

# MESDAQ : The Making of Malaysia's Technology Stock Exchange

June 1998

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# Chapter 1 MESDAQ : An Introduction

## 1.1 Birth of a New Exchange

The Malaysian economy has been one of the best performers amongst the developing countries over the past 25 years. The gross domestic product has been growing at a rate of 7 percent from 1971 to 1990. As a result, Malaysia has become one of the more advanced countries in the Third World. The nation has moved from a primary commodity dependent sector to that of labour intensive, low value added manufacturing. However, to achieve the goals of Vision 2020, the government acknowledged the need to steer the economy from a labour intensive manufacturing to a high growth, technology intensive and services oriented one . The MSC (Multimedia Super Corridor) embodies that vision. The Securities Commission (SC), recognizing the need for a source of financing to fund the development of the technology based and high growth potential companies submitted a proposal for a special purpose equity market to the Minister of Finance. As a result, MESDAQ was officially approved and launched by Malaysia's Deputy Prime Minister Finance on 6 October 1997.

## 1.2 What is MESDAQ?

MESDAQ is the acronym for the *Malaysian Exchange for Securities Dealing and Automated Quotation*. It is a stock exchange operated by MESDAQ Berhad with the objective to create an environment that encourages the development of technology based and high growth companies.

MESDAQ's role is similar to that of the successful NASDAQ exchange in the US information technology sector. In terms of world ranking, the NASDAQ exchange is second only to the NYSE (New York Stock Exchange) with a market capitalization in excess of US\$2.03trillion (October 1997). It boasts of dynamic and successful companies such as Intel, Microsoft, Oracle and Netscape. The dynamism of NASDAQ exchange is widely recognized as a key component in encouraging the growth of the US software industry. It essentially provides an arena for venture capital opportunities to grow and at the same time motivate engineers and business people to work in innovative start ups. Essentially MESDAQ seeks to emulate the success of NASDAQ in the promotion and development of the US software industry.

Malaysia's desire to promote technology intensive industries and to develop a strong science and technology base through research and development hinges upon the success of MESDAQ. More specifically, MESDAQ is a capital market geared towards the development of the Multimedia Super Corridor.

### **MESDAQ's Objectives**

1. Encourage the development of science and technology through research and development
2. Assist in the development of the Multimedia Super Corridor
3. Encourage small and medium scale enterprise (SME) growth by creating an avenue for raising much needed capital.
4. Promote technology intensive and knowledge based industries with special emphasis on :
  - Electronics / Advanced electronics
  - Equipment instrumentation, automation and flexible manufacturing systems
  - Biotechnology, bioconversion and genetic engineering
  - Electro optics, non-linear optics and optoelectronics
  - Advanced materials
  - Environmental technology including alternative energy sources
  - Aerospace
  - Transportation
  - Telecommunications
  - Education, Training, Management and Technology Consulting Services

MESDAQ's long term goal is to extend beyond catering for the needs of local companies to become a regional capital market for growth companies from ASEAN.

*Figure 1.1 MESDAQ's Objectives (Source : MESDAQ Berhad)*

## Chapter 2 MESDAQ's Key Roles and Functions

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### 2.1 MESDAQ's Key Roles

As mentioned previously, MESDAQ is a stock exchange wholly owned and operated by MESDAQ Berhad. The company is a wholly member owned not for profit body. Its role is to encourage the growth of the technology, research and development sector by :

- Working with growth companies in their initial public offerings (IPO) and subsequent fund raising activities.
- Encourage their continued listing through disclosure
- Add liquidity through market making
- Protect investors through a full disclosure environment

Unlike the KLSE that is regulated by the Securities Commission, MESDAQ is a self regulatory organization (SRO), responsible for the regulation of the conduct of all its market participants, namely :

- Members
- Market makers
- Advisers
- Sponsors
- Registered representatives and
- Investors

MESDAQ Berhad regulates the market through the formulation, implementation and enforcement of rules governing the conduct of

activities of participants and the punishment of errant ones. Its regulatory instruments include :

- Business rules
- Listing rules
- Articles of Association

The Securities Commission (SC) will in turn oversee MESDAQ Berhad's regulatory role. The SC will ensure that MESDAQ operates in a fair, equitable and orderly manner, its rules are enforced and that it complies with the Security Industries Act 1983 (SIA) and other relevant legislation.

