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Famous Past Scandals In Bursa Malaysia

AUGUST 22, 2014 BY ZAYED ZULKIFLI

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There's a saying:

"Learn from the past to avoid future mistakes"

So, do learn what the past has taught. All these history will repeat. There will be always an asshole who will manipulate the system. We have seen world biggest scandal like Enron Corp or World.Com. Similarly in Bursa Malaysia, we have similar kind of stories. Just be careful in what you want to invest.

BY TEE LIN SAY

IN what seems like a recent flurry of cases involving corporate misdeeds, the fact remains that the Malaysia market is still perceived as one which lacks enforcement against white collar crooks. The situation was even more worrisome in the past. In the mid-1990s, before the 1997 financial crisis, Idris Hydraulic (M) Bhd, Aokam Perdana Bhd, PWE Industries Bhd and Hwa Tai Industries Bhd were some of the more infamous companies where share price manipulation was believed to have taken place.

Following that, the second board used to be rife with excessive speculation as share prices soared to unimaginable levels.

Repco Holdings Bhd was the most infamous of such cases. Its share price prior to the Asian crisis in 1997 hit a high of RM140.50. The stock has since been delisted.

Biscuit maker Hwa Tai Industries Bhd's share price had tipped over RM200 a share prior to the 1997 crisis. Hwa Tai closed on Thursday at 45.5 sen.



In 2005, the Fountain View Development Bhd case took centre stage and caused huge losses among brokers.

In 2006, there was Iris Corp Bhd, which saw its share price rocket from from a paltry 12 sen to a bold peak of RM1.38 in five months. More recently, there were the cases of Kenmark Industrial Co (M) Bhd, Linear Corp Bhd and Axis Inc Bhd, all emerging in the space of several weeks and which have renewed concerns over corporate governance and shareholder protection issues.

Here's a take of what transpired in some of the more significant cases in the past to present:

Idris Hydraulic

The current fiasco involving Kenmark Industrial Co (M) Bhd is not the first time that Datuk Ishak Ismail has run into trouble with the Securities Commission (SC) and has been involved in court action.

His name is synonymous with Idris Hydraulic, which had its fair share of retail investor interest in the early 1990s bull run.

Ishak entered the corporate scene at the time when he led a takeover of Idris Hydraulic that paved the way for the latter to undertake lucrative timber concessions in Sabah.

Idris Hydraulic held various timber concessions in Keningau, Sabah, which were collectively known as the Sagisan Concession, spread over 256,000ha.

To leverage on its concessions, it had entered into a joint venture with Aokam Perdana Bhd in 1992, partnering its owner, Teh Soon Seng.

Ishak also had stakes in Parit Perak Bhd, the Malaysian operations of hypermarket chain Carrefour, and KFC Holdings (M) Bhd (KFCH). Nonetheless, in the wake of the 1997 financial crisis, Ishak's fortunes took a huge blow. He lost Idris Hydraulic in a debt restructuring exercise.

After surviving earlier tussles, Ishak then fought the Johor Corp's Kulim (M) Bhd over KFCH. In 2004, Kulim took control of KFCH through QSR Brands Bhd.

As KFCH director, he was fined RM400,000 by the court in 2001 for submitting false information to the SC, thereby resulting in him being barred from holding any directorship for five years.

In 2003, Ishak, as a director of Idris Hydraulic, was also compounded RM400,000 by the SC for misusing RM50mil of the proceeds raised from the disposal of Kewangan Bersatu Bhd, resulting in the court case against him being withdrawn.

Aokam Perdana

In the early 1990s, Teh Soon Seng got investors' hearts racing with his many corporate moves. Apart from his own company, Aokam Perdana, and a majority stake in Golden Plus Holdings Bhd, Teh snapped up small stakes in high-fliers like Idris Hydraulic and Granite Bhd.

Investors would jump into whatever stock Teh was purportedly in, and the stock would fly. That was the power and charm of Teh.

However, a negative analyst report brought the stock crashing down. In April 1993, Phileo Peregrine Securities said Aokam Perdana's share price of RM13.30 was grossly overvalued.

