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SC CORPORATE CASE STUDY SERIES

The Merger of Sime Darby Bhd, Golden Hope Plantations Bhd and Kumpulan Guthrie Bhd

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A Case Study on the Merger of Sime Darby Bhd, Golden Hope Plantations Bhd and Kumpulan Guthrie Bhd

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Background

The market sensed that something big was brewing when news circulated that the chief executives of companies controlled by Permodalan Nasional Bhd (PNB) had been called to attend a briefing by CIMB's Datuk Nazir Razak. Their suspicions were confirmed when Bursa Malaysia announced the suspension of trading of Golden Hope Plantations Bhd, Kumpulan Guthrie Bhd, Sime Darby Bhd and their six listed subsidiaries the following day (23 November 2006). "Another merger on the cards?" was certainly on the minds of most if not all market pundits.

The idea of merging the three plantation companies was not new, and had been toyed with as far back as 2002 when dealmaker and former stockbroker Chua Ma Yu proposed it to the then prime minister Dato Seri Dr Mahathir Mohamad.[1] Chua's original proposal called for the creation of a global plantation company lead by Sime Darby that would eventually become a Malaysian brand. It was not unexpected that the plan faced resistance as a consolidation could likely see job cuts and restructuring at the management level; in other words a threat to the 100,000 strong employees.

The circumstances surrounding the revival of such a proposal seemed to be better this time round. Palm oil prices had been steadily rising due to expectations of increased demand for palm oil-based biofuels as an alternative to fossil fuels. The country would, therefore, benefit from efforts to strengthen the oil palm plantation sector as well as enhance its competitiveness in the global marketplace. A merger of the PNB-controlled companies would see the creation of what could be the world's largest plantation company controlling some 8% of global palm oil production. In fact, industry sources revealed that Prime Minister Abdullah Ahmad Badawi had already sanctioned this corporate exercise in early 2006.[2]

However, not everyone greeted this development with enthusiasm. When asked about the briefing on Wednesday, Tan Sri Dato' Hamad Kama Piah Che Othman, PNB's chief executive, responded that they knew nothing about the deal beforehand and had still to see the proposal. Yet, Deputy Prime Minister Najib Razak was quoted to have said that the deal was a PNB initiative.[3] It was clear from the start that the proposed merger was pushed from

[1] Jayasankaran, S. (2006, November 24). M'sian Plantations Giant. *Business Times, Singapore*.
[2] Barrock, L. (2006, November 27). Mega merger. *The Edge Financial Daily*.
[3] Jayasankaran, S. (2006, November 27). Severe labour pains ahead in the birth of a behemoth. *Business Times, Singapore*.

the very top. Market commentators highlighted four main reasons why the government would want to see the completion of this deal this time.[4]

i. It would improve productivity and profitability of the plantation business as the weak links in the companies participating in the merger would be cleaned up by managers with strong track records. Economies of scale would be enjoyed where plantations were located close to each other and there would be cost savings in areas such as procurement and logistics.
ii. It would create the world's largest producer of crude palm oil (CPO). A company that controlled the production of at least 8% of the world's palm oil would be in a better position to dictate CPO prices.
iii. It would create a mega Malaysian company recognisable the world over as a Malaysian brand.
iv. It would create a company that would have better access to the capital markets.

At that point in time, this was potentially one of the biggest corporate exercises that investors in the Malaysian capital market would see. While most commentary focussed on synergies within the plantations and property development sectors, a fact missed by some was that the merged entity would also have diverse business activities that included heavy equipment, energy and utilities, motor vehicles and general trading and services. The size and diversity of business activities might see the road to merger being riddled with potholes, and where post-merger integration might not be a smooth drive either.

Synergy Drive's proposal

The details of the merger were revealed at a press conference on Monday, 27 November 2006. In spirit the merger proposal was quite similar to the one proposed by Chua Ma Yu; but in form, there was an unprecedented twist; i.e. it did not come from a controlling shareholder but rather from an independent party with close links to an investment bank, CIMB Bhd. Nonetheless commentators noted that the initials for Synergy Drive and Sime Darby were the same.

The deal saw Synergy Drive Sdn Bhd, a special purpose vehicle, making simultaneous offers to acquire all the businesses including assets and liabilities of eight listed companies, i.e.

- Golden Hope Plantations Bhd
- Mentakab Rubber Company (M) Bhd
- Kumpulan Guthrie Bhd
- Highlands & Lowlands Bhd
- Guthrie Ropel Bhd
- Sime Darby Bhd
- Sime Engineering Services Bhd
- Sime UEP Properties Bhd

The proposal would also see a mandatory general offer (MGO) being triggered on a ninth listed company, Negara Properties (M) Bhd[5] for all the ordinary shares not held by Golden Hope Plantations Bhd. This corporate exercise, valued at RM31 billion, involved companies in which PNB and unit trust funds under its management and the Employees Provident Fund (EPF) held substantial shareholdings.[6]

[4] Barrock, L. (2006, November 27). Mega merger. *The Edge Financial Daily*.
[5] Golden Hope Plantations Bhd held a 56.48% shareholding in Negara Properties (M) Bhd.
[6] See **Exhibit 1**.