## **2.2 Structure** MESDAQ as an organization comprise of :

### **of MESDAQ** 1. The board of directors, with 9 members who are responsible for the management of the exchange, comprising of :

- 4 Ministerial appointees, including the executive chairman
- 3 Member representatives
- 1 Market Maker representative
- 1 Adviser and Sponsor representative

### 2. The Committees of the Exchange include :

- Listing Committee
- Business Rules Committee
- Disciplinary Committee
- Emergency Committee
- Compensation Fund Committee

From the systems perspective MESDAQ will make use of KLSE's existing infrastructures to facilitate its operations that include clearance, settlement, custody and information dissemination.

## 2.3 The Need for MESDAQ

The creation of MESDAQ is no accident. It is part of a greater plan that will provide the opportunity for Malaysia leap frog its development to achieve Vision 2020. This section describes the need and the significance of this new stock exchange in Malaysia's economic, technological and financial development plans.

### *Economic development - Ensuring our global competitiveness*

The manufacturing sector will be a key driver of the Malaysian economy well into the 21<sup>st</sup> century. Therefore its continued growth is pivotal to the achievement a fully developed nation by the year 2020<sup>3</sup>.

While the large enterprises possess the necessary technologies and capital to remain are fairly competitive, the government has recognized the need to develop and enhance the weaker Small-Medium Industries (SMI) sector. The SMIs constitutes more than 80% of the 300,000<sup>4</sup> manufacturing concerns in Malaysia. They provide the much need industrial support to the multinationals like Proton. As competition intensifies with trade liberalization, compounded by the loss of competitive advantage as low cost producer, the Malaysian industries need to specialize in more high value added products and services. Hence having a technology intensive and knowledge based economy is crucial in sustaining our economic growth and long term global competitiveness.

### *Technology Development - The Development of a strong R&D base through the MSC*

The government has taken major steps to create an environment that will overcome these weaknesses. On the innovation and technology development front, the Multimedia Super Corridor (MSC) was created with the vision of accelerating Malaysia's entry into the high technology era (with emphasis on multimedia as the driving technology) by :

- Attracting world class technology led companies to Malaysia and help develop local industries



- Providing an intelligent, productive environment where multimedia value chain of goods and services that will be delivered to the rest of the world.
- Providing a haven with the necessary technologies, infrastructure, legislation, policies and systems for competitive advantage.
- A test bed for innovation, research and other multimedia developments as well as the formation of a global community which is information based.

It is envisioned that the MSC will be fully implemented and executed in 20 years' time. This is also inline with one of the objectives of Vision 2020 in making Malaysia an information rich society.

*Financial  
Development -  
Proving a means  
for financing high  
growth companies.*

At the same time various studies and reports reveal that there is a severe lack of emphasis on innovation, research and development in the SMIs to produce innovative products to effectively differentiate themselves in the global market. Research by Abu Bakar *et al*<sup>1</sup> concluded that the lack of growth and development of the SMIs are largely due to the scarcity of investment capital.

Although the Kuala Lumpur Stock Exchange (KLSE) Second Board was originally intended for such a purpose, recent changes in the listing conditions has made the already difficult source out of the reach of many SMIs. Additionally, many of these start up companies do not have the profit track record nor the paid up capital that the Second Board or Main Board demands. MESDAQ will provide these companies an avenue for capital raising while providing the investors with an early exit route for their investments in these high growth companies. MESDAQ, with less restrictive listing requirements, will act as the “incubator” that bridges the gap by stimulating early stage financing to help strengthen this sector of the economy.

