SC CORPORATE CASE STUDY SERIES

Foreign Listings on Bursa Malaysia Securities Berhad

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The following definitions shall apply throughout this case study.

A-Shares	-	Shares that are traded in RMB on SSE and SZE
Act	-	Malaysian Companies Act 1965
B-Shares	-	Shares that are traded in United States Dollar on SSE and in HKD on SZE
Bursa Listing Requirements	-	Main Market Listing Requirements of Bursa Malaysia
Bursa Malaysia	-	Bursa Malaysia Securities Berhad
China Automobile Parts	-	China Automobile Parts Holdings Limited
China Ouhua	-	China Ouhua Winery Holdings Limited
China Stationery	-	China Stationery Limited
CSRC	-	China Securities Regulatory Commission
FBMKLCI	-	FTSE Bursa Malaysia Kuala Lumpur Composite Index
FYE	-	Financial year ended
H-Shares	-	Shares of companies incorporated in Mainland China that are traded on the HKEx
HB Global	-	HB Global Limited
HKD	-	Hong Kong Dollar
HKEx	-	Hong Kong Exchange and Clearing Limited
IPO	-	Initial public offering
K-Star Sports	-	K-Star Sports Limited
Mainland Counters	-	Mainland Chinese companies already listed on the Main Market of Bursa Malaysia
Maxwell	-	Maxwell International Holdings Berhad
Multi Sports	-	Multi Sports Holdings Limited

NYSE	-	New York Stock Exchange
PB	-	Price-to-book ratio
PE	-	Price-to-earnings ratio
QFII	-	Qualified Foreign Institutional Investor
R&D	-	Research and development
RM and sen	-	Ringgit Malaysia and sen respectively
RMB	-	Renminbi
S-Chips	-	Companies listed on the SGX, incorporated in Singapore, the British Virgin Islands, the Cayman Islands and Bermuda and have their business operations in Mainland China
SC	-	Securities Commission Malaysia
SGD	-	Singapore Dollar
SGX	-	Singapore Exchange Limited
SME	-	Small and medium enterprise
SOE	-	State owned enterprise
SSE	-	Shanghai Stock Exchange
SZE	-	Shenzhen Stock Exchange
XiDeLang	-	XiDeLang Holdings Limited
XingQuan	-	XingQuan International Sports Holdings Limited

Note:
For the purpose of this case study, all information, including information on companies listed on Bursa Malaysia, share prices, market capitalisations and corporate announcements, and legislation referred hereto is based on the information as at the latest practicable date of 28 November 2014, being the last trading day of November 2014, unless otherwise specified.

Interpretation
In this case study, words referring to the singular shall, where applicable, include the plural and *vice versa*, and words referring to the masculine gender shall, where applicable, include the feminine and neuter genders and *vice versa*. References to persons shall include a company or a corporation.

A Case Study on Foreign Listings on Bursa Malaysia Securities Berhad

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Case Study

1. Introduction

As early as 2006, the SC had relaxed its listing regulation, paving the way for foreign-owned companies, including those with their entire operations abroad, to list on Main Board of Bursa Malaysia. The rationale was that the inclusion of foreign issuers and the integration with global capital markets would improve the efficiency of the Malaysian capital market. It was expected that the capital market in Malaysia would benefit from an expanded pool of high quality issuers. Large numbers of foreign listings had taken place in stock exchanges around the world, from Singapore to Hong Kong to New York.

In 2009, Bursa Malaysia welcomed its first foreign listing, which is a Mainland Chinese-owned corporation with operations in Mainland China, through an IPO. XingQuan was listed on the Main Board of Bursa Malaysia in July 2009.

This case study on foreign listings predominantly focuses on Mainland Chinese companies listing on Bursa Malaysia. As of today, there are nine (9) foreign listings through IPO on the Main Market of Bursa Malaysia and all of these companies are from Mainland China, the latest being China Automobile Parts which was listed in January 2013.

Below are the summary profiles of the nine (9) Mainland Counters:

Company	Principal activities	Date of listing
XingQuan	XingQuan's principal activities are investment holding and provision of management services. The XingQuan group is principally engaged in the manufacturing of shoe soles and shoes and sales of shoe soles, shoes, apparels and accessories.	10 July 2009
Multi Sports	Multi Sports is an investment holding company. Through its subsidiaries, Multi Sports is engaged in the design, development and manufacture of sports shoes and shoe soles, production of plastic containers and packaging products and trading on garment products. Multi Sports is an original design manufacturer and original equipment manufacturer of sports shoes.	19 August 2009
XiDeLang	XiDeLang is an investment holding company. Through its subsidiaries, XiDeLang designs, manufactures and markets sports shoes as well as designs and markets sports apparel, accessories and equipment. XiDeLang's principal products include running shoes, basketball shoes, leisure shoes, skating shoes and tennis shoes.	11 November 2009

Company	Principal activities	Date of listing
K-Star Sports	K-Star Sports is an investment holding company. Through its subsidiaries, K-Star Sports is involved in the designing, manufacturing and distributing sports footwear, apparels and accessories. K-Star Sports is also involved in property investment holding.	4 June 2010
China Ouhua	China Ouhua is an investment holding company. Through its subsidiary, Yantai Fazenda Ouhua Winery Co. Ltd., China Ouhua is engaged in the production of varieties of wine and sales of self-produced wines.	3 November 2010
HB Global	HB Global is an investment holding company. HB Global's subsidiaries are principally engaged in the processing, packaging and producing various types of foods and rearing and trading of livestocks.	17 December 2010
Maxwell	Maxwell is an investment holding company. Through its subsidiaries, Maxwell is principally engaged in general trading, producing of plastic containers and general products, original design manufacturing and original equipment manufacturing of sport shoes.	6 January 2011
China Stationery	China Stationery is an investment holding company. Through its subsidiaries, China Stationery is principally involved in the production and sale of plastic tape printer, ink and plastic stationery and production, R&D of polypropylene sheets.	24 February 2012
China Automobile Parts	China Automobile Parts is an investment holding company. Through its subsidiaries, China Automobile Parts is involved in the manufacturing, marketing and trading of automobile chassis components.	30 January 2013

The total market capitalisation of these companies as at 28 November 2014 was RM859.17 million. Please refer to **Exhibit 1** for further background information of these Mainland Counters.

We note that there are other companies with predominantly foreign based operations which are listed on the ACE Market of Bursa Malaysia, which amongst others are as follows:

Company	Principal activities	Date of listing
Ideal Jacobs (Malaysia) Corporation Berhad	Ideal Jacobs (Malaysia) Corporation Berhad is an investment holding company. Through its subsidiaries, it is involved in the manufacturing of industrial labels and nameplates, laser/die-cut products and fabrication of plastic parts.	13 May 2011
Kanger International Berhad	Kanger International Berhad is an investment holding company. Through its subsidiaries, it is principally engaged in the manufacturing and trading of bamboo products for interior and exterior applications, bamboo flooring and related products.	23 December 2013

This case study principally focuses on the listings of Mainland Chinese companies on the Main Market of Bursa Malaysia given that generally companies listed on the Main Market of Bursa Malaysia are larger in size and have bigger scale of business operations.

2. Motivation for policy on foreign listings in Malaysia and incentives provided by Hong Kong and Singapore

Generally, the motivation for the introduction of the policy on foreign listings in Malaysia is to broaden the domestic capital market and to internationalise and increase the number of companies traded on Bursa Malaysia.

The SC has provided flexibilities to allow the listing of foreign companies on the Main Market of Bursa Malaysia, as well as the secondary listing of Malaysian companies on foreign exchanges[1]. The SC has also taken measures to strengthen the positioning of Bursa Malaysia as a preferred listing destination. In creating a conducive environment that fosters rapid corporate sector expansion through capital-raising or merger and acquisition activities, the SC has revised the guidelines on the offering and listing of equity securities in order to[2]:

(i) facilitate dual listings by allowing companies to list their entire issued capital with 100% full trading fungibility across Bursa Malaysia and other exchanges;

(ii) encourage foreign listings by streamlining the regulatory criteria for the listing of companies with foreign operations; and

(iii) allow the listing of companies incorporated in foreign jurisdictions in line with international practices while maintaining a requirement for standards of shareholder protection to be comparable with those in Malaysia.

<u>Motivation for foreign listings of Mainland Chinese companies</u>

Mainland Chinese economy has been growing at a rapid pace over the past 20 years. SSE and SZE are the primary choices for the Mainland Chinese companies to go listing[3].

Due to language similarity, geographical preference and the cost of offering, HKEx and SGX are the primary choices for Mainland Chinese issuers [4] seeking listing abroad.