In a nutshell, Synergy Drive's proposed offer price for the nine participating companies was a consistent 5% premium to the closing price of the last trading day prior to the suspension of each counter (22 November 2006). The purchase consideration would be settled by the issue of redeemable convertible preference shares (RCPS A of RM0.01 each) which shareholders of the respective participating companies could either convert to Synergy Drive's shares[7] valued at RM5.25 per share or redeem for cash.

The deadline for the boards of the eight listed companies to accept Synergy Drive's offer was 27 December 2006. The offer was conditional upon all the other offers being accepted. Another condition was for PNB and unit trust funds under its management not to cash out but to accept shares of Synergy Drive. At the end of the day, this meant that Synergy Drive would be substantially controlled by PNB and unit trust funds under its management.

Upon completion of the merger, Synergy Drive would be listed on Bursa Malaysia, and at the same time the nine companies involved in the merger would be delisted.

Rationale for the offers

The rationale for this merger was to extract synergies from combining the complementary strengths of the Sime Darby, Golden Hope Plantations and Kumpulan Guthrie group of companies. The value proposition would come from economies of scale, streamlining the existing businesses and pooling industry experience and human capital. And, the expected result would be a multinational group of businesses in key complementary growth sectors with established market positions and strong branding.

The completion of the merger exercise and the listing of Synergy Drive would place the company as the world's largest listed oil palm plantation group by land area, with a significant presence in both upstream and downstream palm oil activities. It would also have four other substantial core businesses, namely motor vehicle, heavy equipment, property and energy and utilities.

Transaction structure

Upon acceptance by the boards of the eight participating companies, Synergy Drive would conduct its due diligence inquiry before entering into a sale of business agreement (SBA). The purpose of the SBA was to formalise the terms of the offer made on 27 November 2006 as well as set out the mechanics for completion of the merger exercise, which was subject to shareholders' and regulatory[8] approvals.

The other key transactions in this merger exercise were:

[7] The share swap ratio was based on the offer price for the participating companies divided by the issue price of Synergy Drive (see Table 1).

[8] The Foreign Investment Committee for the acquisition of the businesses of the participating companies, the issuance of Synergy Drive shares and the subsequent listing of Synergy Drive. Bank Negara Malaysia, if required. The Securities Commission for the issuance of Synergy Drive shares, the listing of Synergy Drive, the participating companies' share issue and the significant change in business direction of the participating companies upon the disposal of the respective businesses. The Ministry of International Trade and Industry for the acquisition of the businesses of the participating companies. Bursa Securities for the listing of Synergy Drive. The High Court of Malaya in relation to the capital reduction exercise in respect of the participating companies.

- a capital reduction exercise in accordance with Sections 60 and 64 of the Companies Act, 1995 with the object of returning all the RCPS A representing the offer price to the shareholders of the respective participating companies;
- to be followed simultaneously, by a share issue exercise of two shares at par value by each of the respective participating companies.

The acquisition of the participating companies' business at the offer price would be fully settled by the issuance of an equivalent value of RCPS A in the proportions shown in Table 1 for each participating company share held on the books closure date, i.e. 24 October 2007.

Table 1: Summary of the offers to the participating companies

	Sime Darby	Sime Eng Svs	Sime UEP	Guthrie	Guthrie Ropel	H&L	Golden Hope	M'takab	Negara Prop[3]	Total
Offer price (RM)	6.46	1.57	3.95	4.27	4.46	5.09	5.46	1.96	2.29	
No. of Synergy Drive shares receivable[1]	1.23	0.30	0.75	0.81	0.85	0.97	1.04	0.37	0.44	
Estimated consideration (RM mil)	16,352	231[2]	780[2]	4,354	239[2]	1399[2]	7,928	46[2]	60[2]	31,389

[1] Approximated ratio based on the offer price per participating company share as set out in each of the simultaneous offers, divided by the issue price of Synergy Drive shares of RM5.25 each
[2] Outstanding balance not owned by holding company
[3] Proposed general offer

A copy of Synergy Drive's offer document to Sime Darby Bhd is attached as **Exhibit 2**.
The corporate profiles of the Sime Darby, Golden Hope Plantations and Kumpulan Guthrie group of companies are attached as **Exhibits 3, 4** and **5** respectively.
The financial statements for Sime Darby Bhd, Golden Hope Plantations Bhd and Kumpulan Guthrie Bhd are attached as **Exhibits 6**, **7** and **8** respectively.

Who was Synergy Drive?

Synergy Drive Sdn Bhd was a special purpose private limited company incorporated on 7 November 2006. On 5 April, the company converted to a public limited company and assumed the name Synergy Drive Bhd. The directors of the company at point of incorporation were:

- Tan Sri Md Nor Md Yusof (chairman)
- Dato' Zainal Abidin Putih
- En Wan Razly Abdullah Wan Ali

All three directors had links to the CIMB Group[9].