## 2.4 Significance to Malaysian Capital Market

With the government's stated policy of making Kuala Lumpur the regional financial market center, the Securities Commission has been looking into the future of the local exchanges where listed companies will move to a full disclosure regime. This initiative as prompted by worldwide financial markets' move into a "full disclosure" regime to counter the criticisms of regulatory shortfalls and negligence. While the stock exchange's primary role is to ensure a market's overall integrity and proper functioning of its mechanisms, it does not and cannot however, guarantee against individual company's risk of failure. This onus falls upon the investor's choice. Therefore the disclosure based system will aim to provide free and fair information to the investors pertaining to the risks involved in listed investments to enable more informed investment decision making,

The benefits of such a regime are quite significant. Not only will public confidence increase but also the possibility of enhanced liquidity of the market that will help the bourse move to a higher level of development and sophistication. For the stock exchange, higher level of transparency and public disclosure will further develop Malaysia into the leading financial center that will rival Singapore and Hong Kong.

Therefore the formation of MESDAQ as a full disclosure market signifies a major step in the development and sophistication of the Malaysian capital market and bring Malaysia closer to standards and practices of the matured markets like the NYSE and the NASDAQ.

# Chapter 3    MESDAQ and KLSE : A Comparison

**3.1 MESDAQ - A New Market**    Despite the general perception that MESDAQ is an OTC (Over The Counter) market, it is, however, an approved stock exchange under Section 8 of the Securities Industries Act 1983. Therefore it is not, by strict definition, an OTC market. Although initially conceived as an OTC market therefore an unregulated market, but a decision was later made that it should be a stock exchange *so that the SC can ensure fair play*.

Although both MESDAQ and the KLSE are Malaysian stock exchanges and they share some of the infrastructures, they differ in many ways. The MESDAQ aimed at the niche of high technology companies with little or not track record whereas the KLSE is open for all established businesses. Hence they also differ in their regulatory functions and trading mechanisms.

*Continue next page ....*

 <b>MESDAQ</b>	<b>KLSE</b> 
Self Regulating Organization	Securities Commissions is the primary regulator
Full Disclosure Based regulation	Full Disclosure in 2001
Emphasis on technology companies	All types of companies
No track record required	Track record required
Membership open to non-stockbroking firms	Membership limited to stockbroking firms
Advisers can be members or merchant banks	Advisers limited to merchant banks only
Sponsor required	No Sponsors required
Market Makers	No Market Makers
Order and Quote Driven	Order driven

*Table 3.1 : Comparison between MESDAQ and the KLSE*

### 3.2 Trading in MESDAQ

*Same “look and feel” for investors and stockbrokers*

Despite the above differences the proponents of MESDAQ claim that its “look and feel” is essentially the same as the KLSE and assured the investors and market intermediaries alike that the market is easily understood, which would in turn minimize “learning curve” and making participation easier. To the investors, dealing is done through the brokers, the trading and depository accounts are no different. To the stockbrokers, the trading is done via the usual computer trading systems thus using the existing terminals, sharing the same infrastructure such a clearing , settlement and depository facilities of the KLSE. This approach leverage on the existing infrastructure of the KLSE and minimizes the cost of market entry for potential participants.

### 3.3 Structural Differences from KLSE

First of all, there are several reasons why MESDAQ is set up separately, the most important being its “high risk” nature of the listed companies. Unlike the more established listed companies on the KLSE (Main or Second Board), they lack or in some extreme cases, without operational history. This calls for a different set of policies, methods and approaches to address the issues of market integrity, market efficiency and above all, investor protection. Some of the key policies include :

- Market will operate under a full disclosure environment with higher standards of compliance and disclosure
- Higher standards of sales practices and the stringent application of “Know you client and product” rule

As a result, these policies spells new and distinct roles and responsibilities for the existing market intermediaries like the brokers, advisers and underwriters. It is important to ensure that the intermediaries do not regard trading in MESDAQ as “business as usual”.

Secondly, MESDAQ is a member owned exchange. This stems from its philosophy that only a member owned and industry driven exchange can be totally devoted to quality of service and ensure mutuality among its membership in the promotion public participation. In its efforts to draw more market participants, MESDAQ has expanded its membership to include non stockbroking firms.

