

## **MINORITY SHAREHOLDERS WATCH GROUP**

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD  
(Incorporated in Malaysia – Registration No.: 200001022382 (524989-M))

The Edge Malaysia(Online) – Saturday, 03 June 2023 **(A) – Part 1**

### **Tong's Portfolio: Share investors like outcome of Star Media Gruop's EGM**



This article first appeared in The Edge Malaysia Weekly on June 5, 2023 - June 11, 2023

STAR Media Group held its extraordinary general meeting (EGM) as scheduled on May 31. The resolution on the disposal of properties — two units of double-storey semi-detached factory and warehouse annexed with a 1½-storey office building plus other ancillary buildings — to Matang in exchange for a 13% stake in the latter (plus RM4.1 million cash for a total consideration of RM33 million) was voted down by the majority shareholdings.

Excluding my  
39.3 million  
shares, 10.4  
million other  
minority

TABLE 1				
10.4 million other minority shareholdings voted against the deal				
	NUMBER OF SHARES		% OF VOTED SHARES	
	FOR	AGAINST	FOR	AGAINST
Tong Kool Ong		39,339,200	-	64.7
Minority shareholders	11,107,872	10,367,229	18.3	17.0
Total	11,107,872	49,706,429	18.3	81.7

shareholdings voted against the transaction — just narrowly (6.7%) less than the 11.1 million who voted for the deal (see Table 1 for the official result).

And for those who are unaware, under Bursa Malaysia's Main Market Listing Requirements paragraph 8.29A(1), any resolution set out in the notice of any general meeting must be voted by poll, that is, based on the number of shares (not the number of people voting). This requirement has been in effect since July 1, 2016.

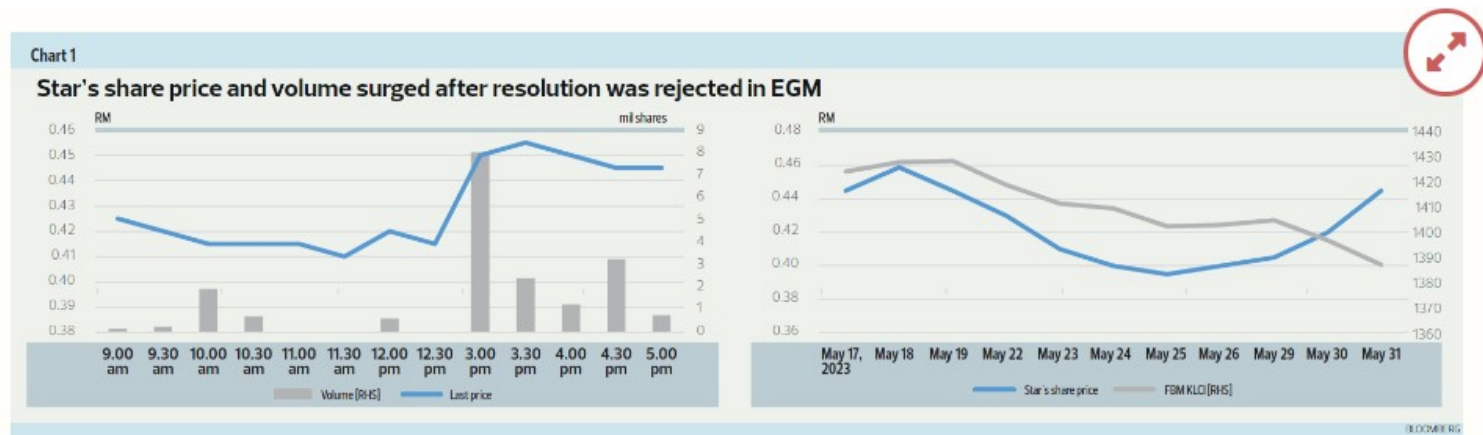
Star's share price, which had been falling in the week prior to the EGM, shot up after the result of the EGM was announced (during the mid-day trading break). The volume traded also surged sharply higher. This surely is a vote by investors against the resolution (see Chart 1).



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In our article last week, we had provided a detailed analysis of why the disposal is an unreasonable, value-destructive related-party transaction. It is not our intention to repeat all the details here. You can scan the QR code (QR1) for the full article. That said, we do want to set straight a few issues (and some innuendoes) that were raised over the past few days.

Firstly, I started my career as an analyst and I am an entrepreneur — I previously owned and managed a successful bank (Phileo Allied Bank) and property company (Sunrise), among other businesses. Asia Analytica is an investment adviser licensed by the Securities Commission Malaysia. Evaluating business proposals and analysing corporate manoeuvres, and their impact on the company, earnings and stakeholders, based on facts and data, are what we do best.