The company had a paid-up capital of RM2,500,100.00 consisting of 200 Synergy Drive shares (of RM0.50 each) and 25,000,000 redeemable convertible preference shares (RCPS B of RM0.10 each). The initial funding for Synergy Drive was obtained via an issue of

[9] Currently, Tan Sri Dato' Md Nor Md Yusof is the chairman and Dato' Zainal Abidin Putih is an independent non-executive director of the CIMB Group; and Wan Razly Abdullah Wan Ali is the Strategy and Finance Director of PT Bank CIMB Niaga Tbk.

25,000,000 RCPS B at an issue price of RM1.00 each to CIMB Private Equity Sdn Bhd, a wholly owned subsidiary of CIMB Group Sdn Bhd. The 200 Synergy Drive shares were held by two trustees for a charitable purpose.

The financial statements for Synergy Drive Bhd as per the prospectus dated 27 October 2007 are attached as **Exhibit 9**.

Market response to the proposal

The reaction from investors and market analysts regarding the details of the merger after it was made public were mixed. Proponents welcomed this exciting new development in the Malaysian capital market and agreed that the economies of scale created would reduce cost and improve efficiency as redundancies in the operations of the enlarged entity would be minimised through centralisation. In short, 'synergy' was the theme of the day.

Critiques, on the other hand, argued that while size mattered in some instances, in this instance, the size the merged entity might be too big to manage efficiently. In fact, they made comparisons with rival plantation companies like IOI Corporation Bhd who were smaller yet more profitable. Furthermore, concerns were raised as to whether minority shareholder interests would be safeguarded in the merger exercise.

However, when the shares of the participating companies resumed trading on 29 November 2006, after the investment community had some time to digest the offer, the prices of these shares jumped and continued to climb, as can be seen from Table 2. This implied that investors were generally optimistic to the point of being bullish with respect to the merger and wanted shares of Synergy Drive instead of cash. The prospectus for the listing of Synergy Drive Bhd on Bursa Malaysia dated 27 October 2007 did not offer any shares for sale, so any investor who wanted exposure to Synergy Drive would either have to hold on to their shares in the participating companies or buy them in the open market.

On the overall, the investment community was of the view that the merger would provide exciting opportunities for the new company as well as investors. But, the community was also reminded time and again that the key to success hinged on the ability of the board and senior management to implement the integration of the merged entity well and to take full advantage of the new enlarged size.

Table 2: Share price performance of participating companies during pre-merger period

	Sime Darby	Sime Eng Svs	Sime UEP	Guthrie	Guthrie Ropel	H&L	Golden Hope	M'takab	Negara Prop
22 Nov 2006[1]	6.15	1.49	3.76	4.06	4.24	4.84	5.20	1.86	2.18
29 Nov 2006[2]	6.50	1.51	3.86	4.16	4.22	4.98	5.50	1.90	2.30
17 Oct 2007[3]	11.20	2.64	6.60	7.10	7.50	8.40	9.10	3.28	3.80
Price change from 22 Nov & 17 Oct	82%	77%	76%	75%	77%	74%	75%	76%	74%

1 Last traded price before the shares were suspended from trading on 23 November 2006 pending the announcement of the merger exercise.
2 Opening price when shares resumed trading on 29 November 2006.
3 This was the last day of trading; and the shares remained suspended from trading until the participating companies were removed from the official list of Bursa Securities, which coincided with the listing of Synergy Drive Bhd.

Minority shareholder issues

In any corporate exercise, particularly one that involves a merger or acquisition, one issue that is often raised is whether the rights of the minority shareholders will be protected. The manner in which the Synergy Drive merger proposal had been structured had stirred criticisms that the merchant bank who was the advisor could have taken advantage of loopholes in the law.[10]

- First, since the apparently unsolicited plan to merge the nine PNB-controlled companies[11] was initiated by an external party, there was no legal requirement for PNB to abstain from voting on the merger. Technically, the deal would not be classified as a related-party transaction as it would have been had PNB been the originator.
- Second, since the proposal did not involve the buying of voting shares but rather the acquisition of the entire businesses of eight of the participating companies, Synergy Drive was able to avoid having to make MGOs[12] for the eight listed companies.

In other words, if the deal had been designed in the usual manner, the fate of the merger exercise could have been in the hands of the minority shareholders. This meant that there was the possibility of an unfavourable outcome if the minorities decided to vote against the merger resolutions in the respective company extraordinary general meetings (EGMs).

It was not a secret that the government had given its blessing and had openly expressed its interest to see the successful completion of the merger exercise. By taking PNB out of the equation, the architects of the deal had managed to minimise some elements of uncertainty which could potentially derail the whole exercise. PNB and unit trust funds under its management would confidently ensure that the vote for the merger would be in their favour, and would drown any dissenting voices from the minorities.

