

10TH PACIFIC RIM REAL ESTATE SOCIETY ANNUAL CONFERENCE
Bangkok, Thailand
25 - 28 January 2004

**Corporate Real Estate Activities of Listed Companies :
Disclosures, Announcements and Listing Requirements**

Ting Kien Hwa

*Department of Estate Management
Faculty of Architecture, Planning & Surveying
University of Technology MARA,
40450 Shah Alam, Selangor
Malaysia*

Telephone : 03 - 5544 4217, Fax : 03 – 5544 4353, e-mail : tkhlsk@tm.net.my

Keywords : Disclosures, announcements, corporate real estate

Corporate Real Estate Activities of Listed Companies : Disclosures, Announcements and Listing Requirements

Ting Kien Hwa

*Department of Estate Management
Faculty of Architecture, Planning & Surveying
University Technology MARA
40450 Shah Alam, Selangor,
Malaysia*

Abstract

This paper examines the disclosure obligations on listed companies as stipulated by the Listing Requirements of the Stock Exchange. The focus will be on the disclosure requirements on corporate real estate proposals and transactions by listed non-real estate companies.

This paper will also discuss the requirements and procedures in making announcements relating to corporate proposals of a company.

Keywords : Disclosures, announcements, listing requirements

1.0 Introduction

Corporate real estate refers to properties owned by non-real estate companies. To meet changing economic situations and business requirements, listed companies are frequently involved in property transactions. Some of the common corporate real estate activities are :

- (a) property disposals;
- (b) property acquisitions;
- (c) property sale and leasebacks;
- (d) property revaluations;
- (e) property joint ventures.

When a listed company or its subsidiary enters into such a transaction, the company is required to disclose the information so as to comply with the Listing Requirements of the Stock Exchange. The rationale behind disclosures is to reduce asymmetric information in the stock market so that all investors enjoy equal access to such information. Such disclosures could help in a fair and orderly market conduct as investors could make use of the available market information to make informed investment decisions.

2.0 Regulations governing disclosures in the Kuala Lumpur Stock Exchange

Provisions relating to disclosures are found in the revamped Kuala Lumpur Stock Exchange (KLSE) Listing Requirements issued on 22 January 2001. The objectives of the Listing Requirements are to enhance transparency and corporate governance, enhance capital market efficiency, improve investor protection and strengthen confidence of investors. The provisions in the Listing Requirements relate to disclosure, corporate governance, continuing listing obligations, financial reporting and procedural requirements. All companies listed on the Main and Second Board of the KLSE are required to observe these requirements.

A comprehensive Listing Requirements will benefit investors and shareholder as it could :

- (a) enhance shareholders' value in the long term,
- (b) provide better protection of shareholders' interest,
- (c) reducing the risk faced by shareholders and investors,
- (d) enable investors to make better informed investment decisions.

The Listing Requirements is complemented by Practice Notes to aid interpretation and to clarify the operational procedures of the Listing Requirements.

The KLSE does not have power to enforce compliance to its listing requirements, but companies that do not comply with the Listing Requirements could be reprimanded, suspended or delisted from the stock exchange.

2.1 General Disclosure requirements on listed companies

Under the KLSE Listing Requirements, all listed companies are expected to observe continuing disclosure requirements.¹ Continuing disclosure refers to the timely and accurate disclosure by a listed company of all material information to the public.

Under the Corporate Disclosure Policy of the Listing Requirements, companies are required to maintain high standards of disclosure. This disclosure requirement ensures that all material information necessary for informed investing is disclosed to the market on a timely basis and by taking reasonable steps to ensure that the investors enjoy equal access to such information.

A listed company is required to make immediate public disclosure of any material information.² Material information is defined as information reasonably expected to have a material effect on the price, value or market activity of any shares or on the decision of an investor that will affect the choice of action.