### 3.4 Listing Requirements

It is interesting to note that the SC prefers to refer to admission criteria rather than listing criteria since MESDAQ is a market of unlisted securities. To those who seek admission, the most obvious difference between KLSE and MESDAQ is their admission or listing criteria. While its criteria is less demanding, MESDAQ Berhad does not guarantee any

against future revisions of the criteria as the market matures or as it grows to cater for new needs and changes in the business environment.

The table below summarizes the different admission / listing criteria between the KLSE Main Board, the KLSE Second Board and MESDAQ.

	KLSE Main Board	KLSE Second Board	MESDAQ
Trading Record	A track record of 5 financial years, with an after-tax profit of not less than RM2 million per annum and an average after-tax profit of not less than RM5 million per annum over the said 5 financial years.	A track record of 3 financial years, with an after-tax profit of not less than RM1 million per annum and an average after-tax profit of not less than RM2 million per annum over the said 3 financial years.	No track record required but qualitative criteria such as : <ul style="list-style-type: none"> <li>• Nature of business operations</li> <li>• Strength, effectiveness and integrity of management and promoters</li> <li>• Prospects of business</li> <li>• R&amp;D Capabilities</li> <li>• Conflicts of interest</li> <li>• National interests</li> </ul>
Business Operations	Incorporated and have been in business operation for at least five (5) years prior to making submission to the SC.	Same as KLSE Main Board	Minimum of 1 year business operations for non-technology based or non technology related companies OR No minimum business operation for technology based and technology related companies
Historical Profit Performance	Either:- a track record of 3 financial years*, with an after-tax profit of not less than RM4 million per annum and an aggregate after-tax profit of not less than RM25 million over the said 3 financial years OR a track record of 5 financial years, with an after-tax profit of not less than RM2 million per annum and an aggregate after-tax profit of not less than RM25 million over the said 5 financial years.	A track record of 3 financial years, with an after-tax profit of not less than RM1 million per annum and an average after-tax profit of not less than RM2 million per annum over the said 3 financial years.	Not required
Capital - Issued & Paid	Not less than RM50 million comprising ordinary shares of RM1.00 each.	At least RM10 million but less than RM50 million, comprising ordinary shares of RM1.00 each	At least RM2 million comprising ordinary shares of RM1.00 each
Future Prospects	The future profits should reflect an increasing trend. The forecast after-tax profit should be at least RM6 million per annum.	The future profits should reflect an increasing trend. The forecast after-tax profit should be at least RM2.5 million per annum.	NDP requires an aggregate after tax profit of RM6 million over 3 consecutive years with 30% Bumiputra equity upon listing, however, MSC status companies are exempted. NDP : National Development Policy.

	KLSE Main Board	KLSE Second Board	MESDAQ
Share Spread	At least 25% of the issued and paid-up capital is in the hands of a minimum number of public shareholders holding not less than 1,000 shares each, as follows:-  Nominal value of issued and paid-up capital  Less than RM100 million  RM100 million and above The minimum number of public shareholders shall exclude employees of the company. However, up to 5% of the issued and paid-up capital of the company held by employees is allowed to make up the 25% public share holding spread. <small>w.e.f. 23 January 1998</small>	At least 25% but not more than 50% of the issued and paid-up capital is in the hands of a minimum number of 500 public shareholders holding not less than 1,000 shares each.  The minimum number of public shareholders shall exclude employees of the company. However, up to 5% of the issued and paid-up capital of the company held by employees is allowed to make up the 25% public share holding spread.	At least 25% but not more than 50% of the issued and paid-up capital in the hands of the public.
Profit Guarantee / Moratorium	No sale or transfer of shares by substantial shareholders in first year; 20% p.a. thereafter.	Profit guarantee in the form of a bank guarantee	No sale of shares by substantial shareholders within first year; second to sixth year at 20% p.a.

