2015

Preliminary Report on Darul Ehsan Investment Group (DEIG)

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| PUSAT KHIDMAT P104 KELANA JAYA | 113B, JALAN SS14/1 SUBANG JAYA

A. Background of DEIG

- DEIG was established under the Companies Act 1965 as a private limited company on **4 December 2014.**
- DEIG was officially launched in **May 2015**.[1]
- It is safe to assume the planning for DEIG started as early as November 2014, just two months after Azmin Azli was appointed Menteri Besar.
- DEIG is wholly owned by Menteri Besar Incorporated (MBI), which is established under the MBI Act 1994.
- The MB has very wide powers under the MBI Act and power is centralised.
- Members of the Executive Council (EXCO) were not given a vote on the issue of the formation of DEIG, though it is said that the EXCO were informed. We are unsure when this occurred. Many state assemblymen were shocked to hear of DEIG's existence just a month ago.
- Media reports[2] of DEIG's plan to develop several townships around Selangor prompted a Select Committee Hearing on the formation of the elusive DEIG.

B. Structure of DEIG

- Board of Directors consists of:
    - Dato' Menteri Besar (YAB Azmin Ali)
    - Ketua Pegawai Eksekutif MBI (YM Raja Shahreen bin Raja Othman)
    - Ketua Pegawai Operasi MBI (En Soffan Affendi bin Aminudin)
        - Non-executive: Setiausaha Kerajaan Negeri (YB Dato' Haji Mohammed Khusrin Bin Haji Munawi)
        - Non-executive: Pegawai Kewangan Negeri (YB Dato' Noordin Bin Sulaiman)

- Wholly-owned by MBI. Executive Directors are all from MBI office.

C. Select Committee Hearing on DEIG held on 8 July 2015

- The Select Committee on State GLCs[3] called a closed hearing on **8 July 2015.** The Committee questioned the need to establish DEIG as a means of restructuring GLCs under MBI.

[1] http://www.dealstreetasia.com/stories/selangor-state-launches-investment-arm-deig-khazanah-appoints-india-head-6856/
[2] http://www.theedgeproperty.com/my/tags/darul-ehsan-investment-group
[3] Jawatankuasa Pilihan Mengenai Agensi, Badan Berkanun dan Anak Syarikat Kerajaan Negeri (JP-ABAS) Bagi Dewan Negeri Selangor

- The CEO and COO of MBI presented their statements to the Committee. The salient points are listed below.

Note: **paragraphs* denote updates from the debate in the Dewan Undangan Negeri on the Select Committee Report (19 August 2015).

<u>I. Statements on rationale for establishment of DEIG</u>

- To restructure 74 companies under MBI.
- Established to protect MBI from legal proceedings. Under section 3(2) of the MBI Act, the MB can bring and can be liable for any legal proceedings.
- The MBI Act restricts MBI from taking out commercial loans. DEIG was established to essentially allow MBI to do this.
- DEIG does not have a clear strategy on how to restructure the 74 companies under MBI and it was stated that these companies owe as much as RM450 million to the state. DEIG will provide "advice" to these non-profitable companies.
    - **So far, MBI has not provided any state assemblymen with a list of profitable or non-profitable GLCs. One state assemblymen questioned if MBI planned to close any of the non-profitable GLCs, to which the answer was no.*[4]

<u>II. Statements on DEIG assets</u>

- DEIG does not have any assets and acts as a holding company.
- But its parent body, MBI, has an estimated "RM20 billion to RM30 billion" total worth of assets.
- MBI owns an estimated 5,000 hectares of land. DEIG is reportedly engaged in Request For Information (RFI) exercises to develop land in partnership with private sector. [5]
    - **When the MB was questioned on the reported RFIs in the Dewan, he denied that DEIG had engaged in RFI exercises and insisted that they were made under MBI.*
- Any Requests for Bids (RFB) will only begin 2 to 3 months from the time of the hearing.

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[4] YB Ng Sze Han during question & answer in the Dewan Undangan Negeri
[5] http://www.theedgeproperty.com/my/tags/darul-ehsan-investment-group

III. Select Committee Findings

- It is not confident that DEIG has sufficient accountability mechanisms in place or sufficient check and balances.
- It is not confident that inserting this 'corporate veil' to shield the MB from legal proceedings will resolve the problem that GLCs frequently enter into joint ventures that benefit the private sector more than the state.
- It is not confident that the current DEIG Board is ready and able to make commercial and strategic decisions that will best benefit the state.
- It is not confident that the formation of DEIG will resolve the problem that many GLCs overlap in their scope and have to compete with one another on top of the private sector.
- It is not convinced in the statement that the DEIG will not divest MBI assets without MBI shareholder approval, until the Memorandum of Association of DEIG is handed over to the Select Committee.
- The stated RM20 billion to RM30 billion worth of assets under MBI cannot be verified as it is not reflected in MBI's annual financial statement, and therefore cannot be accepted.

IV. Select Committee Recommendations

- It urges the MB to halt all plans and operations of DEIG until a White Paper is prepared to explain to the Dewan Undangan Negeri the need, management and accountability mechanisms of DEIG.

**The Select Committee Report was debated and passed on 19 August 2015 in the Dewan Undangan Negeri. The State Government will table its response to the recommendations in the next sitting in November.*

D. Issues on Transparency

- MBI is not required to table its accounts in the Dewan Negeri. As DEIG was formed under MBI, it is also not required to table its accounts to state assemblymen. This raises a red flag when it comes to transparency, especially since it circumvents MBI's restriction on commercial loans.
- As it is a body corporate under CCM, it also falls outside the purview of the Selangor Audit Department.
- Despite the unclear objective of DEIG on how it plans to restructure a majority of the unprofitable GLCs, its formation is within the discretionary powers of the MB.

- When questioned on the issue of transparency, **the MB verbally assured the Dewan** that DEIG will have a tender board and audit board, and that the reports of the respective boards will be made available to the Selangor PAC and Select Committees.[6]
- Aside from pushing for a White Paper, state assemblymen should also consider amending the MBI Act to require MBI to table its accounts to the Dewan and place it under the purview of the Selangor Audit Department. This allows for both MBI and DEIG's activities to be scrutinised by members of the Dewan.

[6] Dewan Undangan Negeri Debate 19 August 2015.