And as owner of a media company, we also try to do what we believe is right. So yes, we do have an agenda — it is to surface the truth and the facts, just like we did for 1MDB, Serba Dinamik and countless other subject matters. We understand the value of integrity and how important corporate governance is for Bursa Malaysia as a whole to retain the confidence of investors, so that our capital market — and economy — can continue to grow and prosper. More importantly, our contention is not limited to this one particular related-party transaction between Star and Matang, but something more holistic. Star has a big cash pile and valuable land, but its valuations are being weighted down by the media business, which is suffering due to continued tech disruption. The company is trying to turn the media business around, and it is the expert in this industry. We hope it succeeds. What we question is Star's strategy to diversify into property development and plantation, businesses in which it has little to no experience.

There is a reason why conglomerates typically trade at a discount to their sum-of-parts. Let's be honest, not everyone can be Warren Buffett, the legendary investor who has built a hugely successful conglomerate for the past six decades.

Last week, we gave the example of how Singapore Press Holdings (SPH) has successfully monetised its assets AND enhanced value for all of its shareholders — by privatising the media business and selling its real estate to the highest bidder. All proceeds were then returned to shareholders. Shareholders can reinvest their money in "best-in-kind" companies, in whichever sector and industry they prefer, to obtain the best possible outcomes. This is how the company can create value for its shareholders.



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### **Here is my two sen**

Yes, Star will report an accounting profit from its property development project. We do not disagree. Our point is — it will make MORE profit by simply selling the land than developing Star Business Hub. We reproduce the math for this analysis in Table 2.

To be crystal clear, all the numbers shown here are taken from Star's circular to shareholders and the fair valuation for the land (RM83.6 million) was done by professional, independent valuers hired by Star.

TABLE 2

Star makes MORE profit by simply selling the land

	SCENARIO 1 (S1) SELL LAND ONLY (RM MIL)	SCENARIO 2 (S2) DEVELOP STAR BUSINESS HUB (RM MIL)	S2 - S1 DIFFERENCE (RM MIL)
Revenue	83.6	130.0	46.4
Land cost	8.8	8.8	—
Development cost	—	73.0	73.0
Profit	74.8	48.2	(26.6)

STAR'S CIRCULAR/NOTICE TO SHAREHOLDERS, ANNUAL REPORT

We think everyone can agree with this simple computation that selling the land will give Star an additional profit of RM26.6 million. And for shareholder Chee Sai Mun, who attended the EGM and is concerned that Star lost out on two sen per share in profit from the aborted sale, RM26.6 million additional profit is equivalent to 3.67 sen per share. Simply by selling the land. And lest we forget, the two sen profit from the aborted sale would be in Matang shares, not real cash.

By Star CEO Alex Yeow's own admission, "The group's intention is to diversify into property development, so executing this maiden project will enhance our capabilities and experience for future projects."

Is he implying that Star is willing to forgo the additional profit of RM26.6 million, just so the Star team can get "tuition"? If so, any experienced property developer would tell you that "experience" can be easily hired.

On the acceptance of Matang shares as consideration, Yeow explained, "The payment of all-cash upfront was not an option during negotiations with Matang ... there were no immediate buyers for these two factories."

So, Yeow is admitting that Star is having difficulties selling the properties in the market? And if so, this comes right back to our original question — why not just sell the land to the highest bidder (and presumably a more experienced and efficient developer) in a public auction? That would save the company all the hardship — and let it get the cash proceeds upfront. Realising the profit from the land sale (RM74.8 million) and the cash inflow would surely bode well for higher dividends for all shareholders.

Certainly, future property development should be carried out only after proper feasibility is done, where the profits from development are significantly more than from just selling land. Otherwise, questions will be raised as to who were given the various contracts.



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Chart 2 is the share price and volume traded for Matang since its listing, in January 2017. Again, let us be perfectly honest here. As an investor, is this a stock you want to buy? Aside from the fillip of excitement during the pandemic months — when there was excessive speculation in markets — its shares have not gone anywhere. We have already established last week that Matang is one of the smallest, yet most expensively-valued plantation stocks listed on Bursa. It simply has no scale to improve yields and profits.