It argued that since the key to Aokam Perdana's future earnings was the Sagisan timber concession in Sabah, the share valuation had to reflect that. The research house said valuing Aokam Perdana on a price-earnings basis would overstate its true worth. As its assets were on a depleting basis, the discounted cash flow method was the accurate way. It thus valued the shares at RM4.06 on a fully diluted basis.

The report caused panic among the funds. Aokam Perdana's share prices fell by RM3. Teh personally bought into the company until the share price recovered. It touched a high of RM31.50 at the height of the subsequent bull run.

But the fluctuations in timber and plywood prices started to hurt Aokam Perdana's bottomline. Its shares started to fall from late 1994. The stock plunged to a low of RM6.15 on May 12, 1995.

Teh eventually sold Aokam Perdana and resigned as managing director on March 8, 1997, before the Asian financial crisis erupted. He subsequently left Malaysia for good.

Teh was also suspected of being involved in the short-selling of Aokam Perdana shares. The SC investigated him for "possible breach of securities law". They interviewed him for two days in Kuala Lumpur in 2003. Teh has maintained his innocence to this day.

Omega Securities

During the go-go 1990s, Datuk Tony Tiah Thee Kian stood at the top of the stockbroking heap. TA Enterprise Bhd was the largest stockbroker in town, with over 700 remisiers and a huge client base.

On Oct 12, 1990, as part of a restructuring exercise, TA Enterprise acquired TA Securities. A month later, TA Enterprise was listed on the then Kuala Lumpur Stock Exchange (KLSE). In March 1991, TA Enterprise acquired Botly & Co Sdn Bhd.

On March 30, 1990, AT Securities Sdn Bhd, an outfit started by Tiah and his wife, changed its name to Omega Securities Sdn Bhd. Both Omega Securities and Pahang-based WK Securities were acquired by Omega Holdings Bhd on March 8, 1991.

While Omega was thriving and Tiah was busy expanding his business beyond Malaysian shores, there were hints of a scandal emerging.

In a July 1993 news report, for example, Tony Tiah came out to deny that TA Securities was in any way linked to the Union Paper Holdings Bhd scandal.

The Union Paper case involved the massive short-selling of the company's shares on the KLSE, which resulted in the exchange having to buy in Union Paper shares. Tiah also denied that TA had suffered large contra losses due to a rather significant correction in the market then.

In 1997, things got more serious. Other names were being linked to the Tiahs, names such as businessman Datuk Soh Chee Wen.

On March 23, 1998, Tiah resigned from the KLSE committee, citing health reasons. Three weeks later, on April 9, he withdrew his resignation.

In June 1998, Omega Securities' trading licence was terminated after it had failed to meet the KLSE's minimum liquid funds requirement. Eleven other brokerages were placed under trading restrictions.

Tiah and Soh were charged with defrauding Omega Securities of RM424mil in a share transaction in August 1999.

Soh admitted to conspiring with Tiah in providing false statements to the stock exchange pertaining to 44,592,000 shares of Omega Holdings, between Sept 2, 1997 and Jan 12, 1998.

Tiah was fined RM3mil, in default 30 months' imprisonment, on each charge. Soh admitted guilt to the second of two principal charges of defrauding the now-defunct Omega Securities of RM95.97mil.

On May 11, 2002, Tiah resigned as executive chairman of TA Enterprise and his wife took over the stewardship of the company. He returned to the post in August 2007.

Ekran

Who can forget Ekran Bhd, a company controlled and led by Sarawak businessman Tan Sri Ting Pek Khiing? Its magnificent rise in corporate Malaysia in the mid-1990s hit a peak after it had been awarded the contract for the multi-billion ringgit Bakun hydroelectric dam project.

It got its fair share of controversy, most of which centred around the project's potential impact on the environment and the "closed" manner in which the contract was awarded. Following the 1997 financial crisis, the Bakun project was put on hold, and with that, Ekran's grand plans came crumbling down like a ton of bricks.