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[1] SC Annual Report 2006
[2] SC Annual Report 2007
[3] Chinese Youth Online, 23 July 2010. *泉州企业为何多选择海外上市 (Translation: Why Many of the Enterprises in Quanzhou Seek Overseas Listing).*
Available from <http://zqb.cyol.com/content/2010-07/23/content_3339486.htm> 21 November 2014
[4] *Ditto*

Incentives provided by Hong Kong

There is no information available regarding any financial incentives provided by Hong Kong to attract foreign companies to list on HKEx. However, foreign companies, especially the Mainland Chinese companies, are attracted to get listed in Hong Kong due to several factors.

Hong Kong has a long-standing reputation as one of the most popular destinations for capital-raising among major financial markets. It has benefited greatly from the strength of its legal system, availability of professional talent and large pool of fund managers, as well as a generally business-friendly environment. Its political and geographical closeness to Mainland China continues to put Hong Kong at a unique advantage as the gateway between Mainland China and the rest of the world.

Hong Kong's legal framework which is based on English common law, and the adoption of International Financial Reporting Standards, provide a strong and attractive foundation for fund-raising activities. Investors from all over the world have confidence in the clarity and enforceability of their legal rights, as well as the comparability and reliability of the financial information made available to them[5]. Should a Mainland Chinese company be listed on HKEx, it would provide more exposure to the international investors.

The reputation of Hong Kong as a well-established financial center has enabled Hong Kong to attract various professionals to work in its financial services industry. Furthermore, Hong Kong, due to its geographical proximity, can better understand the conduct of businesses in Mainland China and has similar language with Mainland China. This would be an advantage for these financial service professionals when dealing with the Mainland Chinese companies. As a developed financial center, Hong Kong also has a large pool of investors and fund managers.

From the perspective of general business environment, Hong Kong offers various advantages, such as low tax rates, currency convertibility, unrestricted capital flows and ease of access to information. These factors are instrumental in making Hong Kong one of the most open markets in the world. Companies from Mainland China therefore are attracted to raise capital in a freely convertible currency on the Hong Kong market for their business development. Mainland Chinese companies have also taken full advantage of the Hong Kong capital market's relatively greater liquidity and its more effective and better regulated investment instruments[6].

[5] Financial Services Development Council. *Positioning Hong Kong as an International IPO Centre of Choice*, June 2014. FSDC Paper No. 09

[6] *Ditto*

Through flotation in the Hong Kong capital market, companies can accelerate their pace of development and increase their ability to follow international practices and transform themselves into entities with international appeal. A successful Hong Kong listing greatly improves the international standing of a Mainland Chinese company and boosts investors' confidence, making it possible for the company to introduce international strategic investors and participate in the international market.

The CSRC and the Hong Kong Securities and Futures Commission had, on 17 November 2014, launched Shanghai-Hong Kong Stock Connect, which involves mutual-trading access between SSE and HKEx. Under this program, investors in Hong Kong and Mainland China can trade shares listed on each other's market freely. The launch of the Shanghai-Hong Kong Stock Connect is an important step towards liberalisation of the Mainland Chinese capital market and speeding up convertibility of RMB on the capital account. International investors are now able to trade A-Shares through HKEx. However, during this initial stage, the direct trading of A-Shares is limited to the shares of 568 Mainland Chinese companies listed on SSE and a selection of shares traded on HKEx [7]. This program is also subject to trading quotas and other rules and regulations imposed by SSE and HKEx, which include amongst others the eligibility of participating investors[8]. From long term perspective, this program will improve the competitiveness of both markets which in turn will enhance the attractiveness of both markets to international investors.

<u>Incentives provided by Singapore</u>

Similarly, there is no information on any financial incentives provided by Singapore for foreign companies to list on SGX. SGX describes itself as the Asian Gateway, connecting investors in search of Asian growth to corporate issuers in search of global capital[9]. Among the factors which attract Mainland Chinese companies to seek listing on SGX include[10]:

(i) The listing procedure in Singapore is well defined and is more transparent than that of Mainland China;

(ii) The listing standards are lower in Singapore, making it easier for privately owned small-and-medium enterprises to meet the listing requirements;

[7] USA Today, 21 November 2014. *China opens stock exchange to foreign money.* Available from <http://www.usatoday.com/story/money/markets/2014/11/21/china-stocks-opening-little-interest/19329689/> 1 December 2014
[8] SSE and HKEx websites. 1 December 2014
[9] SGX website. 2 November 2014
[10] Ding Liu. *Public Listing of China-originated Companies in Singapore.* Sophia University

(iii) The liquidity of stocks listed in Singapore is high and the investors can easily liquidate their shares without any capital controls or foreign exchange controls; and

(iv) The business environment in Singapore appeals to the Mainland Chinese companies due to its majority Chinese ethnic population.

Some Mainland Chinese companies may prefer Singapore to Hong Kong due to the following reasons[11]:

(i) The Hong Kong market has already listed many Mainland Chinese companies, especially the SOEs, whereas Singapore is still enthusiastic on Mainland China-related stocks; and

(ii) Privately owned medium sized Mainland Chinese companies prefer Singapore, as listing on HKEx would require them to compete with the large SOEs of Mainland China.

In addition, SGX has created a framework in cooperation with the CSRC to allow companies incorporated in Mainland China to list in Singapore directly. On 25 November 2013, the SGX and the CSRC announced that they have established a Direct Listing Framework to facilitate Mainland China-incorporated companies to list directly in Singapore. The Direct Listing Framework took effect on 26 November 2013. Under the framework, companies incorporated in Mainland China and have obtained the approval of the CSRC are able to seek a listing on SGX. The regulatory processes and due diligence conducted by the relevant regulatory organisations in both countries will provide greater assurance to the marketplace[12].

Question:

Would the facilitations offered by HKEx and SGX in attracting the listings of Mainland Chinese companies enable them to attract listings of companies from other countries?

[11] *Ditto.*

[12] SGX, 2014. *SGX and China Securities Regulatory Commission establishing direct listing framework.* Available from <http://www.sgx.com/wps/wcm/connect/sgx_en/home/higlights/news_releases/SGX+and+China+Securities+Regulatory+Commission+establishing+direct+listing+framework> 25 November 2013

3. Motivations for Mainland Chinese companies to list on Bursa Malaysia

The following are some of the motivations why Mainland Chinese companies want to list on Bursa Malaysia:

(i) Smaller companies may not be able to get listed in Mainland China

The barriers to entry for the capital markets in Mainland China are high enough to deter the local SMEs there. Furthermore, the Mainland Chinese government controls the number of IPOs on its stock market, the pace of issue and the allocation of resources[13].

Traditionally, Mainland China implements a quota system under which companies seeking a public listing must first obtain the approval from the CSRC, the country's capital market regulatory body. Quotas are usually allocated to ministries and provinces. Typically strategic industries and companies with strong political connections, especially the key SOEs under central or local governments, are accorded higher priority for IPO[14]. Starting from 1993, an increasing number of Mainland China-established companies have sought IPOs in overseas markets.

Many companies are eager to raise funds from the capital market as bank loans are usually expensive, if not impossible[15]. Due to the restricted resources allocated by the Mainland Chinese government and the quota system, there is keen competition for IPOs in Mainland China[16]. In view of this, smaller private companies may not be able to compete with the SOEs or other large companies to get listed in Mainland China.

(ii) IPO process in Mainland China can be very lengthy

The process of getting listed on the Mainland Chinese market is lengthy and usually takes up to five (5) years for the companies from preparation until they are listed. This may have prompted many to turn to Hong Kong and other foreign exchanges.

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[13] Zhang, Cinder (Xinde) and King, Tao-Hsien Dolly, The Decision to Cross-List: The Case of Chinese IPOs and ADRs (June 20, 2008). 21st Australasian Finance and Banking Conference 2008 Paper. Available at SSRN:http://ssrn.com/abstract=1148946

[14] Aharony, Joseph and Lee, Jevons and Wong, T.J. *Financial Packaging of IPO Firms in China*. Journal of Accounting Research, Vol. 38, No. 1, Spring 2000. Available at SSRN: ht tp://ssrn.com/abstract=204230

[15] China Daily, 2014. *Capital market reform catalyst for China's restructuring.* Available from <http://www.chinadaily.com.cn/business/2014-07/03/content_17639980.htm> 24 November 2014

[16] Jean Jinghan Chen, 2012. *Corporate Governance and Initial Public Offering in China.* Duke University

CSRC, as part of its evaluation process, will scrutinise the financial authenticity of each company applying for IPO and disqualifying unsatisfactory applicants in order to trim down the waiting list for companies seeking to list[17].