Figure 3.1 Listing and Admission Criteria for KLSE and MESDAQ

### 3.5 Other

#### unique require- ments

In addition to the above, MESDAQ requires :

- More than 50% of the assets and operations must be within Malaysia
- A minimum of 70% IPO funds must be utilized in Malaysia
- Must have a sponsor and market maker in addition to the advisor
- No reverse takeovers or back-door listing will be allowed.
- All listed firms will also have to appoint sponsors to be the point of contact with the exchange and investors, at least for the first five listed years.
- Firms which meet the listing requirements for the KLSE's Second Board will also be accepted into MESDAQ but will have to meet the 30 per cent Bumiputra equity requirement
- MSC status companies are exempted from meeting the National Development Policy criteria this opens an opportunity for wholly foreign owned companies to list in the MESDAQ.

*Note : NDP requires an aggregate after tax profit of RM6 million over 3 consecutive years with 30% Bumiputra equity upon listing,*

### 3.6 Strengths

&

### Weaknesses

Efforts by the SC and MESDAQ Berhad to ensure the usage of “proven” recipes of the more matured markets like NASDAQ and AIM, will no doubt contribute to the probability of success of MESDAQ. With all the “right” policies, standards and infrastructure in place, one is tempted to say that “it will be an overnight success !”. However, at of the time of writing, the MESDAQ has yet to begin trading, although the Deputy Prime Minister Anwar Ibrahim, who is also the Finance Minister had expressed his intention see it operational by February 1998, the commencement date has been postponed a number of times due to the prevailing Asian economic crisis. Amongst other external factors that will potentially affect the MESDAQ’s performance include :

- The **number of technology issuers** (local or foreign) to attain the critical mass for a thriving market and the growth (or decline) of Malaysian / Asian managed technology companies and industry as a whole.
- **Low liquidity** in the secondary markets due to the currency crisis, leading to share prices trading below their offer prices at listing.
- The risk of being regarded as a “**second class**” board because of its lower admission criteria therefor perceived to be less prestigious by those who seek listing. This is especially true when already established and reputable technology companies that satisfies the more demanding requirements of the KLSE Main Board may regard the admission to MESDAQ as some what “down grading”.
- **Public perception** of technology companies - especially that of venture capitalists and institutional investors (local or foreign) that often regard technology companies as “small caps” therefore do not include them in their portfolios <sup>11</sup>.
- Availability of sophisticated and skilled **professional investors** - the ability to analyze, appraise the technology and the companies and



above all understand the risks involved. (With the current economic situation, there is certainly a lack of “high net worth” individuals who are willing to invest in this high risk market ).

- The “**Asian paranoia**” which company owners always strive to retain for 51% equity control, especially prevalent in the family owned businesses - this impacts the available liquidity in the market<sup>11</sup>.
- Regional economic performance and political stability.

### 3.7 MESDAQ vs. KLSE

In some respects MESDAQ does duplicate the role of the KLSE except that it is targeted at a niche market of technology companies, for now. But as the Malaysian industrial economy trends toward a high technology one, MESDAQ has good a potential to grow beyond the size of the KLSE (in terms of companies listed as well as trading volume). In fact, MESDAQ and the KLSE may turn out to be the Malaysian version of NYSE versus NASDAQ competition<sup>12</sup>. Established in 1971, NASDAQ has grown to a size that rivals NYSE, the competition has intensified with the recent announcement of the merger between NASDAQ and the American Stock Exchange. MESDAQ does have its competitive advantages compared to the 700 counter strong KLSE, they include :

- Full disclosure regime that instills **public confidence**, especially with foreign institutional investors and a head start in managing a full disclosure based exchange.
- A system of trading that is “transparent” to the investors and market intermediaries that **lower the barriers to market entry** and participation.
- Lower but stringent **admission criteria** that encourages more SMIs type issuers as well as foreign companies with MSC status.
- A more diverse set of intermediaries (even non stockbroking firms can be members) compared to the KLSE that increases the number of participants in the market - this is crucial to attaining the critical mass.
- Having market makers to encourage the liquidity of the market.

- 
- Leverages on existing and proven infrastructures e.g. the trading and depository system, that reduces the overall set up cost of up a new exchange.
  - Having full cooperation and support from the Malaysian government.

