final set. Despite the odds stacked against him, Chong Wei had displayed true fighting spirit, a virtue which Malaysians need to appreciate. Chong Wei's ability to weave the unity amongst us was outstanding. Pang Rinong our diver too has made Malaysia proud by winning a bronze medal, our first ever women Olympic winner.

Regards...

Rita Benoy Bushon

CEO in the News

Nilai Resources may not be successful

<http://biz.thestar.com.my/news/story.asp?file=/2012/8/7/business/11809010&sec=business>

Capital Market..

Financial Sector

First Quarter 2012 – Monetary and Financial Development June

Despite some issues in the global financial markets, Malaysia's financial sector remained resilient generating confidence in the system. Sound financial institutions, effective financial intermediation function and the presence of orderly financial market conditions provided an environment supportive for economic activity. Credit exposures of financial sector remained manageable supported by sound economic fundamentals.

In the month of June 2012, total loans grew at 12.6% y-o-y with business loans and the increased activities in the oil and gas industry.

Overall, the banking industry remained well capitalised with risk-weighted capital ratio (RWCR) and core capital ratio (CCR) at 14.7% and 12.9% respectively. The banking system level of net impaired loans ratio had improved further to 1.5% from 1.7% in April 2012. Loan loss coverage at 98.9% remained high. With BNM retaining the OPR at 3.0%, this would further support the private sector economic activity in line with the Government ETP.

Accounting Segment

The recent legal suit from Silver Bird on the Company's auditors has brought a number of questions as to the quality of audit companies today. The suit has taken most auditors by surprise, although such actions are not alien to overseas capital markets such as the US and Europe. In a prominent US case which occurred in 2011, investors of Stanford International Bank brought a suit against the Company's auditors BDO USA for US\$10.7 billion with claims that BDO was negligent in identifying potential fraud.

Adding to the list, included Virchow Krause, which changed its name to Baker Tilly, was sued by Petra Financial Advisors in Hennepin County District Court for alleged failure to adequately examine the business dealings of Metro Gem Inc., a financing and investment company owned by convicted felon Frank Vennes Jr. of Excelsior. Vennes raised funds for what authorities described as a US\$3.5 billion Ponzi scheme allegedly operated by Wayzata businessman Tom Petters. While in Europe, Emperia had sued Ernst and Young for PLN 430 million over estimation procedures, that eventually brought measurable losses to the former.

MSWG'S Comments:

Auditors have high accountability to their clients. At the same time they are also the "eyes" for shareholders and prospective investors who relied on audited financial statements for their investment decisions. The auditors have a professional duty of care in carrying out their duties and the question is whether they have discharged their responsibilities and not negligent. To be fair to the auditors, have they been fairly remunerated and not paid pittance? And it is also bad practice for PLCs to change auditors merely just because they wish to switch to auditors who charge lower fees.

In this regard, the Audit Committee also has an important role to play in determining a fair fee to be paid to auditors. Otherwise it would become an industry problem losing the best brains to the other sectors.

MSWG's Quick Take On Ongoing Corporate Transactions..

Nilai Resources

On the proposed privatisation of Nilai Resources Group Berhad ("NRGB") under the Selective Capital Reduction and Repayment (SCR) exercise, the resolution was approved by shareholders at the EGM held on 8th August. The resolution was carried over 99.9% of disinterested shareholders voted for the resolution under the SCR which stipulate that the resolution must be approved by at least 50% in number of shareholders and 75% in value the votes attached to the disinterested shares that are cast either in person or by proxy at the EGM and the value of the votes cast against the resolution is not more than 10% of the disinterested shares. The possibility of rejecting the resolution appears to be not that difficult despite the 10% threshold requirement.

Minorities have consented to the proposal, but they could have however rejected the deal if they wished to.

Given that the share price has been hovering around 60 sen to 70 sen for many years, minority shareholders might be tired of waiting and thus the Proposed SCR provided a good option for minorities to exit. Some shareholders could also have bought the shares at below RM1 and decided to exit at RM1.50 as they would be able to pocket reasonable gains.

However, what was noted was that certain information found in Circular was not forthcoming from the Annual Report. It was reported in the Circular that the Company made a gain of RM55 million on disposal of a piece land to Manipal University ("Manipal") for a consideration of RM136 million in the previous year.

MMHE

MMHE posted lower results for the quarter ended 30 June 2012, a decline of 30% to RM55.3 million from RM79 million in the same corresponding period. As pointed out by MMHE officials, this was due to lower operating profit from its offshore segment. De Soras, the Company's CEO informed that the Company had initiated an internal transformation programme which included key targets to improve its performance.