10 Gunasegaram, P. (2006, December 4). An intriguing deal indeed. *The Edge Financial Daily*. Ahmad, I. (2006, December 16). Mega merger poser. *Malaysian Business*. Prathaban, V. (2007, February 16). Hyper drive. *Malaysian Business*.
11 It was reported that the boards of all the participating companies including PNB were unaware of CIMB's plan.
12 A MGO was triggered on the ninth merger company, Negara Properties (M) Bhd.

Nonetheless, any regulatory measures that are put in place to protect minority interests should also not be disadvantageous to the major shareholders. They too have rights as shareholders, and there are times where corporate actions initiated by them are intended to enhance value and benefit all stakeholders. In this case, the minority shareholders were given the option to exit at the offered price for cash if they did not like the deal or to remain as shareholders if they were convinced that the merger would create value as promised. Furthermore, they had a third option to sell their shares on the open market as the share price of the participating companies rallied after the announcement.

Interestingly, the rally in the share prices of the participating companies that rose above the 5% premium to the pre-suspension prices prior to the announcement was the cause of another issue.[13] It prompted calls for an upward revision of the offer prices. However, industry experts clarified that such an event was unlikely as it was not a practice in the industry to change an offer price once it had been made. And, if the offer prices were revised, the whole merger proposal would also have to be revised. Furthermore, if the investors were not happy with the cash payout, they could always sell their higher-priced shares on the open market.

Then again, the boards of all the participating companies had accepted the merger offer. If they were of the view that the value of their shares had been undervalued, they could have jointly asked for a higher price. Such a scenario would certainly have benefited the minorities of these companies.

Pre-merger – the long and winding road

Even under ideal circumstances, it is not an easy task to make a merger of businesses work, particularly one that involved the joining up of nine listed companies. Furthermore, the larger the size of each merger entity, the more difficult the task will be. There are cultural differences, operational procedures and numerous other staff and management issues to overcome. Indeed, studies have shown that in general, 80% of mergers worldwide do not succeed. In this instance, the situation was further complicated by the fact that the deal was not originated by the major shareholders but rather a third party, albeit with the tacit blessings of those in authority to ride over any obstacles along the way and to assure the successful completion of this mega corporate exercise.

Milestones

Date	Key Events
27 November 2006	Synergy Drive Sdn Bhd made simultaneous offers to acquire all the businesses including assets and liabilities of eight listed companies belonging to the Sime Darby, Golden Hope Plantations and Kumpulan Guthrie group of companies. The proposal included the triggering of a MGO for a ninth listed company.
27 December 2006	The boards of all eight listed companies accepted the merger proposal subject to shareholder and regulatory approvals. The formation of a Merger Integration Committee (MIC) was announced, chaired by Tan Sri Md Nor Yusof, the chairman of Synergy Drive Sdn Bhd.

[13] Ahmad, I. (2007, January 16). Are minorities being shortchanged? *Malaysian Business*.

Date	Key Events
11 January 2007	Dato' Ahmad Zubir Murshid, group chief executive of Sime Darby, was named chief executive designate of Synergy Drive Sdn Bhd, while Raja Datuk Arshad Raja Tun Uda was appointed deputy chairman of the MIC.
24 January 2007	Synergy Drive entered into a Sale of Business Agreement (SBA) with each of the eight listed companies pursuant to the acceptance of the simultaneous offers. The SBA was signed ahead of the rescheduled 29 January 2007 deadline. The signing was originally scheduled for 15 January 2007.[14] The SBA would formalise the terms of Synergy Drive's offer made on 27 November 2006 as well as set out the mechanics for completion of the merger exercise.
14 February 2007	Synergy Drive Sdn Bhd named the heads of seven functional subcommittees to steer the integration process. The subcommittees would focus on identifying areas of synergies and best practices across the companies as well as develop plans to realise the full potential value of the merger. They would assist the MIC to oversee internal issues and to ensure that the merger integration and rationalisation processes proceed smoothly and in a timely manner.
05 April 2007	Synergy Drive Sdn Bhd converted to a public limited company.
15 May 2007	Synergy Drive Bhd made a submission to the Securities Commission (SC) seeking approval on the proposed merger of the Golden Hope Plantations Bhd, Kumpulan Guthrie Bhd and Sime Darby Bhd group of companies. Approvals from the SC included undertaking a capital repayment exercise, the listing of Synergy Drive on the Main Board of Bursa Malaysia and the delisting of each of the eight companies.
16 July 2007	Synergy Drive Bhd obtained approval from the SC to proceed with the merger.
16 August 2007 to 24 August 2007	Shareholders of the eight listed companies voted for the merger at their respective extraordinary general meetings (EGM). It was reported that there was overwhelming support from the shareholders of these companies. The shareholders were required to vote on two resolutions; the proposed disposal of the respective companies' entire businesses to Synergy Drive and the proposed capital repayment.
14 September 2007	Synergy Drive Bhd announced the appointment of six new board members. Appointed were Tan Sri Dato' Dr. Wan Mohd. Zahid Mohd. Noordin, Tan Sri Datuk Dr. Ahmad Tajuddin Ali, Raja Datuk Arshad Raja Tun Uda, Datuk Seri Panglima Andrew Sheng Len Tao, Dato'

