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Law allowing firms to buy back shares effective Monday

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SECTION 67A of the Companies Act 1965 which allows listed companies to buy back their shares will be gazetted today and come into effect on Monday, according to the Registrar of Companies Ramly Ali yesterday.

Deputy Prime Minister Datuk Seri Anwar Ibrahim had told reporters on Wednesday that the Government wanted the Registry of Companies to enforce the ruling earlier than its scheduled date of Sept 15.

Apart from allowing a company to purchase its shares, the amendment also enables it to provide financial assistance to any person to buy its shares.

This is viewed as a positive move because the law stipulates that shares bought by the company must be cancelled, resulting in a reduction in its paid-up capital. This is likely to improve the earnings per share and net tangible assets of the remaining shares.

However, the company needs to be solvent at the date of purchase or when giving the financial aid. The purchase or the giving of the financial assistance must be made in good faith and in the interest of the company.

In addition, the purchase must be made through the stock exchange where the shares are quoted.

The earlier gazetting is timely as Prime Minister Datuk Seri Dr Mahathir Mohamad had said on Thursday that it would ask companies with large cash reserves to buy back their own shares if their shares are undervalued.

He had charged that share prices on the Kuala Lumpur Stock Exchange had sunk because of manipulation and it was worthwhile for companies to buy back their own shares. This is part of the Government's plan to boost sentiment in the stock market, which has taken a beating in recent months.

Yesterday morning, officials from the Registry of Companies, the Securities Commission and the Kuala Lumpur Stock Exchange met at the ROC to look into the plugging of possible loopholes in the amendment. Officials declined comment.

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