Corporate real estate events such as purchase or sale of property assets and entry into a joint venture agreement are examples of events which require immediate disclosure.³

Other material information include information concerning the company's business, property, financial condition or prospects; dealings with employees, suppliers, customers etc.; any event that may affect the rights or interests of the listed company; or any events that may affect the size of the public holdings of its securities.⁴

While the presumption is in favour of disclosure, there might be situations where a company may choose to refrain from disclosing information relating to its corporate

activities. There are situations where a company may need to negotiate and conclude a deal for example to negotiate a real estate acquisition. Any information release during the negotiation stage may lead to an increase in the purchase price as the seller may then demand for a higher selling price. Similarly any sell-offs of any non-core properties of a company may require considerable time for negotiations.

When information is voluntarily withheld, the company must closely monitor the share price of the company during the period. A company must make immediate announcement to KLSE upon detecting unusual circumstances such as heavy share transaction volume, unusual market activity, surfacing rumours or news and signs that insider trading are happening.

The company under these situations must immediately publicly clarify, confirm or deny the rumour or report.

3.0 Announcement requirements relating to transactions

When a listed company has material information to be disclosed, it will make an announcement. The Listing Requirements requires that an announcement must be prepared and issued with reasonable care and due diligence. The content of an announcement made must be :⁵

- (a) factual, clear, unambiguous, accurate, succinct and contain all such information that allow investors to make an informed decision;
- (b) not false, misleading and/or deceptive;
- (c) balanced and fair; and
- (d) comprehensive to the laymen.

The level of requirements on announcements relating to corporate real estate transactions depends on :

- (a) the nature of the transaction⁶
i.e. whether the transaction is a non-related party transaction or a related party transaction;
- (b) the size of the transaction in terms of percentage ratio⁷
For real estate transactions, the ratio is the value of the assets compared with the net tangible assets of the purchasing company.

3.1 Related Party Transactions

A related party transaction occurs when a listed company or its subsidiaries enter into a transaction which involves the direct or indirect interest of a related party. A related party refers to a director, major shareholder, person connected with such director or major shareholder of a listed company or related companies within the group of companies of the listed company.⁸ Related party transactions may occur for transactions relating to acquisition of properties, disposal of assets and the establishment of joint ventures.

3.2 The Size of the Transactions

For corporate real estate deals, the obligation to make disclosure is heavier if the transaction in terms of percentage ratio (i.e. value of assets/the purchasing company's net tangible assets) is high. Where a transaction is less than 5% ratio only an immediate announcement is required. But when the percentage ratio equals or exceed 5%, a circular must be sent to the shareholders and also to obtain shareholders approval in a general meeting.

The percentage ratio rule is applicable when the transaction involves equity shares as consideration and where the ratios produce anomalous results or are inapplicable.

For transactions involving the acquisitions or disposals of various parcels of land contiguous to each other, the KLSE may apply the rule of aggregation whereby the separate transactions are aggregated and treated as one transaction if such transactions are within a one year period and the total percentage ratio is equal or exceed 5%.⁹

The announcement requirements vary for transactions involving related and non-related parties. Table 1 combines the announcement requirements for percentage ratios with related/non-related party transactions.

Table 1 : Announcement requirements on related party transactions.

Percentage ratios in respect of the transactions	Non-related party transactions	Related party transactions
< 5%	<ul style="list-style-type: none"> • no announcement if consideration is in cash or unquoted securities • immediate announcement if consideration is wholly or partly in securities for which listing is sought 	<ul style="list-style-type: none"> • immediate announcement
5% to <15%	<ul style="list-style-type: none"> • immediate announcement as soon as terms of transaction have been agreed 	<ul style="list-style-type: none"> • immediate announcement • circular to shareholders • approval of shareholders in general meeting • appoint independent adviser before terms of transaction are finalized
15% to < 25%	<ul style="list-style-type: none"> • immediate announcement as soon as terms of transaction have been agreed for information 	<ul style="list-style-type: none"> • immediate announcement • circular to shareholders • appoint independent adviser before terms of transaction are finalized
25% and more	<ul style="list-style-type: none"> • immediate announcement as soon as terms of transaction have been agreed • circular to shareholders • approval of shareholders in general meeting 	<ul style="list-style-type: none"> • immediate announcement • circular to shareholders • approval of shareholders in general meeting • appoint independent adviser before terms of transaction are finalized

Source : Kang (2001)

4.0 Procedures of disclosure in KLSE

A listed company may make public material information by making an announcement first to KLSE or at the same time to the press and news media.