However, this has led to a long waiting period for companies wanting to list their shares on the Mainland Chinese stock exchanges. This, in turn, has resulted in more and more companies in Mainland China looking at overseas exchanges to raise funds in view of the country's long IPO backlog at SSE and SZE.

Furthermore, in Mainland China, before a company can submit its application to the CSRC for listing, it must undergo a period of tutorship where it learns about the requirements and best practices of becoming a listed company. Under this tutorship requirement, if the sponsor is providing the tutoring to the company, the period of the tutorship is one (1) year. If another institution has provided the tutorship, then the sponsor needs to provide tutorship for at least another six (6) months. After the IPO, the sponsor must continue to provide guidance to the company for the remaining time in the year and the following two (2) complete accounting years[18].

The companies which intend to raise money from the capital market to fund its operation or growth may not want to wait for such a long period of time before they are able to list in the domestic capital market in Mainland China.

(iii) Broaden investors base

Prior to the launching of Shanghai-Hong Kong Stock Connect on 17 November 2014, the domestic Mainland Chinese capital markets had been largely restricted to retail investors only. The presence of financially stronger foreign institutional investors was relatively low.

The Mainland Chinese domestic capital market is segmented into A-Shares and B-Shares markets. A-Shares are open to Mainland Chinese domestic investors only while B-Shares, which were initially opened only to foreign investors, are now accessible to individual domestic investors since 2001, provided these investors have foreign currencies.

Existing rules restrict overseas money managers to foreign currency-denominated B-Shares, while only those approved under the QFII system can invest in RMB-

[17]China Daily Information Co, 24 December 2013. *Verification starts for IPOs on mainland market*.
Available from <http://usa.chinadaily.com.cn/business/2012-12/24/content_16048375.htm> 4 December 2014
[18] CSRC website, 28 December 2014

denominated A-Shares. The QFII system was introduced in 2002 to permit selected overseas institutional investors to invest in the RMB-denominated A-Shares. There are as many as 251 [19] QFIIs as of 2013 which mainly comprise banks, trust companies, asset managers, securities firms, sovereign wealth funds, pension funds and endowment funds.

As at 28 November 2014, there are 174 H-Shares companies, which are incorporated in Mainland China[20], listed on the Main Board of HKEx and 130 Mainland Chinese companies on SGX[21].

(iv) Unable to list in Hong Kong and Singapore

A former investment banker stated that the Mainland Chinese firms that have sought listing on Bursa Malaysia were mostly third-tier entities or SMEs operating in the lower industry value chain and they are seen as earning low margins and lacking branding power[22].

The table below compares the market capitalisation of the nine (9) Mainland Counters and the ten (10) biggest Mainland Chinese companies listed on SGX and H-Shares companies listed on HKEx respectively, in terms of market capitalisation in RM:

Bursa Malaysia		SGX(1)		HKEx(2)	
Company	**Market capitalisation as at 28 November 2014* (RM 'million)**	**Company**	**Market capitalisation as at 28 November 2014* (RM 'million)**	**Company**	**Market capitalisation as at 28 November 2014* (RM 'million)**
China Automobile Parts	177	Yangzijiang Shipbuilding Holdings Limited	12,180	PetroChina Co Limited	806,148

[19] CSRC Annual Report 2013
[20] HKEx website, 1 December 2014.
[21] Bloomberg, 22 September 2014. *Singapore Exchange Sees End to Hiatus for China IPOs.* Available from <http://www.bloomberg.com/news/2014-09-21/singapore-exchange-sees-end-to-two-year-hiatus-for-china-ipos.html> 1 December 2014
[22] The Edge Malaysia, 10 May 2014. *Highlight Bursa-listed Chinese Firms Scrutinised on Falling Profitability, Non-Compliance*. Available from <http://www.theedgemalaysia.com/business-news/289000-highlight-bursa-listed-chinese-firms-scrutinised-on-falling-profitability-non-compliance-the-edge-malaysia-reports-.html> 10 November 2014

Bursa Malaysia		SGX[(1)]		HKEx[(2)]	
Company	**Market capitalisation as at 28 November 2014* (RM 'million)**	**Company**	**Market capitalisation as at 28 November 2014* (RM 'million)**	**Company**	**Market capitalisation as at 28 November 2014* (RM 'million)**
XiDeLang	149	Yanlord Land Group Limited	5,713	Industrial and Commercial Bank of China Limited	788,306
XingQuan	135	Cosco Corp Singapore Limited	3,515	China Construction Bank Corporation	641,615
China Stationery	111	China Merchant Holdings Pacific Limited	2,649	Agricultural Bank of China Limited	511,003
Maxwell	92	Ying Li International Real Estate Limited	1,725	Bank of China Limited	505,311
Multi Sports	70	China Aviation Oil Singapore Corp Limited	1,571	China Life Insurance Co Limited	346,735
China Ouhua	53	Bund Center Investment Limited	1,560	China Petroleum & Chemical Corporation	341,713
HB Global	40	China Minzhong Food Corp Limited	1,488	Ping An Insurance (Group) Co of China Limited	219,684
K-Star Sports	32	China Fishery Group Limited	1,460	Bank of Communications Co Limited	213,681
-	-	Midas Holdings Limited	869	China Pacific Insurance (Group) Co Limited	122,882

(Source: Bloomberg)

Notes:

* *28 November 2014 being the last market day for November 2014*

(1) *Based on the exchange rate of SGD1:RM2.5947 as at 28 November 2014*

(2) *Based on the exchange rate of HKD1:RM0.4363 as at 28 November 2014*

As illustrated above, the companies listed on Bursa Malaysia are much smaller in market capitalisation than those listed on SGX and HKEx. From market capitalisation perspective, they obviously may not have the competitive advantage to get listed on SGX and HKEx. Therefore, Bursa Malaysia appears to be their destination of listing after HKEx and SGX. Malaysia is one of the two South East Asian markets which allows the listing of foreign companies on its stock exchange at this moment.

(v) Proximity to places of principal activities

One of the reasons why Mainland Counters choose to seek listing in Malaysia may also be due to the geographical proximity of Malaysia to their places of principal activities. The table below summarises the principal places of business and/or the head offices of the Mainland Counters:

Company	Principal place of business / head office in Mainland China
XingQuan	JinJiang City, Fujian Province
Multi Sports	JinJiang City, Fujian Province
XiDeLang	JinJiang City, Fujian Province
K-Star Sports	JinJiang City, Fujian Province
China Ouhua	Yantai, Shandong Province
HB Global	Ju County, Shandong Province
Maxwell	JinJiang City, Fujian Province
China Stationery	Putian City, Fujian Province
China Automobile Parts	JinJiang City, Fujian Province

(Source: IPO prospectus and annual report of the respective companies)

Out of the nine (9) Mainland Counters, seven (7) have their principal places of business and/or head offices in the Fujian Province of Mainland China, which is geographically closer to South East Asia.

The other possible reason which attracts these companies to get listed in Malaysia is the common language. Besides Mandarin, the dialect of Fujian Province, Hokkien, is also commonly spoken among Chinese ethnics in Malaysia.

Furthermore, the concentration of Mainland Counters in a single geographical location could be due to promotion via word of mouth among the local business owners in that province regarding the listing prospects in Malaysia.

(vi) Other motivations

In general, the objectives of IPO for these Mainland Counters, as extracted from their respective IPO prospectuses, are as below:

(a) To achieve a listing status;
(b) To enhance the stature of the company to market its products and expand its market position;
(c) To enable the company to have access to the capital market for cost effective capital raising for future growth purpose; and
(d) To provide opportunity for the investing community to participate in the equity and continuing growth of the company.

Most of the Mainland Counters have expressed that they have chosen to list in Malaysia as they are attracted to the political stability and economic prospects of Malaysia, in particular, when Malaysia was relatively less affected by the global financial downturn. They have also considered the close relationship between Mainland China and Malaysia[23]. For example, the Chairman of China Stationery, said he was enticed to consider listing in Malaysia after getting a chance to meet the Prime Minister of Malaysia during a reception held in Mainland China back in 2009[24]. China Automobile Parts had chosen to list in Malaysia partly due to its presence in Malaysia built from the products it sold to the South East Asian market[25].

Question:
Why has Malaysia not been as successful as Singapore in attracting Mainland Chinese companies to list on Bursa Malaysia, in terms of quantity and quality of companies listed, given the many common similarities between these two (2) countries?