Fast forward a decade later, and Ekran still has not managed to restructure and re-strategise. Due to its ailing financial condition – it had defaulted on loan payments – it was categorised as a PN1 and PN17 company for at least four years. Regulators lost patience with Ekran, and finally on Jan 28 this year, Ekran permanently made its exit from Bursa Malaysia.

Perhaps the biggest outstanding issue is the RM712.9mil in advances given by the company to Ting for the injection of some of his private assets into Ekran.

According to announcements to Bursa, the advances granted to Ting have been long overdue and he has defaulted in cash repayments. Ting still owes Ekran some RM408mil.

Ekran entered into a fourth supplemental settlement in March 2009. The new settlement allowed Ting to postpone the last cash payment, which was due in September 2004, by six years to December this year. Hence, the cash will only start coming in by year-end, assuming Ting keeps his word of repaying the sum owed.

As Ekran is now a non-listed entity, it will be even more difficult for minority shareholders to keep track of the company's financial condition, what more its debt collection status. It may be hopeless for investors to think they can recoup their investment losses.

In November 2009, Bursa publicly reprimanded Ekran's seven directors and fined them a total of RM630,000, including a RM500,000 fine for Ting, for breaching the exchange's listing requirements.

Renong

The deal involving United Engineers (M) Bhd's (UEM) put-and-call option raised many unanswered questions. It can be traced to November 1997, when UEM purchased a 32.6% block in Renong Bhd, its parent company, from the market at RM3.24 per share. The total cost came to about RM2.34bil.

The deal sent the whole market fretting. From whom UEM purchased the shares is still not known.

Hence, former Renong executive chairman Tan Sri Halim Saad, in an effort to appease UEM's minority shareholders and the regulator, entered into a put-and-call option, giving an undertaking to buy back the shares from UEM at RM3.24, inclusive of the holding cost. The entire amount would come up to RM3.2 billion on Feb 14, 2001, when the option was due.

When the put option expired, there was however no settlement. In fact, Halim resigned from the Renong/UEM group in October 2001.

Khazanah Nasional Bhd took UEM private in 2001 and later cancelled the option. UEM's chief executive then, Abdul Wahid Omar (now Datuk Seri), told reporters that the option was cancelled on Nov 16, 2001, because "UEM needs to retain control of Renong".

So Halim got off without paying a cent of what was then valued at RM3.2bil.

And more recently ...

Kenmark has definitely hogged the limelight of late, with the bizarre saga starting from the sudden disappearance of its Taiwanese managing director, James Hwang, in late May. His disappearance created chaos, and the company's share price plunged from over 80 sen to 4.5 sen in a matter of days.

Then the market saw the emergence of Datuk Ishak Ismail, with a 32% stake in Kenmark. However, that was not to last. Just over a week later, Ishak dumped his entire stake and Kenmark slumped again to the 10 sen level.

On June 16, the SC obtained an ex-parte injunction to prevent Ishak from dealing in the RM10.2mil proceeds from the sale of his Kenmark shares.

In the Linear Corp case, the central allegation is that almost all of its cash was taken out by one director. On Dec 29 last year, Linear had been awarded a massive RM1.67bil contract to build a district cooling plant, also known as the "King Dome" project in Manjung Perak by Seychelles-based company Global Investment Group Inc.

Linear's former director Alan Rajendram paid out its entire cash hoard of RM36mil without board approval. In June, startling discoveries showed that there was no evidence of any significant progress towards the execution of the contract, and no documentary evidence to demonstrate the overall viability of the King Dome project.

Meanwhile, Axis Inc, a PN17 company, said on June 9 that a whole load of documents, including purchase and delivery orders, bank statements and cheque butts, some dating back to 2004, had gone missing, prompting it to make massive write-offs. Most of these documents were related to its dealings with questionable contract manufacturers.

Mid last year, auditors questioned the sharp rise in receivables from contract manufacturers, mainly in Cambodia, from RM11mil in March 2007 to RM105mil in March 2008. It still remains to be seen who these "contract

manufacturers" are, and how they were walked away with some RM100mil.

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About Zayed Zulkifli

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