MSWG
MINORITY SHAREHOLDER WATCHDOG GROUP
Badan Pengawas Pemegang Saham Minoriti Berhad
Incorporated in Malaysia * Company No. 524898-M

The Observer

MESSAGE FROM THE CEO

The big news this week was the announcement of the revised National Auto Policy (2014), which continues to drive a wedge between the automotive and investment communities.

We view the NAP as mildly positive, since it seeks to impose a win-win situation in Malaysia's constrained environment. The NAP aims to make Malaysia as the energy efficient vehicle (EEV) hub and reduce car prices by between 20 per cent and 30 per cent over the next five years. It is expected to attract more global players to set up their operations here. This could mean opportunities for local vendors to work with global companies.

However, we should also be mindful that both Thailand and Indonesia have equivalent EEV initiatives. This choice will mean foreign carmakers will want more transparency and not tolerate any opacity of the regulatory framework and roadmap on critical areas.

These would include areas like the AP framework, clean fuel (Malaysia needs Euro 4 at least to ensure fuel emissions and consumption levels are compliant with international standards) and an end-of-life policy.

The announcement of the resignation of SP Setia Bhd's president and CEO Tan Sri Liew Kee (along with CFO Datuk Teow Leong Seng) also occurred during the week which came as no surprise to the market.

PNB would need to find another team with equal drive and vision to bring value back to its shareholders. As for Eco World's share price, there was a meteoric rise (+1117% in 2013) on speculation that Tan Sri Liew might join them. While Liew's value is no doubt immeasurable, minority investors need to stay focused on the long-term attributes of the property sector and the company's prospects and not on speculation of whether one individual might join or not.

Regards,

Rita

MSWG IN THE NEWS

SC, MSWG seek public feedback on code for institutional investors
http://www.bernama.com.my/bernama/v7/bu/newsbusiness.php?id=1007656

MARKET AND REGULATORY UPDATE

REVISED NATIONAL AUTOMOTIVE POLICY 2014

The Minister of International Trade and Industry Datuk Seri Mustapa Mohamed had on 20 January 2014 unveiled the revised National Automotive Policy ("NAP") 2014 which aims to make Malaysia the hub for energy-efficient vehicles and reduce car prices between 20 per cent and 30 per cent over the next five years.

Under the NAP, more new national car models and variants at competitive prices will be introduced this year, the Minister said when unveiling the much-awaited NAP today. The NAP 2014 provides a total financial package of about RM2 billion and measures and implementation plans to realise it.

The Minister also mentioned that one of the key objectives of the NAP 2014 was to increase vehicle exports and automotive component levels and it has targeted at least 200,000 units of cars to be exported while exports of components will reach a minimum value of RM10 billion in 2020. The government is also open to possibilities to reduce excise duties gradually when the fiscal situation permits.

On Approved Permits (APs), he said, the government has decided to conduct an in-depth study to assess the impact of the termination of Bumiputera participation in the automobile industry.

The previous NAP unveiled in 2009 has specified termination of the open AP by Dec 31, 2015 and the franchise AP by Dec 31, 2020.

MSWG'S COMMENTS:

While we note the Government's intention to promote a competitive domestic automotive industry, how would this bring benefit to the industry players as a whole?

The focus of the policy was on Energy-Efficient Vehicles (EEV). The EEV specification has been spelled out but there should be more clarity on the customised incentives such as Pioneer Status, infrastructure facilitation, grants, lower taxes and excise, for both FDI and DDI.

NEW REFERENCE RATE FRAMEWORK

Bank Negara Malaysia (BNM) on 16 Jan issued an industry consultative paper to the financial industry on a new reference rate framework to replace the base lending rate (BLR) quoted by financial institutions in the pricing of retail loans.

The new reference rate aims to improve the transmission of monetary policy to both new and existing borrowers, and promote a transparent pricing of floating rate retail loans that is more reflective of market conditions.

Under the proposed reference rate framework, the new reference rate will be determined by the respective financial institution's funding costs which reflect its specific funding structure and strategy and the statutory reserve requirement.

Other components of pricing such as borrower credit risk, liquidity risk premiums, operating costs and profit margins are proposed to be reflected in the spread to the reference rate.

(i) The proposed basis for setting reference rates will eliminate negative spreads to the reference rate going forward.

(ii) The proposed changes in the reference rate framework will not have an impact on effective lending rates charged to retail borrowers.

(iii) It is important to note that the changes in the reference rate framework do not represent a change in the monetary policy stance.

(iv) The new reference rate will be used for the pricing of new retail loans and the refinancing of existing loans after the effective date of the new framework. Existing loans will continue to be referenced against the BLR.

(v) However, when a financial institution makes any adjustments to the new reference rate, a corresponding adjustment will also be made to the BLR.