Like all organizations, MESDAQ is not without its weaknesses and challenges, amongst them :

- As a new and unproven market MESDAQ Berhad must gain the confidence of all parties, investors, issuers and intermediaries alike. It must be independent and to be seen as independent and highly effective in its regulatory role, especially in reprimanding or even de-listing of errant participants.
  - Concerns over the restriction that listed companies must invest at least 70 per cent of the funds raised via the exchange within Malaysia<sup>15, 17</sup>.
  - Higher risk of collusion when the market is small. A study by Christie and Schultz<sup>10</sup> on the trading patterns of NASDAQ precipitated in a charge of collusion that resulted in a investigation of NASDAQ by the US Department of Justice and the Securities and Exchange Commission. The possibility of collusion is small if the market is big there are a lot of market makers but with the smaller MESDAQ the possibility is higher. This leads to market manipulation and can result in negative publicity can degrades investor confidence.
  - More resources will be required to conduct surveillance and enforcement when there are more market intermediaries and participants.
  - Challenges other than the KLSE, from other regional markets such as Singapore and Hong Kong
-

### 3.8 Marketing MESDAQ

There are a number of activities that MESDAQ can engage in to help boost its profile and success :

- Extend the reach of the market by using information technology with the implementation of an Internet based system for information dissemination. Members as well as issuers can make use of the “home page” to provide information to potential and current investors like most NASDAQ listed companies have a “investor relations” section on their web sites. This further enhances the transparency of the market.
  - Organizing seminars and “road shows” locally and worldwide to create awareness, educate and promote MESDAQ to individual and institutional investors.
  - Providing professional development opportunities to enhance the competencies to analyst to properly assess growth companies, especially those without track records.
  - To ensure that a high percentage of shares are listed in the exchange to prevent market manipulation. Need educate the founding and majority shareholders in order to reduce the effects of the “Asian paranoia”.
-

## Chapter 4 IPO : The Criteria & Choices

### 4.1 Meeting Requirements

As far as meeting the requirements are concerned InfoTech satisfies all of the criteria for MESDAQ, KLSE Main & Second Board. As for the KLSE Main board, the only criteria that InfoTech could not meet is the issued and paid up capital of RM50 million. However, with a retained earnings of in excess RM40 million that InfoTech can inject it as additional capital. Tables 4.1 to 4.3 illustrates the admission/listing criteria for the KLSE Main, Second Board and MESDAQ respectively.

	KLSE Main Board	InfoTech Bhd.
Trading Record	A track record of 5 financial years, with an after-tax profit of not less than RM2 million per annum and an average after-tax profit of not less than RM5 million per annum over the said 5 financial years.	Has been trading since 1982, a total of 15 years. Total 5 years' after tax profit is RM36 million or average of RM 7 million per year.  <b>Meet Requirements</b>
Business Operations	Incorporated and have been in business operation for at least five (5) years prior to making submission to the SC.	Incorporated in 1982, been in business operations for a total of 15 years.  <b>Meet Requirements</b>
Historical Profit Performance	Either:-a track record of 3 financial years*, with an after-tax profit of not less than RM4 million per annum and an aggregate after-tax profit of not less than RM25 million over the said 3 financial years OR a track record of 5 financial years, with an after-tax profit of not less than RM2 million per annum and an aggregate after-tax profit of not less than RM25 million over the said 5 financial years.	Total 3 years after tax profit of RM28.7 million or average of RM9 million per annum.  Total 5 years' after tax profit is RM36 million or average of RM 7 million per year.  <b>Meet requirements</b>
Capital - Issued & Paid	Not less than RM50 million comprising ordinary shares of RM1.00 each.	Capital is RM10 million <b>ALTHOUGH DO NOT MEET REQUIREMENT BUT ABLE TO DO SO BY PLEDGING ITS RETAINED EARNINGS WHICH IS IN EXCESS OF RM40 MILLION</b>
Future Prospects	The future profits should reflect an increasing trend. The forecast after-tax profit should be at least RM6 million per annum	<b>Meet Requirements</b>