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[23] Info.gongchang, 9 October 2009. *艾迪耐斯:力造运动生活化主流装备 (Translation: Addnice: Building Equipment for Sports Life).*
Available from < http://info.gongchang.com/business/Textile/2009-10-09/57997.html> 20 October 2014
Fjsen.com, 31 January 2013. *泉州汽配第一股马来西亚上市 (Translation: First Stock of Automobile Parts Companies in Quanzhou to list in Malaysia).*
Available from <http://qz.fjsen.com/2013-01/31/content_10520348.htm> 20 November2014
[24] Chan Quan Min, KiniBiz.com, 6 July 2013. *Malaysia Opens the Door to Chinese Companies*.
Available from <http://www.kinibiz.com/story/issues/34918/malaysia-opens-the-door-to-chinese-companies.html> 20 November 2014
[25] Fjsen.com, 31 January 2013. *泉州汽配第一股马来西亚上市 (Translation: First Stock of Automobile Parts Companies in Quanzhou to list in Malaysia).* Available from <http://qz.fjsen.com/2013-01/31/content_10520348.htm> 20 November2014

4. Performance of Mainland Counters' IPO

The IPOs of Mainland Counters have generally been welcomed in Malaysia judging from the IPO subscription rate. The table below summarises the IPO price of the respective companies, compared to the opening and closing prices on the first day of listing on Bursa Malaysia together with the subscription rates.

Company	IPO price (RM)	First day opening price (RM)	First day closing price (RM)	Subscription rate
XingQuan	2.10	1.83	1.78	Oversubscribed by 3.0 times
Multi Sports	0.85	0.86	0.77	Oversubscribed by 4.3 times
XiDeLang	0.58	0.75	0.63	Oversubscribed by 1.4 times
K-Star Sports	2.15	2.14	2.23	*
China Ouhua	0.60	0.66	0.65	Oversubscribed by 6.3 times
HB Global	0.80	0.80	0.80	Oversubscribed by 3.3 times
Maxwell	0.54	0.56	0.57	Undersubscribed by 0.9 times
China Stationery	0.95	0.98	1.10	Undersubscribed by 0.5 times
China Automobile Parts	0.68	0.80	0.78	Oversubscribed by 2.4 times

Note:

* *The subscription rate for K-Star Sports is not publicly available*

It is noted that most of the Mainland Counters have been trading above their IPO prices on the first day of listing. The shares for six (6) out of the nine (9) companies have been oversubscribed. However, the over-subscription rates of these companies are between 1.4 times to 6.3 times. This is relatively low compared to the subscription rate of recent IPOs of Malaysian companies of approximately 20 times.

However, it appears that the early enthusiasm for these companies have dwindled post listing, since all of them trade below their IPO price for most of the time since their listing, as shown in **Exhibit 2**. The shares of these companies have become hard sells in Malaysia.

The table below illustrates the PEs and PBs of the Mainland Counters based on their latest audited financial statements:

Company	Share Price as at 28 November 2014^ (RM)	Earnings per share based on the latest audited financial statements* (RM)	Net assets per share based on the latest audited financial statements* (RM)	PE (times)	PB (times)
XingQuan	0.400	0.29	2.64	1.36	0.15
Multi Sports	0.135	0.04	0.88	3.08	0.15
XiDeLang	0.130	0.06	0.46	2.11	0.28
K-Star Sports	0.120	NA	0.70	NA	0.17
China Ouhua	0.080	NA	0.39	NA	0.21
HB Global	0.085	NA	0.84	NA	0.10
Maxwell	0.230	0.10	1.16	2.20	0.20
China Stationery	0.090	0.17	1.27	0.53	0.07
China Automobile Parts	0.295	0.13	0.58	2.27	0.51

(Source: Bloomberg and latest audited financial statements of the respective companies)

Notes:

^ *28 November 2014 being the last market day for November 2014*

* *Based on the exchange rate of RMB1:RM0.5413 as at 31 December 2013 (RMB1:RM0.5175 as at 30 June 2014 for XingQuan)*

NA Not applicable as the company registered loss for the latest audited financial year

From the table above, we note that the PEs of the Mainland Counters are exceptionally low. These Mainland Counters are traded at an average PE of 1.93 times and range between 0.53 times to 3.08 times. These PEs are very low compared to the overall PE of FBMKLCI of 16.37 times as at 28 November 2014. China Automobile Parts, which is categorised in the industrial sector, is traded at a PE of 2.27 times compared to the PE of the Bursa Malaysia Industrial Index of 24.77 times as at 28 November 2014. Meanwhile, China Stationery, Maxwell, Multi Sports, XiDeLang and XingQuan, which are categorised in the consumer product sector, are traded within PE range of 0.53 times to 3.08 times, compared to the PE of the Bursa Malaysia Consumer Product Index of 21.35 times as at 28 November 2014.

From the PB perspective, these Mainland Counters have been traded between 0.07 times and 0.51 times of their respective latest audited net assets. The PBs of the Mainland Counters are also very low compared to the overall PB of FBMKLCI of 2.16 times as at 28 November 2014. China Automobile Parts is traded at a PB of 0.51 times compared to the PB of the Bursa Malaysia Industrial Index of 2.13 times as at 28 November 2014. Meanwhile, China Stationery, China Ouhua, HB Global, K-Star Sports, Maxwell, Multi Sports, XiDeLang and XingQuan, which are categorised in the consumer product sector, are traded within the PB range of 0.07 times to 0.28 times, compared to the PB of the Bursa Malaysia Consumer Product Index of 1.97 times as at 28 November 2014.

Overall, it is noted that the traded share prices of most of the Mainland Counters are very low when measured from the perspective of their PEs and PBs in comparison with the other companies listed on Bursa Malaysia.

The average trading volume of the nine (9) Mainland Counters for the past six (6) months prior to 28 November 2014 is summarised in the table below:

Company	Six (6) months average trading volume (June 2014 – November 2014*)	Monthly trading volume as a percentage to the public shareholding spread ^
XingQuan	10,621,383	8.78%
Multi Sports	46,986,233	13.76%
XiDeLang	83,627,167	27.49%
K-Star Sports	10,078,500	9.09%
China Ouhua	34,109,617	9.69%
HB Global	4,767,360	3.14%
Maxwell	4,732,317	2.83%
China Stationery	207,906,283	21.84%
China Automobile Parts	33,603,750	12.54%

Notes:

* *Average trading volume is computed based on the number of shares traded between 2 June 2014 and 28 November 2014, being the last market day for November 2014*

^ *The number of public shareholding spread is computed by subtracting the number of shares held by the substantial shareholders from the issued and paid-up share capital of the respective companies*

We note that the shares of the nine (9) Mainland Counters are fairly liquid. The trading volumes of these shares are traded between 2.83% and 27.49% of the respective issued and paid-up share capital, which are higher than the trading volume of FBMKLCI counters of 1.71%. This shows that, to a certain extent, investors still have interest in the trading of the Mainland Counters. This could be due to the low prices by these companies which range from RM0.09 to RM0.40 which may appeal to some traders.

Question:

As an informed investor, what would attract you to subscribe for the IPOs of Mainland Chinese companies or other foreign companies seeking listing on Bursa Malaysia?

5. Issues that contributed to the current performance of Mainland Counters

We discuss below certain pertinent issues which we believe have contributed to the current performance of the Mainland Counters:

(i) Lacklustre financial performances

A number of Mainland Counters have not been performing well since their listing. The table below summarises the financial performance of these Mainland Counters since their IPOs up to the latest FYE:

	Profit/(Loss) for the FYE				
Company	2009[(1)] (RM'000)	2010[(2)] (RM'000)	2011[(3)] (RM'000)	2012[(4)] (RM'000)	2013[(5)] (RM'000)
XingQuan	92,352	103,383	117,739	122,713	135,177
Multi Sports	57,186	65,035	81,233	61,600	22,682
XiDeLang	68,190	77,913	91,012	81,369	56,044
K-Star Sports	NA	41,247	22,279	(13,058)	(44,674)
China Ouhua	NA	53,213	28,406	(84)	(48,270)
HB Global	NA	93,912	109,653	(13,421)	(23,143)
Maxwell	NA	NA	69,856	77,679	41,710
China Stationery	NA	NA	NA	228,462	209,961
China Automobile Parts	NA	NA	NA	NA	76,502

(Source: Annual audited financial statements of respective companies since their listing)

Notes:

NA Not applicable as the company has not been listed yet

(1) Based on the exchange rate of RMB1:RM0.5019 as at 31 December 2009 (RMB1:RM0.5151 as at 30 June 2009 for XingQuan)

(2) Based on the exchange rate of RMB1:RM0.4674 as at 31 December 2010 (RMB1:RM0.4772 as at 30 June 2010 for XingQuan)

(3) Based on the exchange rate of RMB1:RM0.5034 as at 31 December 2011 (RMB1:RM0.4672 as at 30 June 2011 for XingQuan)

(4) Based on the exchange rate of RMB1:RM0.4908 as at 31 December 2012 (RMB1:RM0.5002 as at 30 June 2012 for XingQuan)

(5) Based on the exchange rate of RMB1:RM0.5411 as at 31 December 2013 (RMB1:RM0.5149 as at 30 June 2013 for XingQuan)

All the companies stated above have their FYE 31 December except for XingQuan which has FYE 30 June

HB Global, K-Star Sports and China Ouhua had registered losses continuously for FYE 2012 and FYE 2013 while China Stationery, Maxwell, Multi Sports and XiDeLang have registered declining profits.