<u>MSWG'S COMMENTS:</u>

Financial institutions are given until 14 Feb 2014 to provide feedback to BNM on the proposed reference rate framework. We hope that BNM will further give more clarity to points (ii) and (v) above.

OCBC SETTLES CIVIL CLAIM WITH THE SC

OCBC has settled a civil claim with the Securities Commission where it was purportedly involved in manipulation of DRB-Hicom Berhad shares in July 2011.

The settlement was reached following a letter of demand sent by the SC pursuant to its civil enforcement powers.

OCBC was required to pay RM2,475,000, which was equivalent to three times the pecuniary gain of RM825,000, which OCBC had made as a result of the breach.

OCBC Bank agreed to settle the fine, though without admission or denial of liability.

<u>MSWG'S COMMENTS:</u>

While we laud the SC for having disclosed the suit and the broad details, we remain unsure as to the substance of the breach and the transgressions involved. As such we believe that future cases should contain these details.

MSWG'S QUICK TAKE ON ONGOING CORPORATE TRANSACTIONS

KINSTEEL BERHAD ("KINSTEEL")

The Board of Directors of Kinsteel announced that the indirect subsidiary company of Kinsteel, Perwaja Steel Sdn Bhd ("PSSB") has defaulted in repayment of Murabahah Medium Term Notes of RM50,000,000 on 29 November 2013. By virtue of this default, PSSB has cross-defaulted its banking facilities with RHB Bank Berhad, OCBC Bank (Malaysia) Berhad, Standard Chartered Bank Malaysia Berhad and Kuwait Finance House Berhad (collectively known as "the Banks") totalling RM768,738,785. The reason for the default was due to the company's inability to generate sufficient cashflow amid the slowdown of steel industry as a result of oversupply and decline in steel prices.

Pursuant to the default, the lenders of PSSB have the right to enforce its rights under the loan documents which include enforcing the various collaterals given to secure the loan/credit facilities granted by the lenders to PSSB, which collateral includes the corporate guarantee given by Kinsteel. The extent of the liability of the Company is limited to the corporate guarantees provided to the Banks amounting to RM706,000,000. Nevertheless, Kinsteel is taking proactive approaches to negotiate with its lenders to arrive at an amicable arrangement to both parties. In addition, PSSB has been granted the abovementioned Order that restrains any actions by the lenders on the guarantees provided by Kinsteel for PSSB's facilities.

According to the opinion of the Board mentioned in the announcement, there is no impact to the business and operations of Kinsteel arising from the default. Kinsteel will be able to continue with its existing business of manufacturing and trading of steel bars and steel related products, which has its own distinct autonomous business operation and management whereby its financial and business operations are independent from those of PSSB.

MSWG'S COMMENTS:

We find it difficult to comprehend that there is no impact to the business and operations of Kinsteel on the default on banking facilities of RM768,738,785 by one of its indirect subsidiary where the exposure of the company to the defaulted banking facilities amounted to RM706,000,000. The company should update shareholders on the financial status of its subsidiaries and associates which are now in PN1 and PN17 status.

MSWG'S WATCHLIST

HWANG-DBS (MALAYSIA) BERHAD ("HWANG-DBS") / AFFIN HOLDINGS BERHAD ("AFFIN")

It was announced on 22 January 2014 that both Hwang-DBS and Affin had on 22 January 2014 entered into a conditional share sale and purchase agreement for the proposed disposal by Hwang-DBS to Affin of its 100% equity interest in HwangDBS Investment Bank Berhad and its subsidiaries and associated company, after the proposed pre-closing reorganisation, for a total disposal consideration of RM1,300.36 million to be satisfied entirely in cash.

HYTEX INTEGRATED BERHAD (“HYTEX”)

The company has appointed Grant Thornton Consulting Sdn Bhd (“Grand Thornton”) on 13 January 2014 as the Independent Monitoring Accountant to carry out independent review over certain business transactions which are deemed to be prejudiced to the interest of the company and its subsidiaries (collectively referred to as “the Group”) and this is in compliance with certain conditions imposed by the lenders of the Group. The company further announced on 20 January 2014 that the scope of work to be undertaken by Grant Thornton as the Independent Monitoring Accountant are as follows:-

(a) Verification and Approval of Payments for Operation

(b) Monthly Reporting

(c) Review of Certain Business Transactions

The timeframe required by the Independent Monitoring Accountant to undertake the review/works pursuant to item (1) above is indefinite until the completion of the restructuring scheme and the Investigative Review is estimated to take no more than two (2) months from the date of engagement. The review will be conducted on certain business transactions which appear not to be conducted at arms-length and prejudicial to the interest of HIB especially assets sales during the last 3 to 4 years. The indulgence sought from the lenders is for an initial period of 3 months (due on 19 March 2014).