[14] It was reported that there could have been a disagreement over whether the capital distribution and the sale of assets of the PNB companies to Synergy Drive should be inter-conditional. Coupling these two transactions would create more uncertainty and potentially lengthen the merger process. This was because the sale of assets required only 50% plus one share shareholders' approval, while the capital distribution needed 75% shareholders' approval. If the first transaction went through and the other not, the entire deal could be called off.

Date	Key Events
	Mohamed Sulaiman and Dato' Seri Ahmad Zubir Murshid. These new directors were drawn from the existing companies to provide continuity in the merged entity.
30 September 2007	Synergy Drive Bhd announced the appointment of six new directors and the resignation of the three interim directors at point of incorporation. The new additions to the board were Tun Musa Hitam, Tan Sri Dato' Seri (Dr.) Ahmad Sarji Abdul Hamid, Dr. Arifin M Siregar, Dato' Henry Sackville Barlow, Dato' Dr. Abdul Halim Haji Ismail and Datin Paduka Zaitoon Dato' Othman. This change in board composition would complete the transition of board control of Synergy Drive. It would also reflect the merged entity's positioning as a multinational company with a focused set of business interests.
01 October 2007	The High Court confirmed the capital reduction for each of the eight companies involved in the merger to facilitate the respective capital repayment exercise. The judgement also meant that the MGO for Negara Properties (M) Bhd had been triggered. The shareholders of Negara Properties received notice of the takeover offer from Synergy Drive to acquire all the voting shares of Negara which were not already held by Synergy Drive at an offer price of RM2.29 per Negara share which was satisfied by cash. Alternatively shareholders could choose to receive Synergy Drive shares issued at 0.44 Synergy Drive share for each Negara share.[15]
18 October 2007	The trading of the shares of the participating companies would be suspended from 9.00 am ahead of the books closure date on 24 October 2007.
27 October 2007 to 16 November 2007	During this period, shareholders of the participating companies had to decide whether to receive shares of Synergy Drive Bhd (based on the respective share conversion ratio) or the cash equivalent.[16]
28 November 2007	Synergy Drive Bhd renamed Sime Darby Bhd.
30 November 2007	Sime Darby Bhd shares were relisted on Bursa Malaysia, and the shares of the participating companies were concurrently delisted.

[15] The offer closed on 16 November 2007. The number of shares held by Synergy Drive as at the closing date was 99.05%. This allowed Synergy Drive under section 34 of the Securities Commission Act 1993 to compulsorily acquire any outstanding shares where acceptances had not been received.

[16] Since the capital repayment in relation to each participating company had been approved by the court, for administrative ease and efficiency, no RCPS A was issued. Instead entitled shareholders were issued Synergy Drive shares or cash payment for their shares in the participating companies based on the election.

People management

In the prospectus for Synergy Drive Bhd, it was acknowledged that managing employee sensitivities throughout the merger exercise was an important issue. The outcome of the merger could be adversely affected if the 104,300 employees from the nine participating companies did not buy in to the value proposition for the merger. Hence, steps were taken from the very beginning to address this risk as well as the risk of losing key members before or even after the merger.

First, a Merger Integration Committee (MIC) was formed on 27 December 2006 immediately following the acceptance of the merger proposal by the boards of all eight listed companies. The main task of the MIC was to advise the board of Synergy Drive, assume functions delegated by the board, identify synergies to be extracted from the merged entities and coordinate the integration process. The MIC was also responsible for leading the due diligence exercise on the eight companies and to prepare all the plans and documentation for shareholders' and regulators' consideration. The committee's first task was to appoint Bain & Company and Accenture as merger consultants, and Hewitt Associates to look into human resource issues.

The composition of the MIC reflected the need to seal commitment from the three holding companies, hence the inclusion of the group chief executives from Sime Darby Bhd, Golden Hope Plantations Bhd and Kumpulan Guthrie Bhd in the committee. The members of the MIC, chaired by Tan Sri Md Nor Yusof, were Dato' Ahmad Zubir Murshid, Dato' Sabri Ahmad, Dato' Abd Wahab Maskan, Tan Sri Hadenan A. Jalil, Raja Datuk Arshad Raja Tun Uda, Dato' Mohamed bin Sulaiman and Azmi Mohd Ali.

On 11 January 2007, after the MIC's maiden meeting, Dato' Ahmad Zubir Murshid was named chief executive designate of Synergy Drive Sdn Bhd. The objective behind this announcement was not only to provide leadership for the integration planning process but also to offer clarity on stakeholders' expectations on the future leadership of the merged entity.