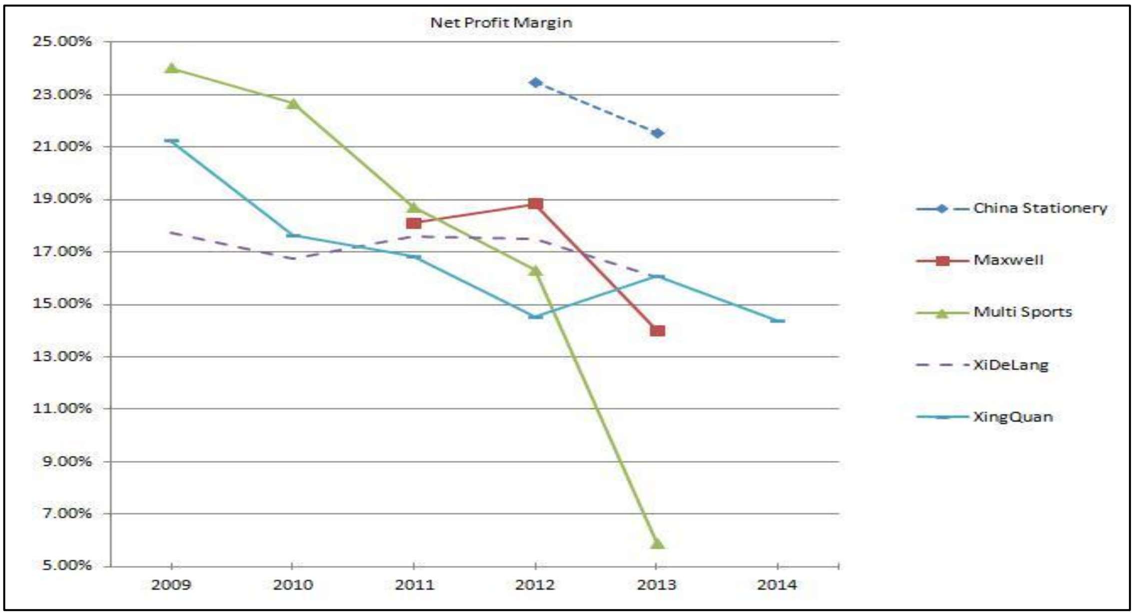
According to the respective announcements on Bursa Malaysia, the rationale for the loss recorded for the latest audited FYE are as below:

(a) HB Global suffered low demand of its products as a result of the bird flu situation in Mainland China. Depreciation of Japanese Yen also affected the demand of its ready-to-serve food and frozen vegetable products from Japan, which is one of its key markets.

(b) K-Star Sports' loss is attributable to the slowdown of Mainland Chinese economy, declining consumer spending and oversupply of sportswear which deteriorated its product margins.

(c) China Ouhua's loss was mainly due to increasing competition in domestic wine industry and competition from imported wines.

We note that the net profit margins of several of these Mainland Counters have been on a decreasing trend since their IPO, as shown in the charts below:



Note:

The chart above has excluded China Automobile Parts which was listed in 2013 and the companies which registered loss in the latest audited financial year

China Stationery's net profit margin has been declining since its listing. This was mainly attributed to higher advertisement cost. Furthermore, in 2013, disposal of quoted shares has also partly caused a fall in net profit margin.

Maxwell's profit margin has slightly increased from 2011 (18.10%) to 2012 (18.84%) but dropped in 2013 (14.00%). The drop was attributable to increasing administrative expenses and selling and distribution expenses. The effective tax rate for FYE 2013 was higher than the statutory tax rate of 25% arising from non-deductible post listing expenses incurred at the holding company and new group of companies.

Multi Sports' net profit margin has been decreasing continuously since its listing. Its net profit margins have declined from 24.03% for FYE 2009 to 16.32% for FYE 2012. In 2013, the net profit margin dropped to 5.88%. The declining trend was mainly attributed to higher production costs and administration expenses.

XiDeLang's net profit margin had shown a stable trend since its listing in 2009. For FYE 2009, the profit margin was 17.72% and dropped to 16.75% for FYE 2010. The net profit margin increased for FYE 2011 (17.59%) and FYE 2012 (17.50%) and dropped again to 16.03% for FYE 2013. This was primarily attributed to increased production cost.

The net profit margin of XingQuan has been on a declining trend since its listing but increased in 2013 before dropping again in 2014. The decrease in net profit margin was attributed to higher provision for tax, decrease in sales volume and increase in selling and distribution expenses.

(Source: Announcements on Bursa Malaysia)

(ii) Shareholders' interest perception

Listed companies are expected to optimise the value of their shareholders. One way in achieving this expectation is to distribute dividend to the shareholders when the companies are holding substantial cash balances and have no other intended utilisation of the cash which is expected to enhance the shareholders' value.

The table below illustrates the cash and bank balances of the Mainland Counters and their respective track record of dividend distribution:

Company	Cash and bank balances based on latest audited financial statements (RM)	Dividend history
XingQuan	*598,471,377	(i) RM15,095,341 (equivalent to 5.0 sen per share) for FYE 2010 (ii) RM6,208,482 (equivalent to 2.0 sen per share) for FYE 2012
Multi Sports	*271,329,184	(i) RM11,250,000 (equivalent to 2.5 sen per share) for FYE 2010 (ii) RM16,094,250 (equivalent to 3.1 sen per share) for FYE 2011
XiDeLang	*156,850,280	(i) RM10,399,974 (equivalent to 2.5 sen per share) for FYE 2010 (ii) RM3,629,989 (equivalent to 0.5 sen per share) for FYE 2012
K-Star Sports	*49,683,261	(i) RM4,420,355 (equivalent to 1.6 sen per share) for FYE 2010
China Ouhua	*65,881,631	(i) RM19,927,594 (equivalent to 2.7 sen per share) for FYE 2010
HB Global	*55,363,729	(i) RM8,496,385 (equivalent to 1.8 sen per share) for FYE 2010 (ii) RM17,615,303 (equivalent to 3.8 sen per share) for FYE 2011
Maxwell	354,132,150	(i) RM6,987,187 (equivalent to 1.8 sen per share) for FYE 2011
China Stationery	*1,280,289,676	(i) RM41,438,497 (equivalent to 3.4 sen per share) for FYE 2012
China Automobile Parts	*210,455,975	(i) RM14,884601 (equivalent to 2.5 sen per share) for FYE 2013

(Source: Annual reports of respective companies)

Note:

* *Based on the exchange rate of RMB1:RM0.5411 as at 31 December 2013 (RMB1:RM0.5176 as at 30 June 2014 for XingQuan)*

As shown above, most Mainland Counters are holding a large amount of cash in their bank accounts. Nevertheless, these companies have not been paying consistent and regular dividend to their shareholders. This may be perceived by the investors that the management of these companies may not have been prioritising the interest and value of their shareholders or they lack cash management skills. Worse still, certain investors may doubt the integrity of the cash balances reported.

(iii) Concentrated business industry

As stated in the Introduction section, five (5) out of the nine (9) Mainland Counters are in the sports shoe industry, namely K-Star Sports, Maxwell, Multi Sports, XiDeLang and XingQuan.

Such concentration in a specific industry may not be in favour with the investors as they may not be able to diversify their investment portfolios.

(iv) Adverse publicity

There have been several incidents to the Mainland Counters which may have tainted the image of other Mainland Chinese companies:

(a) HB Global

HB Global had delayed the release of its audited financial statements for FYE 31 December 2012 and only released it on 7 May 2013. Its then, external auditors have expressed their qualified opinion in the audited financial statements for FYE 31 December 2012, where they were unable to independently substantiate the bank amount of RMB249.63 million and to receive reliable confirmation on 56% of the trade receivables and 48% of the trade payables.

In addition to the external auditors' qualified opinion, the profit after taxation as stated in the audited financial statements was approximately 45.29% less than the amount stated in the unaudited results as announced on 28 February 2013.