HONG LEONG CAPITAL BERHAD (“HL CAP”)

Bursa Malaysia had on 16 January 2014 issued an “Unusual Market Activity” (“UMA”) query to HL Cap due to the limit-up in the company’s share price recently. HL Cap had on the same day replied that the Directors and substantial shareholders of the company were not aware of any corporate development, rumour or report concerning the business and affair of the Group and any other possible explanation that may have contributed to the unusual market activity.

As at 16 January 2014, the share price of HL Cap had appreciated by 38% to RM12.8 from RM9.30 since 19 December 2013.

LOCAL NEWS AND DEVELOPMENTS

Media Statement: National Automotive Policy (NAP) 2014
http://www.miti.gov.my/cms/storage/documents/a74/com.tms.cms.document.Document_ae93e7a5-c0a8156f-72974691-8acceeb8/1/Press%20Statement%20NAP%202014.pdf

New framework won't impact lending rates: Bank Negara
http://www.thesundaily.my/news/932833

Khazanah portfolio hits new high in 2013, net worth up 19.1% to RM103.5bil
http://www.thestar.com.my/Business/Business-News/2014/01/21/Khazanah-portfolio-hits-new-high-in-2013-State-investment-agencys-net-worth-up-191-to-RM1035bil/

OCBC settles civil claim with SC
http://www.btimes.com.my/articles/secom/Article/

S P Setia announces key senior officers after Liew resigns
http://www.theedgemalaysia.com/highlights/271763-update-s-p-setia-announces-key-senior-officers-after-liew-resigns.html

Sustainability, corporate governance make good bedfellows
http://themalaysianreserve.com/main/news/money/5137-sustainability-corporate-governance-make-good-bedfellows

The Case for Two-Board Governance
http://www.theedgemalaysia.com/management/271740-the-case-for-two-board-governance.html

Best corporate governance for third year
http://my.news.yahoo.com/best-corporate-governance-third-145625875.html

Secretaries as governance champions
http://www.thestar.com.my/Business/Business-News/2014/01/18/Secretaries-as-governance-champions/

Shortage of talent in insurance industry
http://www.thestar.com.my/Business/Business-News/2014/01/20/Insurance-talent-shortage/

Mah Sing banks on affordable housing, goes ahead with five projects worth RM10.35bil
http://www.thestar.com.my/Business/Business-News/2014/01/20/Mah-Sing-banks-on-affordable-housing/

M'sia to double sukuk sales this year, corporates announce RM5.6bil Islamic bonds
http://www.thestar.com.my/Business/Business-News/2014/01/20/Sukuk-sector-strong/

GLOBAL NEWS AND DEVELOPMENTS

Deutsche Bank results hit by litigation costs
http://www.cnbc.com/id/101348013

Shine coming off Southeast Asian banks
http://www.cnbc.com/id/101347597

Mohamed El-Erian resigns from Pimco, to stay on at Allianz
http://www.cnbc.com/id/101313400

IBM misses revenue targets again after stumbling in China
http://www.reuters.com/article/2014/01/22/us-ibm-results-idUSBREA0K1NP20140122

Thai capital under state of emergency as protesters dig in
http://www.reuters.com/article/2014/01/22/us-thailand-protest-idUSBREA0L03720140122

China's Economic Growth Slows to 7.7%
http://www.cnbc.com/id/101347597

10 Corporate Governance Trends for 2014
http://www.canadianbusiness.com/blogs-and-comment/outlook-2014-corporate-governance-trends/

MSWG Analysts

Lya Rahman, General Manager, Corporate Services, lyarahman@mswg.org.my
Chong Chee Fern, General Manager, Corporate Monitoring chongcf@mswg.org.my
Rebecca Yap, Head, Corporate Monitoring rebecca.yap@mswg.org.my
Quah Ban Aik, Head, Corporate Monitoring banaik.quah@mswg.org.my
Ng Hoon Ho, Senior Manager, Corporate Monitoring nghh@mswg.org.my
Norhisam Sidek, Manager, Corporate Monitoring norhisam@mswg.org.my
Shahnul Niza Mohd Yusof, Manager, Research shahnul.niza@mswg.org.my
Lee Chee Meng, Manager, Corporate Monitoring cheemeng@mswg.org.my
Wong Kin Wing, Senior Analyst, Corporate Monitoring, kinwing@mswg.org.my
Nor Khalidah Khalil, Analyst, Corporate Monitoring khalidah@mswg.org.my
Vinodth Ramasamy, Analyst, Corporate Monitoring vinodth.ram@mswg.org.my

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 Hwang-DBS (Malaysia) Berhad.*

Feedback
We welcome your feedback on our newsletter and our work. Email us at mswg.ceo@mswg.org.my with your comments and suggestions.

DISCLAIMER

ENDS./