The merger exercise picked up steam when, on 14 February 2007, the MIC released details regarding the formation of seven functional subcommittees to oversee the merger integration process and facilitate a seamless transition. The functional areas identified were:

i. plantations;
ii. property;
iii. non-core businesses;
iv. human resource;
v. finance and information technology;
vi. other corporate functions; and
vii. communications.

The roles and responsibilities of the subcommittees were developed together with the merger and human resources consultants. In summary, the plantations and property subcommittees were tasked with identifying synergy opportunities, defining strategic options, facilitating decision making and articulating strategies to ensure smooth integration. The role of the non-core subcommittee was to look into developing an overall action plan for the non-core businesses across the three groups of companies. The human resource subcommittee was assigned to optimise the workforce by developing a suitable retention strategy. The finance and information technology and other corporate functions subcommittees were responsible for ensuring business continuity while aligning processes and systems to ensure a smooth transition for their respective support services. And last but not least, the presence of the communications subcommittee was to make sure that all stakeholders, both internal and external, were updated on the merger integration process up to, and beyond, the listing of the new company.

Along with the seven functional subcommittees, the Merger Integration Office (MIO) was also established. The MIO would play an advisory role and act as an intermediary between the various subcommittees in leading the planning and implementation of the integration process. It would also ensure that strategic milestones and targets were achieved.

With all the committees and subcommittees in place, the next essential step would be to assemble the right people to steer the new entity at both the board and management levels. Reports highlighted divergent views regarding the selection process and hinted that PNB who controlled the majority stakes in all three groups of companies wanted more say regarding these key appointments.[17]

In a media briefing on 18 May 2007, details regarding the 21-member designated management team to take charge of the five core businesses and corporate support functions were released. Six persons were appointed to manage the plantations division, five for the property division and one each for the motor vehicle, energy and northern corridor, utilities and heavy equipment divisions. Six others were appointed to head various corporate functions. It was stressed that each of the identified personnel were experienced and highly qualified with established track records in managing growth in complex regional and global businesses and delivering results.

In addition, Dato’ Sabri Ahmad, the group chief executive from Golden Hope Plantations Bhd, was appointed as the adviser to Dato’ Ahmad Zubir specifically for the integration of the plantations business. And, the heads of the core businesses were Dato’ Azhar Abdul Hamid (plantation), Dato’ Abdul Wahab Maskan (property), Lawrence Lee (motor vehicle), Dato’ Mohd Shukri Baharom (energy and northern corridor), Ir Jauhari Hamidi (utilities), and Scott Cameron (heavy equipment). These appointments marked the entry into the second phase of the merger exercise.

On 14 September 2007 six new directors were appointed to the board, with six more on 30 September 2007. The three interim directors at the time on incorporation also resigned, thereby marking the complete transition of board control for the soon to be merged entity. The composition of the board included members from the participating companies to provide continuity, and from outside to reflect the merged entity’s positioning as a multinational company.

[17] Oh, E. (2007, May 19). Driving a synergy. *The Star*.

New leadership –final line-up

Board of directors of Sime Darby Bhd (as listed in the prospectus)

Tun Musa bin Hitam	Independent Non-Executive Chairman
Tan Sri Dato' (Dr.) Ahmad Sarji bin Abdul Hamid*	Non-Independent Non-Executive Deputy Chairman (Chairman of Permodalan Nasional Bhd)
Dr. Arifin Mohamad Siregar	Independent Non-Executive Director
Tan Sri Dato' Dr. Wan Mohd Zahid bin Mohd, Noordin*	Non-Independent Non-Executive Director (Chairman of Kumpulan Guthrie Bhd)
Tan Sri Datuk Dr Ahmad Tajuddin bin Ali	Independent Non-Executive Director (Board member of Sime Darby Bhd)
Datuk Seri Panglima Sheng Len Tao	Independent Non-Executive Director
Raja Datuk Arshad bin Raja Tun Uda	Independent Non-Executive Director
Dato' Henry Sackville Barlow	Independent Non-Executive Director (Board member of Golden Hope Plantations Bhd & Guthrie Ropel Bhd)
Dato' Mohamed bin Sulaiman*	Non-Independent Non-Executive Director (Board member of Sime Darby Bhd)
Dato' Dr. Abdul Halim bin Ismail*	Non-Independent Non-Executive Director (Board member of Golden Hope Plantations Bhd)
Datin Paduka Zaitoon Dato' Othman*	Non-Independent Non-Executive Director
Dato' Seri Ahmad Zubair @ Ahmad Zubir bin Haji Murshid	Non-Independent Non-Executive Director, Group Chief Executive

* representatives of PNB

Senior management team of Sime Darby Bhd (as listed in the prospectus)