A listed company may choose to make disclosure after the stock market has closed trading. A listed company may be temporarily suspended in trading if it chose to make an announcement before or during trading hours. The period of temporary suspension will allow proper dissemination of information and the subsequent evaluation of information by the investors.

4.1 The process of making announcements

Corporate announcements are made by the public listed companies, merchant banks, external company secretaries or stock broking company which is acting as an advisor to the listed company.

Corporate announcements may involve corporate real estate which may include fund raising (e.g. public issue, rights issue, special issue etc.) to acquire or the refinancing of an acquisition of assets, acquisition/disposal, corporate real estate restructuring etc.

The issuers of corporate announcement i.e. the public listed companies, merchant banks or external company secretaries will first prepare the announcements. To send the prepared announcement to the KLSE, the issuer will establish a connection to the KLSE LINK through the internet.

The KLSE LINK is a network connecting issuers of corporate announcements to KLSE for the purpose of corporate disclosure and information exchange. Once connection is established, the announcement will be submitted electronically through the internet. Upon receipt of the announcement, the Exchange will verify it prior to dissemination. Upon verification, the announcement will be posted on the KLSE web-site under the "*Listed Companies Announcements*" page which is available for public access. When an announcement relating to a transaction is not clear or having inadequate information, KLSE may send queries to the companies concerned to provide further details and information about the transaction.

The KLSE LINK enables the issuers of corporate announcements to submit their announcements in a secure, efficient and timely manner, thereby allowing users e.g. investors, stock-broking companies, market analysts and researchers to have easy and timely access to the announcements.

The KLSE LINK holds links to all types of corporate information for public disclosure which includes entitlements, financial results, shareholding information, share buy-backs, annual reports, prospectuses, circulars etc.

5.0 Announcements on corporate real estate activities by non-real estate companies of the KLSE (1992 to 2001)

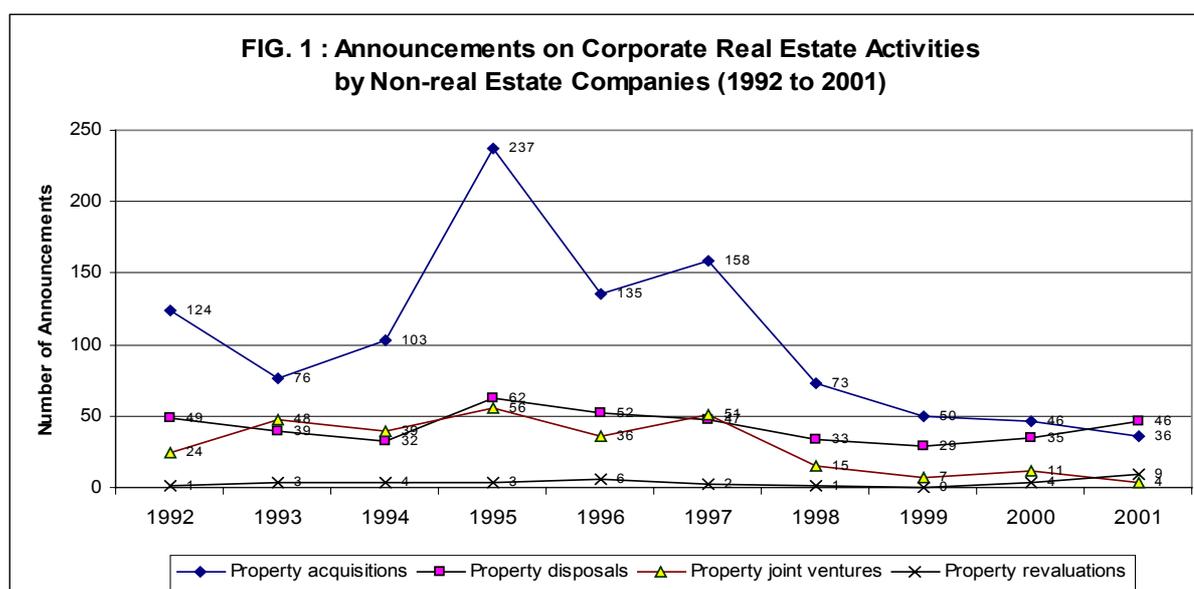
Due to provisions in the Listing Requirements, announcements on corporate real estate activities are primarily focused on :