*Table 4.1 InfoTech and KLSE Main Board Listing Requirements*

	KLSE Second Board	InfoTech Bhd.
Trading Record	A track record of 3 financial years, with an after-tax profit of not less than RM1 million per annum and an average after-tax profit of not less than RM2 million per annum over the said 3 financial years.	Has been trading since 1982, a total of 15 years. Total 5 years' after tax profit is RM36 million or average of RM 7 million per year.  <b>Meet Requirements</b>
Business Operations	Incorporated and have been in business operation for at least five (5) years prior to making submission to the SC.	Incorporated in 1982, been in business operations for a total of 15 years.  <b>Meet Requirements</b>
Historical Profit Performance	A track record of 3 financial years, with an after-tax profit of not less than RM1 million per annum and an average after-tax profit of not less than RM2 million per annum over the said 3 financial years.	Total 3 years after tax profit of RM28.7 million or average of RM9 million per annum.  <b>Meet requirements</b>
Capital - Issued & Paid	At least RM10 million but less than RM50 million, comprising ordinary shares of RM1.00 each	Capital is RM10 million  <b>Meet requirements</b>
Future Prospects	The future profits should reflect an increasing trend. The forecast after-tax profit should be at least RM6 million per annum	<b>Meet Requirements</b>

*Table 4.2 InfoTech and KLSE Second Board Listing Requirements*

	MESDAQ	InfoTech Bhd.
Trading Record	No track record required but qualitative criteria such as : Nature of business operations <ul style="list-style-type: none"> <li>• Strength, effectiveness and integrity of management and promoters</li> <li>• Prospects of business</li> <li>• R&amp;D Capabilities</li> <li>• Conflicts of interest</li> <li>• National interests</li> </ul>	Has been trading since 1982, a total of 15 years. Total 5 years' after tax profit is RM36 million or average of RM 7 million per year.  Good chance of meeting qualitative criteria.  <b>Meet requirements.</b>
Business Operations	Minimum of 1 year business operations for non-technology based or non technology related companies OR No minimum business operation for technology based and technology related companies	Incorporated in 1982, been in business operations for a total of 15 years.  <b>Meet Requirements</b>
Historical Profit Performance	Not required	No problem here !
Capital - Issued & Paid	At least RM2 million comprising ordinary shares of RM1.00 each	Capital of Rm10 million  <b>Meet Requirements</b>
Future Prospects	Aggregate after tax profit of RM6 million over 3 consecutive years with 30% Bumiputra equity upon listing, however, MSC status companies are exempted	Already an MSC Status company. Also a Bumiputra company  <b>Meet Requirements</b>

*Table 4.3 InfoTech and MESDAQ Admission Requirements*

*Please refer to **Appendix A :Corporate Profile** for details on InfoTech's track record.*

#### 4.2 The Criteria

Technically, InfoTech qualifies for listing on all three exchanges. While there is no specific restriction on the choice of exchange which to make an equity issue, there are a number of factors that will affect the choice, namely :

##### *Cost of IPO*

Fees and other expenses incurred in the process of seeking and executing an IPO. It should be measured against the total capital raised. The KLSE Main Board is preferred given that the IPO cost itself do not differ very much ( assuming that the capital to be raised in RM50million). Please see Table 4.1 and Table 4.2 on the following page.

##### *Flexibility*

Whether the exchange allow reverse takeovers. This may be important when a group of companies need to restructure. The KLSE offers more flexibility in this respect.

##### *Reputation*

The reputation of the exchange, in this case the KLSE Main has an obvious advantage over MESDAQ.

##### *Disclosure*

The frequency and cost of effecting these disclosures. MESDAQ's half yearly financial and research status disclosure may impose additional resource requirements. The fear of exposing the company's technology hence competitive advantage could be a deterrent.

##### *Trustee Shares*

Possibility of shares being classified as "trustee shares" to have the confidence and support of fund managers and institutional investors. At this point in time it is still unclear whether there will be any trustee shares in MESDAQ.

##### *Stock Market Condition*

The general condition of the markets. With the climate of the currency crisis and tight liquidity one would seriously reconsider the timing of IPO.

