



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

Over in Singapore, it was reported by the media that SGX is mulling on allowing dual-class share structure to boost SGX as a listing destination for foreign IPOs. That has prompted me to discuss on whether Malaysia should also look into this dual-class structure.

As a strong advocate of 1-share-1-vote principle, I would in normal circumstances disagree to the dual-class voting system. The reasons being among others are as follows:

- (i) it would create an unfair level playing field of one class of minority shareholders (founders) with another class of minority shareholders, normally retail and institutional investors.
- (ii) it could give rise to potential abuses by the (founder) class of shareholders where they have super controlling votes. These could include non-merit based senior appointments, centralised decision making with little recourse for other minority shareholders (they could be the majority) in cases of losses as well as other risks of mismanagement by these insiders.
- (iii) it could potentially have lack of accountability by the super minority insiders to the other outside minority shareholders.
- (iv) it could lead to a lack of protection of minority shareholders in a market such as Malaysia where the proper recourse on abusive insiders such as class actions and other infrastructure support is not facilitative. The protection of minorities would then fall on the regulators wholly. Comparing this to the more developed countries such as the US where there is an existing sophisticated investor community and a good legislative framework to provide robust protection to minority shareholders.
- (v) Studies by Wharton School and Harvard Business School also offer strong evidence that dual-class share structures hinder corporate performance where growth is sacrificed for control (for example a reluctance to raise cash by selling additional shares for fear of dilution), and that dual-class companies tend to have higher debt levels and empirically, underperform the broader market. These are the reasons why Hong Kong rejected dual-class share structures.

From the pro-side:

- (i) dual-class structure could align founders' interests with the company and insulating its stock from the volatility of short-termism brought on by periodical reporting. For example, the case of Apple Inc. and Steve Jobs. (Just for information, among technology companies with dual-class structure

include Facebook and Google. Whereas those tech-giants that do not have this dual-class structure include Amazon, Apple Inc., Microsoft and Twitter.)

- (ii) it could benefit the capital market as a whole and the exchange specifically by having more listings and spin-offs. For example, listing of Alibaba in the US with huge market capitalisation has made it a more attractive listing destination.
- (iii) for the country itself, it could create more entrepreneurial culture and founders could still control and grow their companies as they would like to expand their ideas without the difficulty to explain on earnings volatility.

As a whole, we in MSWG support the 1-share-1-vote principle. A dual-class share structure is not encouraged. However, to handle the dichotomy of balancing the founder based entrepreneurial companies vs the protection of minority shareholders, policy makers could look into having some kind of mechanism to address these issues. Perhaps having another exchange or a sub-category in the main exchange to cater for such companies. In addition, listing in this kind of exchange which would in the short term need to have certain specific parameters with full disclosure and transparency for investors. Infrastructure support including legislation and investor education should be in place.

Such dual-class share structure could be permitted for a number of years, giving the time to the founders to grow their companies and a transition to phase out such dual-class structure to ordinary shares structure. Regulators would then need to have a stronger oversight for investors' protection in such class.

Regards,

Rita

MSWG'S QUICK TAKE ON ONGOING CORPORATE TRANSACTIONS

IJM CORPORATION BERHAD ("IJM CORP")

IJM Corp had held their 32nd Annual General Meeting on 24 August 2016. The results of the poll voting for resolution on "Authority to issue shares under Section 132D" was only garnered 58.6649% of the total voting right exercised at the meeting.

The resolution tabled for shareholders' approval pursuant to Section 132D of the Companies Act 1965 is a general mandate sought by the company for the Directors to allot and issue not more than 10% of the issued share capital of the company at any time and for such purposes as the Directors in their absolute discretion deem fit.

[Source: IJM Corp's announcement on Bursa Malaysia's website on 24 August 2016]

MSWG'S COMMENTS:

MSWG has been asking for more explanation on this general mandate through Section 132D of the Companies Act 1965 which has no specific purposes for the share issued. Whilst we acknowledge that such general mandate would be convenient and has cost-saving element, we are of the opinion that it

should only be sought with specific purpose. Inappropriate issue of additional shares would have dilution effect on the shareholding of the existing shareholders.

The poll voting result of IJM Corp indicated that a lot more shareholders are now in line with MSWG on such resolution.

LION DIVERSIFIED HOLDINGS BERHAD (“LDHB”)

LDHB announced that it has been classified as a PN 17 company, as the shareholders' equity on a consolidated basis as at 30 June 2016 was less than 25% of the issued and paid-up capital. The auditors too have also expressed an emphasis of matter on the group's ability to continue as a going concern, based on the fact that the shareholders' equity on a consolidated was less than 50% of the issued and paid-up capital.