## **Beyond the proposed 13% stake in Matang**

During the virtual EGM, Yeow suggested potential synergy between Star and Matang. To quote him, “On the corporate level, MCA has a controlling stake in Matang. So combining MCA and Star Media [stakes], the synergy as with the alignment of any corporate decision will be simpler, because we do share a common shareholder. That will help decision-making. Star Media has significantly larger back-office management resources, such as shared services, finance and legal and so on, which could complement Matang.”



## Investors agree with us

We had not intended to revisit the issue of “independence” or “unrelated parties” but since it is clear the company’s announcement insinuated that the majority in number of shareholders voted for the proposal, we are obliged to take up this challenge. Here are the facts:

1. The Minority Shareholders Watch Group or MSWG — a government initiative to bring about awareness primarily on minority shareholders’ interest and corporate governance matters through shareholder activism and engagement with stakeholders — shared our views and recommended shareholders vote against the proposal. Scan QR2 for its questions to Star’s directors and decision on the resolution.
2. Star’s stock price and volume traded shot up after the resolution was voted down — diverging sharply from the broader market weakness on that same day. It says, in no uncertain terms, what the market thinks and want. Do Star management and directors understand this message from investors?
3. We have to ask, among the 109 shareholders who supported the resolution, were there any who are “related” to MCA; for example, someone like the chairman or current and past leaders of MCA?
4. And finally, we ask that the SSM (Companies Commission of Malaysia) and the SC move all AGMs and EGMs back to physical meetings, now that Covid-19 is no longer a pandemic, the Movement Control Order is no more and the world has normalised. Virtual-only EGMs and AGMs are unfair. They lack transparency and the meeting chair gets to choose the questions to answer. The process to register, attend and vote is cumbersome and time-consuming.

And this brings us to the explanation given by Star’s independent, non-executive chairman Tan Sri Chor Chee Heung on why the board of directors believes he and director Wong You Fong are independent and are not nominees of MCA. Chor added that he is just an ordinary member of MCA, having retired from key posts in the political party since 2013.

Star has now accepted our position and redesignated Madam Wong as a “nonindependent” director. That is, she now represents the controlling shareholder, MCA.

Chor is a senior party member of MCA and has held various key positions in MCA in the past and was formerly Minister of Housing and Local Government representing MCA (see Table 3). He was named as MCA’s disciplinary board chairman in a *New Straits Times* article dated Jan 12, 2018 (QR3) and Kedah State MCA adviser in an article published by *Utusan Malaysia* on Nov 15, 2022 (QR4).





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**TABLE 3**

**Composition of Star's board of directors prior to its AGM (held on May 22)**

	NAME	DATE OF FIRST APPOINTMENT AS A DIRECTOR	DESIGNATION	REMARK(S)
	Tan Sri Chor Chee Heung	March 15, 2021	Chairman, independent non-executive director	– Former MCA vice-president – Former Minister of Housing and Local Government representing MCA – Current Kedah State MCA adviser
	Tan Sri Kuan Peng Ching @ Kuan Peng Soon	Feb 27, 2014	Deputy chairman, non-independent non-executive director	– Former MCA treasurer
	Datuk Dr Mohd Aminuddin bin Moh Rouse	July 23, 1997	Non-independent non-executive director	
Not to seek re-election	Choong Tuck Oon	June 1, 2017	Independent non-executive director	
Seek re-election	Wong You Fong	June 1, 2017	Independent non-executive director	Current Wanita MCA national chairman –cum-MCA vice-president
	Chan Seng Fatt	Aug 11, 2018	Independent non-executive director	
	Loh Chee Can	Jan 3, 2019	Independent non-executive director	
Not to seek re-election	Christina Foo	Oct 1, 2022	Independent non-executive director	

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Therefore, it would prima facie appear that he too would not fit the description of “independent director” under paragraph 1.01 of the Main Market Listing Requirements. It is questionable if he is capable of being described as “not acting as a nominee or representative of any ... major shareholder of the said Corporation ....” under paragraph (e) of the definition of “independent director”.

Paragraph 3.1 of Practice Note 13 explains that a “nominee” as used in paragraph (e) means a person who has been designated to act for another in his or her place. It denotes a person who is accustomed, or is under an obligation whether formal or informal, to act in accordance with the directions, instructions or wishes of another person.

Would key party members and officers of MCA not be accustomed, or under an obligation whether formal or informal, to act in accordance with the directions, instructions or wishes of MCA? In the interest of better corporate governance, perhaps Star should also redesignate its chairman as non-independent?

We hope this is the beginning of actionable investor activism for Malaysia.

**The Edge** and its owner, Tong Kooi Ong, is a substantial shareholder of Star Media, after buying a 5.42% stake in the group in April.