<b>KLSE MAIN BOARD LISTING FEES</b>	
<b>Types of Fees</b>	<b>Amount (RM)</b>
Brokerage Fees (1% of the issue price per share)	50,000
Underwriting Fees (1% of the issue price per share)	50,000
Lawyer Fees	80,000
Auditors' Fees	80,000
<b>KLSE Fees</b>	
Lisiting Fees	50,000
Propectus Persual	10,000
<b>Publicity and Printing Expenses</b>	
Advertisement	100,000
Printing of Prospectus	100,000
Printing of Share Certificate	40,000
Issuing House	150,000
Lodging with ROC	5,500
SC Persual Fees	30,000
Merchant Bankers' Fees	300,000
<b>Total (minimum)</b>	<b>945,500</b>

Source : Amanah Merchant Bank Berhad

Table 4.1 KLSE Main Board Listing Fees

<b>MESDAQ LISTING FEES</b>		
<b>Types of Fees</b>	<b>Minimum Amount</b>	<b>Maximum Amount</b>
<b>Admission Fees</b>		
Processing Fee	30,000	30,000
Initial Listing Fee	2,500	2,500
<b>Fees for Subsequent Proposal</b>		
Persual Fees	Determined by MESDAQ	
Additional Listing Fees	2,500	2,500
<b>Annual Listing Fees</b>		
Annual Listing Fees	2500	2500
<b>Professional Fees</b>		
Adviser	270,000	500,000
Accountant	40,000	100,000
Experts	50,000	200,000
Sponsor	20,000	50,000
Lawyer	40,000	100,000
<b>Other Fees</b>		
Underwriting Commission @ 3%	150,000	150,000
Advertising	30,000	60,000
Placement Fees	40,000	80,000
Registrar Fees	40,000	60,000
<b>Total</b>	<b>717,500</b>	<b>1,337,500</b>

Source : Adapted from The Star, Saturday 20th May 1998

Table 4.2 MESDAQ Listing Fees

#### 4.3 The Choice

With the exception of the current stock market condition, most established businesses like InfoTech would seek to list on the KLSE Main Board. Primarily because the prestige and reputation of the Main Board is consistent with InfoTech's financial strength and excellent track record whereas listing in MESDAQ may imply that InfoTech is a high risk company and *possibly* lowering the IPO price.

In addition, InfoTech's core business is in marketing and trading of IT related products and services rather than research and development. The reasons for IPO will be to raise additional capital more for its regional expansion rather than the funding its research and development.

At the same time InfoTech's leadership and participation of MSC Projects such as Telemedicine and Smart School has led to the creation of number of subsidiary high-tech companies that will undertake serious research and development in designated areas. (*Please refer to Appendix A, section A.5 Major Business Ventures for details*) With very little or no track record, it will be more appropriate for these companies to seek listing in MESDAQ. The entry barriers can be further reduced by applying for the status of an MSC company.

#### 4.4 Conclusion

Economic conditions aside and given a choice, any well established company will choose to list on the KLSE Main Board. For the start ups that posses certain proprietary technologies but lack financing support, to IPO with MESDAQ will more appropriate.





As it is, the first IPO on MESDAQ is yet to occur. Most companies are still adopting a wait and see attitude while others like Alam Tecknokrat has announced that it is in the process of seeking admission to MESDAQ.

External factors such as the state of the economy and most of all the stability of the Malaysian ringgit will no doubt will have a tremendous impact on MESDAQ's success. Recent economic reports are not very promising. The economy has registered a negative growth in the GDP for first quarter of 1998. The majority of financial institutions such as banks focusing on mergers and corporate restructuring for their immediate survival, reducing the attention on MESDAQ. Even the well established KLSE is struggling, with the current KLCI (Kuala Lumpur Composite Index) in the region of 520 compared to 1200 points a year ago. Many recent IPOs have seen the prices gone below the offer price on the first day of listing and in some extreme cases, under subscribed.

While MESDAQ may have the right recipe for a vibrant market, factors that are beyond its control, like the Asian economic crisis will hamper its initial growth in the foreseeable future.



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