[Source: LDHB's announcement on Bursa Malaysia's website on 24 August 2016]

MSWG'S COMMENTS:

The Lion Group had previously completed a corporate restructuring a decade ago from year 1996 to 2003, we are now seeing the history repeating itself where the Group is falling into financial distress again. Lion Corporation and LDSB are now in the PN17 status. Even Parkson Holdings, which used to be the gem in the crown of the Lion Group, is slowly losing its lustre as Parkson Holdings has been posting losses for the last 2 financial years. The latest unaudited results for FYE 2016 released by the Lion Group of companies are shown below:

No	Name of company	Loss before tax (RM'mil)	Total shareholders' fund (RM'mil)	Total issued and paid-up (RM'mil)	Remark
1	Lion Corporation Berhad	584.6	(1,654.1)	1,316.2	PN17
2	LDHB	895.9	(382.8)	696.1	PN17
3	Lion Forest Industries Berhad	376.8	518.3	231.6	
4	Lion Industries Corporation Berhad	857.6	1,755.9	717.9	
5	Parkson Holdings Berhad	87.5	3,936.0	1,093.9	

MSWG'S WATCHLIST

KINSTEEL BHD (“KINSTEEL”)

The Board of Kinsteel announced that the company was served with a winding up petition dated 4 August 2016 by Messrs Chan & Associates acting for Jambangan Untung Sdn Bhd (“Petitioner”). The Petitioner is claiming for RM483,004.10 together with costs of RM800.00 being the amount owing in respect of goods sold and delivered by the Petitioner to Kinsteel. The company has sought legal advice on the matter.

[Source: Kinsteel's announcement on Bursa Malaysia's website on 18 August 2016]

SOUTHERN ACIDS (M) BERHAD (“SAB”)

The Board of SAB announced and presented several facts on the consent granted and the rational by the company to allow Bandar Rimbayu Sdn Bhd ("BRSB"), a member of IJM Corporation Berhad group to construct the said 2.2 km part. The said 2.2 km part is a high quality 40-meter-wide two-lane dual carriage-way road.

2 major salient facts announced by the Board are shown below:

- BRSB had submitted a request on year 2012 for consent to construct the said 2.2 km part and the Board approved the request from BRSB based on certain considerations on year 2012. Besides the consent been given by the Board and the construction and maintenance costs to be borne by BRSB, all other terms and conditions are still being negotiated.
- The legal ownership of the 2.2 km part of a 9.0 km access road constructed by BRSB belongs to the Group and the said 2.2 km part will eventually be surrendered to the local authorities.

[Source: SAB's announcement on Bursa Malaysia's website on 23 August 2016]

LOCAL NEWS AND DEVELOPMENTS

Cost-cutting saved Petronas RM3.4b

<http://www.thesundaily.my/news/1940586>

BNM's international reserves up 0.2% to RM391.9b as at Aug 15

<http://www.theedgemarkets.com/my/article/bnm%E2%80%99s-international-reserves-02-rm3919b-aug-15?type=Corporate>

Investors independent of group offered to buy dividend shares: CIMB

<http://www.thesundaily.my/news/1945474>

Miti expects M'sia's total trade to grow 1%-2% this year

<http://www.thestar.com.my/business/business-news/2016/08/18/miti-expects-msias-total-trade-to-grow-1-and-2pc-this-year/>

July vehicle sales slump 27.6%, says trade body

<http://www.thestar.com.my/business/business-news/2016/08/18/july-vehicle-sales-slump-27pct-says-trade-body/>

The State of the Nation: Data points to slower GDP growth in 2Q

<http://www.theedgemarkets.com/my/article/state-nation-data-points-slower-gdp-growth-2q?type=Corporate>

CLIQ Energy faces shareholder revolt

<http://www.thestar.com.my/business/business-news/2016/08/19/cliq-energy-faces-shareholder-revolt/>

Tightened governance standards see banks dipping into shrinking talent pool

<http://www.theedgemarkets.com/my/article/tightened-governance-standards-see-banks-dipping-shrinking-talent-pool?type=Corporate>

GLOBAL NEWS AND DEVELOPMENTS

Housing sector lifts US, European stocks; oil pares gains

<http://www.thestar.com.my/business/business-news/2016/08/24/housing-sector-lifts-us-european-stocks-oil-pares-gains/>

US budget deficit to reach US\$590bil for fiscal 2016

[http://www.thestar.com.my/business/business-news/2016/08/24/us-budget-deficit-to-reach-us\\$590bil-for-fiscal-2016/](http://www.thestar.com.my/business/business-news/2016/08/24/us-budget-deficit-to-reach-us$590bil-for-fiscal-2016/)

China buoys MSCI inclusion odds with HK-Shenzhen link

<http://www.thestar.com.my/business/business-news/2016/08/18/china-buoys-msci-inclusion-odds-with-hkshenzhen-link/>

Japan exports fall at fastest pace since financial crisis on strong yen

<http://www.theedgemarkets.com/my/article/japan-exports-fall-fastest-pace-financial-crisis-strong-yen-0>

SGX to add market cap test for entry into MTP watchlist

<http://www.theedgemarkets.com/my/article/sgx-add-market-cap-test-entry-mtp-watchlist?type=Corporate>

World Bank said to be planning SDR bond sale next week in China

<http://www.theedgemarkets.com/my/article/world-bank-said-be-planning-sdr-bond-sale-next-week-china?type=Corporate>

Naming of new RBI chief shows Modi government regains composure after Rajan shock

<http://www.theedgemarkets.com/my/article/naming-new-rbi-chief-shows-modi-government-regains-composure-after-rajan-shock?type=Corporate>

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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.*
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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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