HB Global, under the directive of Bursa Malaysia, had on 22 May 2013, appointed special auditors to carry out a special audit on the accounts of the company for the FYE 31 December 2012. The significant findings highlighted by the special auditors, as announced on Bursa Malaysia, are as follows:

(1) Reconciliation of the cash balance, trade receivables and trade payables contrary to the disclaimer of opinion of the, then, external auditors; and

(2) Proposal of a total impairment loss of RMB67.6 million which resulted in a loss after tax for the FYE 31 December 2012 of RM30.1 million.

Subsequently, HB Global also delayed its submission of unaudited fourth quarterly results for financial period ended 31 December 2013 and its audited financial statements for FYE 31 December 2013.

HB Global has been categorised as an affected issuer under Practice Note 17 of Bursa Listing Requirements on 7 May 2013.

HB Global is currently in the midst of formulating a regularisation plan for submission to the regulatory authorities. It has submitted an application to Bursa Malaysia for extension of time to submit the regularisation plan to 7 March 2015 and is currently pending approval from Bursa Malaysia.

(b) China Ouhua

The external auditors of China Ouhua have expressed a qualified opinion on the audited financial statements of China Ouhua for FYE 31 December 2013, specifically on the trade and other receivables.

Among the receivables in question are deposits of RMB118.8 million representing 90% of the total cash consideration to purchase land and buildings from the Sub-district Office in Mainland China. According to the external auditors, they were unable to ascertain whether the net recoverable amount of the assets acquired will exceed the total purchase consideration as no independent professional valuation was done on the acquired assets. Furthermore, the external auditors have also highlighted the collectability of the company’s past due receivables which stood at RMB44.93 million and therefore unable to determine whether any impairment adjustment was necessary.

Although China Ouhua had announced on 9 May 2014 that it would continue to pursue the recoverability of the trade receivables RMB44.93 million, we noted from the unaudited three (3)-month and six (6)-month financial results that the amount of trade receivables were at RMB59.69 million and RMB59.51 million respectively.

(c) China Stationery

China Stationery had on 8 April 2014 announced that a fire had occurred to its production plant in Mainland China on 4 April 2014. As a result of the fire, the accounting records for the financial years prior to 4 April 2014 were destroyed.

In its audited financial statements for the FYE 31 December 2013 that was announced on 8 July 2014, the external auditors expressed a disclaimer opinion in that the auditors had not been able to provide a basis for an audit opinion due to lack of audit evidence.

China Stationery has been classified as an affected company under Practice Note 17 of Bursa Listing Requirements since 8 July 2014.

Furthermore, there have been accounting fraud scandals which occurred in Mainland Chinese companies in other overseas exchanges, including NYSE and SGX [26]. We briefly discuss here the accounting fraud scandal of S-Chips. Several S-Chips have been revealed to be involved in embezzlement, forgery and accounting fraud. Receivership processes have been stalled by uncooperative management and employees of their Mainland Chinese subsidiaries. In addition, the Mainland Chinese authorities have made it difficult for the receiver to take possession of and manage the Mainland Chinese subsidiaries, including the sell-off of their assets. Since all of these Mainland Chinese companies have their business operations in Mainland China, prosecution by Singaporean authorities of Mainland Chinese perpetrators will be difficult since there is no extradition treaty between Mainland China and Singapore [27].

The above incidents in Malaysia and other scandals overseas may leave poor perceptions among investors towards Mainland Chinese companies, including those listed on Bursa Malaysia.

(v) Concern regarding corporate governance

External auditors play a vital role in the process of accountability to shareholders. Their primary role is to form an opinion on the financial statements of the company and thereafter report to the shareholders through the annual audited financial statements. In performing their duties, they may identify and quantify certain financial risks that may necessitate adjustments to the financial statements.

[26] The Sun Daily, 18 September 2013. *Restoring lustre of China stocks on Bursa*, 2013.
Available from <http://www.thesundaily.my/news/832603> 18 October 2014
[27] *S-Chips Scandals*.
Available from Wikipedia < http://en.wikipedia.org/wiki/S-Chips_Scandals> 7 November 2014

Furthermore, Paragraph 15.23 of Bursa Listing Requirements provides for the external auditors to review the statement made by the board of directors of a listed issuer, with regard to the state of internal control of the listed issuer as a group and report the results thereof to the board of directors of the listed issuer.

We note that six (6) of the Mainland Counters have changed their external auditors since their IPOs to-date and China Ouhua has changed its external auditor three (3) times since its IPO in 2010 as shown below:

Company	Auditor
XingQuan International	(i) Foo Kon Tan Grant Thornton LLP (appointed since listing exercise) (ii) SJ Grant Thornton Chartered Accountants (appointed on 21 December 2012) (1)
Multi Sports	(i) Foo Kon Tan Grant Thornton LLP (appointed since listing exercise) (ii) RT LLP Public Accountants and Chartered Accounts (appointed on 23 December 2013)
K-Star Sports	(i) Foo Kon Tan Grant Thornton LLP (appointed since listing exercise) (ii) Chengco Singapore PAC (appointed on 24 August 2012)
China Ouhua	(i) Ernst & Young LLP (appointed since listing exercise) (ii) Messr Baker Tilly TFW LLP (appointed on 28 June 2011) (iii) Helmi Talib & Co Public Accountants and Chartered Accountants (appointed on 20 February 2014)
HB Global	(i) Paul Wan & Co Public Accountants and Certified Public Accountants (appointed since listing exercise) (ii) UHY Lee Seng Chan & Co Public Accountants and Chartered Accountants (appointed on 21 April 2014)
China Stationery	(i) Foo Kon Tan Grant Thornton LLP (ii) RT LLP Public Accountants and Chartered Accounts (appointed on 5 September 2014)

(Source: IPO prospectus and annual reports of respective companies)

Note:

(1) SJ Grant Thornton Chartered Accountants practices in Malaysia

Question:

What other factors do you think may have possibly contributed to the poor performance of these Mainland Counters?

6. Challenges faced by Mainland Chinese companies to list in Malaysia

We note that there are several challenges commonly faced by foreign companies seeking for listing in overseas exchanges, which are also applicable to Mainland Chinese companies to list in Malaysia. These challenges include:

(i) Image problem associated to the Mainland Counters

As illustrated in **Exhibit 2**, most of the Mainland Counters are traded below their IPO price. We have also discussed in previous section about the sluggish share price of the Mainland Counters and various issues related to them.

This may affect the appetite of local investors for any future Mainland Chinese companies seeking to list in Malaysia. Investors may not be interested in subscribing for the new IPO shares from the Mainland Chinese companies as they would have concerns that the share price of new listings may have the same fate as the Mainland Counters.

Furthermore, there have been no consistent dividend payment track records by these Mainland Counters. This may influence investors to perceive that Mainland Chinese companies are not good choices for investment.

(ii) Lack of understanding of the Mainland Chinese companies

Another factor of concern for companies seeking overseas listing is the lack of understanding of these companies by the local investors in the markets in which they are listed.

The products manufactured by the Mainland Counters are marketed almost entirely within Mainland China and, therefore, many of these companies were not known to Malaysian investors until their listing. Furthermore, business operations in Mainland China may be subjected to different regulations, business environment, competition behaviours and prospects which are different from those of Malaysia.

Under such circumstances, Malaysian investors may not fully understand the business activities of Mainland Chinese companies and may not be fully conversant to assess the management strength and future prospects of these companies. As a result, the investors will not be able to evaluate these foreign companies accordingly for investment purposes.

Nevertheless, we note that for information purpose, there are currently research reports available for Maxwell, Multi Sports and XiDeLang on Bursa Malaysia's website.

(iii) Language barrier

The managements from foreign countries, especially those from Mainland China, are generally not conversant in English. Therefore, it would be difficult for the management of these companies to communicate their message effectively to local investors and to establish effective investor relations. Investor relation is very important in helping investors to understand the company, build confidence towards the company and thus support the share price of the company to a certain extent.

In conclusion, there is lack of confidence by local investors for the Mainland Counters in view of the factors mentioned above. Hence, Mainland Chinese companies seeking to list in Malaysia would face the challenges stated above, particularly the image problem caused by these Mainland Counters. Scandals and eventual delisting of Mainland Chinese companies in other exchanges like NYSE and SGX may further exacerbate this problem. As such, it would be difficult to convince the local investors to support their IPOs.

Question:
In your opinion, what needs to be done to regain investors' confidence towards Mainland Chinese companies seeking to list in Malaysia?

7. Regulations to accommodate and manage foreign company listing

In 2006, the SC announced measures to facilitate the listing in Malaysia of foreign-owned companies having operations abroad as well as secondary listings on foreign stock exchanges of Main Board-listed Malaysian companies. These measures were announced by YAB Tun Abdullah bin Haji Ahmad Badawi, the former Prime Minister and Minister of Finance, at the Invest Malaysia 2006 Conference to improve the value proposition of the Malaysian capital market.

