FREQUENTLY ASKED QUESTIONS – OVER-ALLOTMENT OPTION AND PRICE STABILIZATION MECHANISM

1) How do the over-allotment option and price stabilization mechanism promote fund raising activities in Malaysia?

- The introduction of an over-allotment option and price stabilization mechanism in Malaysia would enhance confidence in the market for new issues of shares and thereby facilitate corporate fundraising. In particular, it would increase investor confidence as investors know that there will probably be a market for the shares at a price that is not artificially deflated by the sudden increase in the supply or other factors. Companies are also more likely to raise funds through the issue of shares if they know that there will be some initial support for the price of those shares.

2) How does the over-allotment option benefit fund raising activities?

- In order to satisfy the additional demand for securities in an IPO particularly where the book building process may not have identified the exact level of demand for the securities, the over-allotment option will allow the underwriter to allot more shares to subscribers than the amount originally allotted in the IPO. This demand for shares is then met by the underwriter by borrowing these shares from the major shareholders.

- In the event that the share price is performing well, it would be costly for the underwriter to purchase these securities from the market and the mechanism would therefore allow the underwriter to exercise the over-allotment option granted by the issuer to it. This would allow the underwriter to obtain more shares from the issuer at issue price and return these shares to the major shareholders.

3) How does the over-allotment option work?

- The over-allotment option allows the underwriter to over-allot securities creating a short position in the shares issued which is prohibited under section 98 of the CMSA.

- To satisfy the excess demand for the shares, the underwriter will need to borrow the shares from the major shareholders. Currently, the borrowing of shares is only allowed pursuant to the Securities Borrowing and Lending Guidelines issued by the SC on 27 December 2006. However, this Central Lending Agency (CLA) model practiced through the exchange would not be applicable in this scenario which requires borrowing for a very limited time and for a specific purpose. As such, the Guidelines has been amended to reflect this.

4) What is the objective of the price stabilization mechanism?

- The objective of this proposed mechanism is to facilitate fund raising activities by ensuring that the demand for shares in an IPO can be met in an efficient manner and that price volatility during the period immediately after listing can be minimised.

5) What IPOs qualify for the price stabilization mechanism?

- The price stabilizing mechanism is only applicable where the total value of the shares offered in the IPO is not less than RM150 million. This is to promote market confidence in larger IPOs especially during the initial period after its listing.

6) What are the safeguards provided for the price stabilization mechanism?

- Where the price stabilizing mechanism is utilised, an announcement must be made to the exchange when the shares are listed and the stabilizing manager must disclosure its stabilizing activities during and after the stabilizing period.

7) Are the take-over provisions triggered within the over-allotment framework?

- The over-allotment option may trigger an obligation to undertake a mandatory take-over offer, under the Malaysian Code on Take-Overs and Mergers 1998 (Code). This is because the return of shares from the underwriter to the major shareholders may result in the latter's interest in a company crossing the control threshold or trigger the creeping provisions under the Code. The SC is granting an exemption from an obligation to undertake a mandatory offer pursuant to the over-allotment option, subject to certain criteria being met For more information, please see the information on "The Application of the Malaysian Code on Take-Overs and Mergers, 1998 in Relation to Over-allotment Option and Price Stabilization Mechanism" posted on the SC website.

8) Is the price stabilizing mechanism available in the case of a dual listing of shares?

- Yes, issuers who wish to conduct a dual listing exercise in Malaysia and an exchange outside Malaysia will be allowed to use the price stabilizing mechanism. Similar disclosure requirements in the exchange outside Malaysia would also apply.