- (a) property acquisitions;
- (b) property disposals;
- (c) property joint ventures;
- (d) property revaluations,
- (e) property development;
- (f) acquisitions and disposals of plant and machineries.

Table 2 and Fig. 1 show the number of corporate real estate announcements made by non-real estate companies. A single transaction/activity may involve more than one announcement due to reply to query from KLSE or announcements made by the company to clarify on the transaction/activity concerned.

Table 2 : Announcements on corporate real estate activities by non-real estate companies (1992 to 2001)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	TOTAL
Property acquisitions	124	76	103	237	135	158	73	50	46	36	1038
Property disposals	49	39	32	62	52	47	33	29	35	46	424
Property joint ventures	24	48	39	56	36	51	15	7	11	4	291
Property revaluations	1	3	4	3	6	2	1	0	4	9	33
	198	166	178	358	229	258	122	86	96	95	1786



5.1 Determination of Announcement date for event studies

Prior to the establishment of KLSE LINK, announcements are sent directly e.g. by hand or courier to the KLSE. These announcements are then published in the Daily Dairy the following day. In effect, the day the announcements are sent to the KLSE is day -1 and the following day when the announcement is published in the Daily Dairy is day 0.

Hence for event studies conducted on KLSE companies prior to the KLSE LINK, the announcement day window of three days around the announcement day (day -1, 0, +1) is more appropriate to capture the announcement date and its effect. This is in contrast with the announcement day window for event studies in developed countries which is usually two days i.e. day 0 and day +1.

However from 1999 onwards with the establishment of the KLSE LINK, the announcement day window would be (day 0, +1). The day +1 is to take into account announcements which are made after the close of the market whereby shares prices will only reflect the impact of the announcement on the following trading day.

6.0 Conclusions

Transactions of corporate real estate are common phenomena among listed companies. Timely disclosures of information through announcements enable the market to better able to decide on the merits of a transaction.

A listed company making full disclosure will reduce information asymmetry and enable the public to have information necessary to make informed decisions. Timely disclosures will improve market efficiency. A policy on good disclosure requirements will protect market integrity and promote investors confidence.

ENDNOTES

¹ KLSE Listing Requirements, Chapter 9 covers Corporate Disclosure Policy, preparation of announcements, immediate and periodic disclosure requirements.

² KLSE Listing Requirements, para 9.02(2)

³ KLSE Listing Requirements, para 9.04

⁴ KLSE Listing Requirements, para 9.19 provide a list of events that require immediate announcements to KLSE.

⁵ KLSE Listing Requirements, para 8.11(1) and 9.16(1)

⁶ KLSE Listing Requirements, para 10.02(j)(iii)

⁷ KLSE Listing Requirements, para 10.02(h) and 10.07(1)

⁸ KLSE Listing Requirements, para 1.01

⁹ KLSE Listing Requirements, para 10.11(2)

REFERENCES

Abdul Murad Ahmad (1999) ***Law and procedure of mergers and take-overs in Malaysia*** Central Law Training (Asia) Sdn Bhd Kuala Lumpur

Kang, Shew Meng (2001) ***The Listing Requirements of Kuala Lumpur Stock Exchange*** Butterworths

Low, Chee Keong (1997) ***Securities regulation in Malaysia*** Malayan Law Journal Sdn Bhd, Kuala Lumpur

_____ (2003) Update on the KLSE requirements on transactions & related party transactions entered into by a public listed company or its subsidiaries ***The Malaysian Corporate & Commercial Law Review*** Jan-Feb lvi-lxviii

_____ (2003) ***Kuala Lumpur Stock Exchange Information Book***, 13 ed.