These measures include:

(i) Large foreign-owned corporations having operations outside Malaysia can now seek primary or secondary listings on the Main Board of Bursa Malaysia;

(ii) Eligible Malaysian-owned corporations with foreign-based operations are now given the flexibility to seek listing without having to comply with the minimum ownership period as previously required; and

(iii) Healthy Malaysian companies listed on the Main Board of Bursa Malaysia can seek secondary listings on foreign stock exchanges which are members of the World Federation of Exchanges with a view to attaining international recognition.

Section 5.38 to Section 5.49 of the Equity Guidelines issued by the SC set out the additional requirements for the listing of foreign corporations in Malaysia. These additional requirements cover, among others, the following:

(i) A foreign corporation seeking listing on Bursa Malaysia must be incorporated in a jurisdiction that is subject to corporation laws and other laws and regulations where appropriate which have standards at least equivalent to those in Malaysia, particularly in-

    (a) corporate governance;
    (b) shareholders and minority interest protection; and
    (c) regulation of take-overs and mergers.

(ii) The foreign corporation must obtain the approval of all relevant regulatory authorities of the jurisdiction in which it is incorporated and carries out its core business, before issuing its listing prospectus;

(iii) The foreign corporation must have been registered with the Registrar of Companies under the Act;

(iv) The foreign corporation must prepare its financial statements and reports in accordance with the approved accounting standards as defined in the Financial Reporting Act 1997, which include International Accounting Standards and must be audited in accordance with approved auditing standards applied in Malaysia or International Standards on Auditing; and

(v) Requirement for resident director.

These additional listing requirements are intended to safeguard investors' interest when a foreign company seeks listing on Bursa Malaysia.

Based on the listing requirements focusing on profitability of a company seeking for listing, Singapore and Hong Kong require the company to obtain higher profit track record as compared to Malaysia. In Bursa Malaysia Listing Requirements, HKEx listing requirements and SGX listing requirements, it is stated that the company must maintain the profitability for at least three (3) years. Even when it comes to market capitalisation, Singapore and Hong Kong require a bigger market capital compared to Malaysia's listing requirements. As for SZE, its listing requirements specify a lower profit track record and market capitalisation requirement as compared to Singapore, Hong Kong and Malaysia.

Under SGX's listing requirements, foreign issuers are required to have at least two (2) independent directors who are Singapore residents on the board at all times, not only at the time of listing. Section 4A.04 of Bursa Listing Requirements for Main Market states that for an applicant whose operations are entirely or predominantly Malaysian-based must have a majority of directors whose principal or only place of residence is within Malaysia while for an applicant whose operations are entirely or predominantly foreign-based must have at least one (1) director whose principal or only place of residence is within Malaysia. SGX, HKEx and Bursa Malaysia requires a company seeking to list to have the same management for three (3) preceding financial years.

For one of the routes to get listed on HKEx, the applicant is required to have positive cash flow from operating activities of at least HKD100 million in aggregate for the three (3) preceding financial years. Applicants, seeking to list on Bursa Malaysia under the profit test and market capitalisation test, are required to register positive cash flow from operating activities. Similar to Bursa Malaysia, SGX also requires applicants to register positive cash flow from operating activities.

Please refer to **Exhibit 3** for a summary of the comparison of listing requirements of main markets in Singapore, Hong Kong, Mainland China and Malaysia.

In conclusion, the coverage of SC's guidelines and Bursa Listing Requirements appears to be adequate to evaluate, monitor and manage foreign listings on Bursa Malaysia.

Questions:

1. *Which specific areas of the Bursa Listing Requirements do you think should be revised or further liberalised to encourage foreign listings on Bursa Malaysia?*
2. *Do you think the current Bursa Listing Requirements should be further enhanced to regulate foreign companies listed on Bursa Malaysia in order to increase the confidence of investors?*

8. Key issues that lead to the implementation of the policy on foreign listings

As mentioned in the previous section, the policy to allow foreign and dual listings was introduced in 2006. This was expected to promote cross-border linkages with other capital markets and expand the diversity of listed offerings. These initiatives formed part of a broader strategy to position Bursa Malaysia internationally.

Under these measures, foreign-owned corporations having operations outside Malaysia can now seek primary or secondary listings on the Main Board of Bursa Malaysia.

According to the former Chairman of the SC, Tan Sri Zarinah Anwar, this liberalisation would enhance diversity of offerings and would promote cross-border linkages with other markets through dual-listings[28].

She also stated that the guidelines for cross border listings are aimed at heightening the integration of Malaysian capital market internationally and expand the breadth of listings in the (Malaysian) equity market. This liberalisation should eventually increase high quality stocks listed on Bursa Malaysia and the range of investment opportunities for investors[29].

We also note that the opening for foreign listing on Bursa Malaysia is in tandem with the Capital Market Masterplan to implement further expansion plans towards becoming a mature capital market and developing its international positioning in areas of competitive and comparative advantage[30].

Attracting foreign listings appeared to be an important strategic move for the stock exchanges around the world. Compared to the other capital markets worldwide like Tokyo, Singapore and United States of America, Malaysia's opening to foreign companies to list on Bursa Malaysia is relatively late. Apart from Singapore, Malaysia is the second country in ASEAN to open its door for foreign listing in the local capital market. We also note that the Securities and Exchange Commission of Thailand had, in July 2014, announced that it plans to launch new rules to allow firms from ASEAN countries to issue new shares or to be dual-listed in Thailand in 2015[31].

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[28] Securities Commission Malaysia Press Release, *22 June 2006. New SC measures to facilitate cross border listings*, Available from <http://www.sc.com.my/post_archive/new-sc-measures-to-facilitate-cross-border-listings-promote-linkages-with-other-markets-and-listings-of-foreign-corporations-in-malaysia/> 22 December 2014

[29] Speech by YBhg Tan Sri Zarinah Anwar, *Speech for the Launch of FTSE-Bursa Malaysia Index Series*, 26 June 2006

[30] Capital Market Masterplan, 2011

[31] National Multimedia, 2 December 2014. *SEC has six strategies to open Thai capital market to ASEAN investors*. Available at <http://www.nationmultimedia.com/business/SEC-has-six-strategies-to-open-Thai-capital-market-30248963.html> 22 December 2014

9. Improving the attractiveness of Malaysia for foreign listing

We have opened our capital market for foreign listings since 2006. However, we have yet to attract the number and diversity of foreign companies to list on Bursa Malaysia.

This could be attributable to the fact that Bursa Malaysia may not be as attractive as other exchanges such as NYSE, HKEx and SGX in terms of market capitalisation, depth and investors' base. As at November 2014, the total market capitalisation of 903 companies listed on Bursa Malaysia was approximately RM1,679.08 billion. This is smaller when compared to the total market capitalisation of companies listed on SGX of approximately RM2,569.89 billion, RM11,017.38 billion for HKEx and RM65,160.87 billion for NYSE [32].

Good quality foreign companies generally look to list on exchanges with deep market together with good and consistent enforcement. In addition, we also need to have a broad base of investors, large pool of market intermediaries and investment professionals to make the market more dynamic. As discussed in the previous section, while our listing requirements for foreign listings are of similar standards to those in other markets, we have yet to achieve the desired result for foreign listings in Malaysia.

(i) Marketing of Bursa Malaysia

In order to improve the attractiveness of Malaysia for foreign listing, we could initiate more targeted marketing to make better known Bursa Malaysia and the benefits for listing on Bursa Malaysia to foreign companies. This can be done by actively participating in local capital market conferences in the country of interest to promote Malaysian capital market as a good destination for listing.

Secondly, Malaysia can also approach directly the government or government agencies of the targeted country to encourage more companies from that country to get listed in Malaysia. SGX has been actively pursuing this strategy with the Mainland Chinese government. On 15 November 2005, SGX announced the signing of Memorandum of Understanding ("MOU") with the Zhejiang Financial Affairs Office of the Zhejiang Provincial Government in Mainland China to encourage and facilitate more listings of Zhejiang enterprises on SGX. In the first two (2) months of 2006, SGX signed another two (2) similar MOUs with Mainland China's Shandong Provincial Government and the Wuxi Municipal Government of Jiangsu Province.[33]

[32] World Federation of Exchanges website. 12 January 2015
[33] SGX website

Nevertheless, we should be mindful not to overly rely on Mainland China for foreign listings, as other stock exchanges, such as HKEx and SGX, may have built their reputations and early mover advantages in attracting Mainland Chinese companies over the years.