	Role in Sime Darby	Role prior to Sime Darby
Dato' Sabri Ahmad	Plantations Integration Advisor	Group Chief Executive, Golden Hope Plantations Bhd
Dato' Azhar Abdul Hamid	Executive Vice President, Plantations Agribusiness division	Managing Director, Sime Plantations Sdn Bhd
Dato' Abd Wahab Maskan	Senior Executive Vice President, Property division	Group Chief Executive, Kumpulan Guthrie Bhd
Lawrence Lee	Executive Vice President, Motor division	Divisional Director, Motor Division, Sime Darby Bhd
Dato' Mohamad Shukri Baharom	Executive Vice President, Energy division	Managing Director, Sime Engineering Services Bhd
Ir Jauhari Hamidi	Executive Vice President, Utilities division	Managing Director, Sime UEP Properties Bhd
Scott Cameron	Executive Vice President, Heavy Equipment division	Managing Director, Hastings Deering Group
Razidan Ghazalli	Group Chief Financial Officer	Finance Director, Golden Hope Plantations Bhd
Dato' Sekhar Krishnan	Executive Vice President, Group Corporate Services	Group Chief Financial Officer, Sime Darby Bhd
Hisham Hamdan	Executive Vice President, Group Strategy and Business Development	Group Head – Strategy, Sime Darby Bhd
Mohamed Ishak Abdul Hamid	Executive Vice President, Group Human Resource	Group Head of Human Resource, Sime Darby Bhd
Nik Muhammad Hanafi Nik Abdullah	Head, Group Corporate Assurance	Senior General Manager of Finance and IT Services, Kumpulan Guthrie Bhd
Foo Marn Hing	Head, Group Risk Management	Group Chief Internal Audit Manager, Sime Darby Bhd

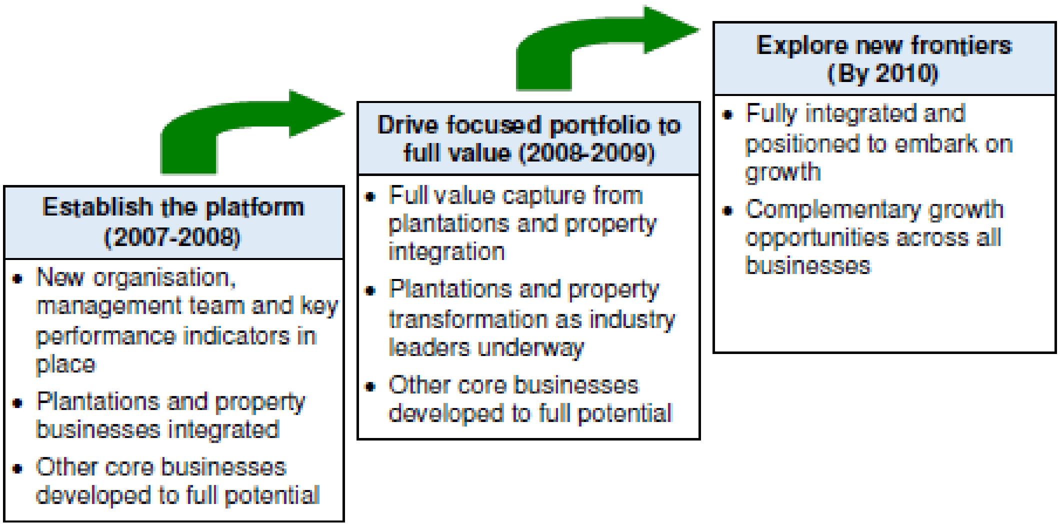
Post-merger – smooth drive or bumpy ride?

At the opening gong on 30 November 2007, the share price for Sime Darby Bhd debuted at RM11.20, recording a premium of RM2.30 or 26% over the relisting reference price of RM8.90. During the day, the share traded at a low of RM10.70 and a high of RM12.10 and closed at RM11.00. It was a very good start off the block for this newly merged entity and investor sentiment and expectation were naturally high.

This euphoric development should have put the naysayers in their place. However, investors are constantly reminded that past performance is no indication of future performance. Despite an impressive kick-off, it was still uncertain whether the merger would perform in the long run as promised and as planned? Would the synergies achieved be able to drive Sime Darby to become a Malaysian icon? Were there any 'hidden' speed bumps along the way?

Integration strategy and performance indicators

Figure 1: Three-phased merger integration road map



The 'new' Sime Darby would still have five core businesses – plantations and agribusiness, property, heavy equipment, motor vehicles, and energy and utilities – under its umbrella. The key difference in the before and after was size; both in terms of business operations and staff numbers. Nevertheless, during the pre-merger period, an implementation roadmap had been put together that ran until 2010 to integrate the main businesses. (See Figure 1.)

- In Phase 1 from 2007 to 2008, the focus would be on integrating the plantation and property businesses.
- In Phase 2, from 2008 to 2009, would focus on capturing the full value of synergies and operational improvements from the merger of the plantation and property businesses. The other core businesses would be developed to their full potential in Phases 1 and 2.
- In Phase 3, from 2010 onwards, the property and plantation business would be fully integrated and the group would embark on growth opportunities.