MSWG'S Comments:

Our view is that with the acquisition of the Pasir Gudang fabrication yard and the novation of the Keabangan project from Sime Engineering Sdn Bhd, and the successful award of F14/F29 topside contracts, some improvement in offshore segment should be forthcoming.

On MSWG's Watchlist

Zelan

Zelan received a letter of award from Mudajaya Corp Berhad for a construction of a portion of MMC's Tanjung Bin coal fired plant worth RM34.7 million. In an announcement to Bursa, the award is for the design and build of a chimney of the said plant. It further added, that its wholly owned subsidiary Zelan Construction Sdn Bhd had entered into a definitive collaboration agreement with Balanced Engineering & Construction Pte Ltd (BEC) to undertake the job. BEC company is a Singapore registered company with an issued and paid up capital of SGD1.2 million.

WCT

WCT announced that it proposed to issue up to 600 million Medium Term Notes (MTN) in nominal value. The term of the MTN would be a period of up to six (6) years from the date of its first issuance, with the first portion of MTN issue taking place no longer than two years from the approval obtained from Securities

Commission. Proceeds from the issuance of the MTNs will be utilised to repay JPSB's existing bank loans, as repayment for holding company and related company's advances as well as to finance the construction of the proposed office tower blocks, car park, food court and a hotel and service residence block to be proposed, located within the Company's existing project known as Paradigm.

KPJ

KPJ acquisitions of a number of hospitals, the most recent being the 49% stake in SMC Healthcare Sdn Bhd, has sparked speculations of more injections into Al Aqar Reit in the immediate term. This has been part and parcel of the Company's strategy to remain asset light whilst at the same time enhancing the performance of the Group. In most cases, the same assets would be leased to the Company, which frees up KPJ's balance sheet for more acquisitions.

Local News and Developments

Property Sellers

<http://www.nst.com.my/red/property-sellers-dilemma-1.118977>

Cooling measures not needed

<http://www.nst.com.my/red/cooling-measures-not-needed-1.118991>

Global News and Developments

REITs Shifting Mindset on Governance

<http://www.reit.com/Articles/Survey-Reveals-REITs-Shifting-Mindset-on-Governance.aspx>

Unlisted funds need good governance

http://www.afr.com/p/personal_finance/smart_money/unlisted_funds_need_good_governance_8txHY00HKIm2FJCyclFvAP

SGX plans to review bourse's listing manual

<http://www.channelnewsasia.com/stories/singaporebusinessnews/view/1217762/1.html>

Sands target of US money-laundering probe

<http://biz.thestar.com.my/news/story.asp?file=/2012/8/6/business/11802755&sec=business>

Citigroup probed on benchmarks

<http://www.businessweek.com/news/2012-08-03/citigroup-says-rate-probe-spurs-legal-inquiries-to-bank-s-units>

Back by Popular Demand

**Upcoming Seminar: Finance For
Non-Financial Managers**
(15 August 2012/MSWG Training Centre, KL)
HRDF CLAIMABLE (SBL)
SIDC CPE-Approved (10 CPE Points)

Mark your calendars for MSWG'S 15 August 2012 seminar, "Finance for Non-Financial Managers"

Delivered by Richard Jacob, founder and Principal Consultant of RCJ Consulting Sdn Bhd, this seminar is designed for investors who want to enhance their "business acumen" and their roles as effective minority shareholders. Additionally, it enables participants to improve their knowledge of finance and financial analysis to be able to see the financial impact and outcome of the strategies and operations. They will thus be able to better monitor and control the performance of companies they have invested in. The seminar is highly interactive, with a balance of lectures, exercises, and case studies. All concepts will be linked to the company annual reports.

Expected Learning Outcomes

- Become wiser, better, and more effective investor through an increased understanding of key financial statements, and business and finance terminology.
- Protect your investment by understanding how numbers are generated and how they can be manipulated.
- Improve compliance with IFRS and MASB directives.

Who Should Attend?

- Investors
- Directors, CEOs, CFOs, COOs, and Senior Management
- Accountants, Company Secretaries and Auditors
- Licensed Dealers, Remisiers and Capital Market Representative License Holders
- Investment and Financial Advisers and Financial Planners
- MSWG subscribers and members of MSWG's Independent Directors Pool

Seminar

Date: 15 August 2012

Fee: RM590

Venue: MSWG Training Centre

Further information on the seminar can be viewed on MSWG's website at <http://www.mswg.org.my/web/iep.php>

NOTE: Seating is limited to 50 participants, so REGISTER NOW!

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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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