(ii) Dual listing of foreign companies listed elsewhere to also obtain listing on Bursa Malaysia

Another way to encourage foreign listing is dual listing of foreign-listed companies on Bursa Malaysia. Currently, there are several Malaysian companies which are dual-listed on Bursa Malaysia and SGX, amongst others, IHH Healthcare Berhad and Malaysia Smelting Corporation Berhad. However, there is no foreign-listed company with 100% foreign operations which is also listed on Bursa Malaysia under the dual-listing arrangements.

As discussed in previous section, one of the challenges currently faced by the Mainland Counters is that not many Malaysians know about the products and brands of their companies and therefore may not be interested to invest in their shares. If we are able to attract recognisable companies to get listed on Bursa Malaysia, the local investors may be more excited to invest and trade in such companies. However, most of the well-established foreign companies are already listed on other exchanges. Therefore, it may be worthwhile to explore the possibility of having dual-listing for these companies.

(iii) Listing of foreign companies with local operations

We may also wish to consider approaching the foreign based companies with substantial business operations in Malaysia to list their Malaysian subsidiaries on Bursa Malaysia. Currently we have a number of subsidiaries of foreign companies, among others, Nestle (Malaysia) Berhad, British American Tobacco (Malaysia) Berhad and Carlsberg Brewery Malaysia Berhad, listed on Bursa Malaysia. These companies, although their holding companies are established in foreign countries, have well-known names or brands among Malaysians. In addition, they have good corporate governance and have sound management practices. Overall, the share performance of these companies listed on Bursa Malaysia has been out-performing FBMKLCI as shown in the table below:

Company / Index	PE as at 28 November 2014 (times)	PB as at 28 November 2014 (times)
Nestle (Malaysia) Berhad	28.58	19.70
British American Tobacco (Malaysia) Berhad	24.48	39.66
Carlsberg Brewery Malaysia Berhad	19.95	13.51
FBMKLCI	16.60	2.16

(Source: Bloomberg and latest audited financial statements of the respective companies)

In view of this, we should approach the Malaysian subsidiaries of other foreign companies which have built up strong market presence in Malaysia for a direct listing on Bursa Malaysia. Examples of such foreign entities include Mercedes-Benz Malaysia Sdn Bhd, Sony Malaysia and Malaysian subsidiaries of Samsung Electronics Co., Ltd.

We hope the dual-listing of foreign companies or the listing of the subsidiaries of foreign companies in Malaysia on Bursa Malaysia would act as catalysts for more foreign-based companies to participate in the Malaysian capital market.

Question:
Given the current development of capital markets in Malaysia and worldwide, which of the aforesaid initiatives will be the best to improve the attractiveness of Malaysia for foreign listing?

10. Lessons learnt

It has been very competitive for stock exchanges around the world to attract foreign listings, especially the good companies. While there are other successful stock exchanges which managed to attract even more foreign listings, Bursa Malaysia has so far managed to attract only nine (9) foreign listings on the Main Market of Bursa Malaysia and all of these IPOs are from Mainland China.

If measured in terms of public subscription rate, the IPOs of the Mainland Counters have been generally welcomed in Malaysia. However, it was after their respective IPOs that the Mainland Counters' performance started to decline. The subsequent lacklustre performance of the Mainland Counters was contributed by various factors as discussed in the previous sections.

The lessons which we can learn from our foreign listing liberalisation can be viewed from the following prospective:

(i) Objectives of allowing foreign listing

Among the stated objectives of the SC to allow foreign listing in Malaysia are to:

(a) increase high quality stocks listed on Bursa Malaysia and the range of investment opportunities for investors;
(b) promote cross-border linkages with other capital markets and expand the diversity of listed offerings on Bursa Malaysia; and
(c) integrate Malaysian capital market internationally.

However, the foreign companies currently listed on Bursa Malaysia are entirely from Mainland China and half of them are concentrated in the sport shoe industry. This would suggest that we have yet to achieve the level of diversification and internationalisation which the SC had expected. Furthermore, the total market capitalisation of the nine (9) foreign companies listed on the Main Market of Bursa Malaysia is only RM859.17 million, which is merely 0.06% of the total market capitalisation of companies listed on Bursa Malaysia.

(ii) Competition amongst stock exchanges

We note that competitions among stock exchanges worldwide to attract foreign listing have intensified over the recent years. As a result, some stock exchanges are exploring more accommodating rules to attract foreign listing. For example, HKEx is seeking opinions from market participants on whether weighted voting rights, which include dual-class shares, should be allowed. The plan to look into a rule change came as a number of Mainland Chinese technology companies had sought to list in the United States of America, rather than Hong Kong, which has been a traditional favourite destination for Mainland Chinese firms listing outside the mainland. Alibaba Group Holding Ltd was listed on NYSE on 19 September 2014 after Hong Kong refused to accept the company's proposal that it would continue to nominate the majority of the board members even after being listed[34].

Market analysts are of the view that the Shanghai-Hong Kong Stock Connect could put pressure on Singapore's capital market in attracting foreign listings. They highlighted that Singapore is already behind global heavyweights like NYSE, London Stock Exchange and HKEx in the fierce competition for new listings [35]. For information purpose, there was only one (1) foreign company listed on SGX from 1 January 2014 up to 28 November 2014 while there were none listed on Bursa Malaysia during the same period.

Questions:

1. *Do you think we have achieved the objective of increasing the number of quality stocks listed on Bursa Malaysia as a result of the opening up of foreign listings in 2006?*
2. *In view of the competition from stock exchanges worldwide like NYSE, London Stock Exchange, HKEx and SGX, what are the competitive advantages of Bursa Malaysia which could be marketed to foreign companies to list in Malaysia?*

[34] Gregor Stuart Hunter, 2014. *Hong Kong Exchange Considers Rule Change After Losing Alibaba IPO*, Wall Street Journal.
Available from <http://online.wsj.com/articles/hong-kong-exchange-considers-rule-change-after-losing-alibaba-ipo-1409311411> 4 December 2014

[35] Channel New Asia, 21 November 2014. *SGX must innovate to remain relevant: Analysts.*
Available from <http://www.channelnewsasia.com/news/business/singapore/sgx-must-innovate-to/1484298.html> 4 December 2014

11. Conclusion

We have liberalised our capital market for foreign listings since 2006, to enhance the integration of the capital market internationally and to expand the breadth of listings. This goal appears to have not been met as we have yet to attract the number and diversity of foreign companies to list on Bursa Malaysia.

Given the information and discussions provided in the previous sections, what are your views with regards to the following:

(i) We have so far managed to attract mainly companies from Mainland China to list on Bursa Malaysia. However, a number of these Mainland Counters have not been performing well subsequent to their IPOs.

- In view of this, should we continue to allow in companies from Mainland China? What other countries could we explore to attract foreign companies to list in Malaysia?

(ii) As mentioned in the earlier sections, the competition among the stock exchanges worldwide to attract foreign listings has intensified in the recent years.

- In view of this stiff competition and the relatively late opening for foreign listings in Malaysia, should we still maintain the goal of positioning Bursa Malaysia in the international platform?

(iii) We note from the IPO prospectuses of the Mainland Counters that the proceeds raised from their IPOs were utilised for the expansion of their production capacity and to fund other activities in their country. This will eventually result in an outflow of our currency and eventually impact the RM.

- From our country's perspective, do the benefits of attracting more foreign listings on Bursa Malaysia outweigh the disadvantages?

(iv) Malaysia is still considered an emerging market and it may be difficult to attract quality foreign companies to list on Bursa Malaysia. There is a large pool of potential local companies in Malaysia, especially among the SMEs, which may be good candidates to be groomed for listing on Bursa Malaysia to raise funds for their business expansion programmes.

- Do you think these local companies should be given priority in nurturing them to get listed on Bursa Malaysia rather than emphasising on increasing the number of foreign companies listed on Bursa Malaysia?

(v) We note that the numbers of new listings on Bursa Malaysia have been declining over the years. The table below compares the number of new listings on Bursa Malaysia in the recent five (5) years to the number of new listings from 1993 to 1997:

Year	Number of new listing
1993	44
1994	66
1995	51
1996	92
1997	88
2010	29
2011	28
2012	17
2013	17
2014	15

(Source: Bursa Malaysia website)

- What are the possible reasons for the reduction of new listings on Bursa Malaysia? What are the possible impacts of this trend towards our efforts to attract more foreign listings?

(vi) Amidst our efforts in attracting foreign companies to list on Bursa Malaysia, there have been some local SMEs which have sought listing overseas, for example on SGX and National Stock Exchange of Australia.

- What are the possible reasons for this? In your opinion, what should we do to make Bursa Malaysia more attractive for the listings of local SMEs?