It was reported that the merged entity was expected to realise between RM400 million to RM500 million per annum in merger synergies from its plantations, property and shared services operations over a three-year period from mid-2009. A major portion of the merger synergies would be derived from the company's plantation operations, made up of cost and revenue synergies. Cost synergies would come from optimising mill routing and capacity utilisation, and fertilizer optimisation, while revenue synergies would be derived from the adoption of best practices in estate and mill management.

Property operations would be the second biggest contributor to merger synergies, where derived benefits would come from the combined scale of the various property companies. Cost synergies would be obtained from price optimisation from contractors and consultants due to economies of scale, and best practices in project management. Revenue synergies on the other hand would be gained from better pricing realisation with the strengthened Sime Darby brand and combined capabilities in customer-led product conceptualisation and delivery.

The various synergies to be realised under shared services comprised information technology, human resource, finance and other corporate functions. This included consolidation of human resource operations into a single shared service model; consolidation of finance operations, covering areas such as reporting, accounting, budgeting, treasury and cash management, and optimisation of treasury functions.

Table 3: Scorecard for Sime Darby Bhd

	2007		2008		2009		2010	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Return on shareholders' funds (%)	15.0	**15.9**	16.5	**18.0**	8.8	**10.6**	11.0	**3.5**
Net profit (RM mil)	1,400	**1,506**	3,150	**3,512**	1,900	**2,280**	2,500	**727**
Market capitalisation (RM mil)		**28,266**		**31,249**		**53,905**		**52,883**

Source: GLC Transformation Programme Progress Reviews, Secretariat to the Putrajaya Committee on GLC High Performance (PCG).

As can be seen from Table 3, fresh from the merger, Sime Darby managed to achieve a solid performance with a net profit of RM1.5 billion and return on equity (ROE) of 15.9% for 2007. These numbers surpassed the key performance indicators (KPIs) set for the year. The company's sterling performance continued in 2008 and 2009. However, cracks in the operations which were hinted at in 2008 and 2009 came to light in 2010, specifically from the energy and utilities division where losses were estimated at RM2.1 billion. Even so, the company still managed to record a profit RM727 million for the year.

Details of the scorecard on the achievement and performance of Sime Darby Bhd are attached as **Exhibit 10**.

Causalities and change in captainship

In June 2008, the board of Sime Darby terminated the services of its group chief financial officer Razidan Ghazalli and group vice-president for downstream and biofuel Muhammad Mohan Kittu Abdullah. The termination was in relation to trading losses from forward commodities contracts amounting to RM120 million carried out between October 2006 and August 2007 at Golden Jomalina Food Industries Sdn Bhd, a wholly-owned refinery of Golden Hope Plantations Bhd. Both of them were ex-Golden Hope officials and the losses were incurred under their watch. The board in a statement said that "that the persons concerned had failed to discharge their functions to the standard of care that were reasonably expected of them." [18]

The financial community, however, viewed this development positively. The losses involved were relatively small to have had an impact on Sime Darby's bottom line. More importantly, the message sent out by the board was that no transgressions, no matter how big or small, would be tolerated. This move by the board had set the tone for the governance culture in the new Sime Darby.

The Sime Darby board had to face a bigger challenge in May 2010. This time, the group chief executive Dato' Seri Ahmad Zubir Murshid was told to leave in relation to losses incurred by the engineering and utilities division. The losses, which were reported to have been in the region of RM1.96 billion, came from four projects – the Qatar Petroleum project, the Maersk Oil Qatar project, the Maersk Oil Qatar marine project and the Bakun Hydroelectric Project. Investor reaction to this news was more serious and dramatic. When the trading suspension for the counter was lifted following the release of this news, Sime Darby's share price plummeted and close to RM2.4 billion in market capitalisation was wiped out in that single day. [19]

It was reported that the board had been alerted by both internal and external auditors regarding the project delays and cost overruns. The board, however, relied on the management and judgement of the group chief executive who had argued that the losses could somehow be recovered from the Qatar government. As the captain of this conglomerate, one of his goals was revamp the engineering and utilities division into an integrated engineering, procurement, installation and commissioning contractor. His rationale was that despite the losses incurred, in a higher margin business, Sime Darby would benefit in the long run. [20]

The departure of Dato' Seri Ahmad Zubir Murshid saw the entry of Dato' Mohamad Bakke Salleh, a former group managing director at Felda Holdings Bhd. The new group chief executive would have to deal with the uphill tasks of cleaning the house and planning for the future. The immediate challenges for Sime Darby would be to re-establish the shareholders' and other stakeholders' trust. This meant that changes would need to be effected to strengthen the governance structure and risk management framework, as well as in the leadership and management team across all the divisions.

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[19] Ng, J. (2010, May 17). *The story behind Zubir's downfall.* Retrieved from The Edge: http://www.theedgemalaysia.com/features/167627-cover-story-the-story-behind-zubirs-downfall.html

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