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Experts differ on new DSE proposal

Share buy-back option may open floodgates of manipulation

By M Shamsur Rahman

While the Dhaka Stock Exchange (DSE) stalwarts are pushing forward a plan to allow buy-back of shares, experts warn that this might lead to price manipulation by unscrupulous companies.

As part of its plan to revive the ailing capital market, the DSE in January this year proposed for introduction of the buy-back system.

The DSE Chairman in a letter to Finance Minister SAMS Kibria pointed out that the new system would enable correction of share prices of underpriced companies.

He also argued that the new system would help protect investors' interest, reduce the existence of under-valued floating shares in the market thereby increasing earning per share.

After the DSE suggestion, the Finance Ministry sought the SEC's view on the matter.

The Securities and Exchange Commission (SEC) later sought opinion from its legal advisor and ADB consultants who cautioned the capital market watchdog of the dangers of the new system. They said this would open the floodgates of price manipulation.

The DSE chairman in his suggestion had also cited the recent introduction of buy-back legislation in India, which allows companies to repurchase shares from their free reserves, securities premium account or from the proceeds of an earlier issue.

In such cases, the amount of bought back shares should not exceed 25 per cent of its total paid-up capital and free reserve.

The buy back is allowed to those companies whose shares are fully paid and it requires special company resolutions along with the authorisation of the Articles of Association.

The repurchase has to be completed within 12 months from the date of passing the special resolution and the bought back shares have to be physical, destroyed within seven days of the last buy-back.

It also bars loan defaulters from buying back shares.

The Securities and Exchange Board of India (SEBI) rules also require a company to make public disclosure about any share buy-back.

If any company buys back its shares, it is restricted from raising further capital for a pe-

riod of two years.

However, after passing this law, none of the listed companies in India has applied for the buy-back option.

ADB views

In a letter to the SEC chairman, an ADB consultant said that there were two options for share buy-backs. One option allows companies to repurchase their own stocks after which the shares are destroyed.

The second option is to allow companies to hold repurchased shares in treasury for subsequent resale. These shares are called treasury shares.

The introduction of treasury shares should not be viewed as a reaction to market conditions. It would be unrealistic to consider that treasury shares are the panacea every listed company has long awaited," the consultant said.

"The holding of treasury shares would give companies an opportunity to create a false market or to manipulate the price of their shares, particularly for short term gains.

The directors might be tempted to utilise the share repurchase and resale mecha-

nism as a way to manage the company's share price to benefit themselves rather than the shareholders," the ADB consultant maintained.

"This may happen in relation to the issue or exercise of share options, where directors may be tempted to arrange for the company to sell treasury shares after they have exercised their share options and sold their personal shares.

"There may also be a concern that share repurchases and resales might be used to support a share price artificially. Manipulation might be a risk where a company seeks at a particular time (such as when trying to secure further debt or equity finance) to give an impression of value, which may not be justified by its performance, by influencing the company's earnings per share and other performance ratios."

SEC legal adviser's views

The SEC legal adviser cautioned that share buy-back should not be allowed without reducing the company's share capital because the new system could encourage all the listed

companies to act as investment firms by trading their own shares.

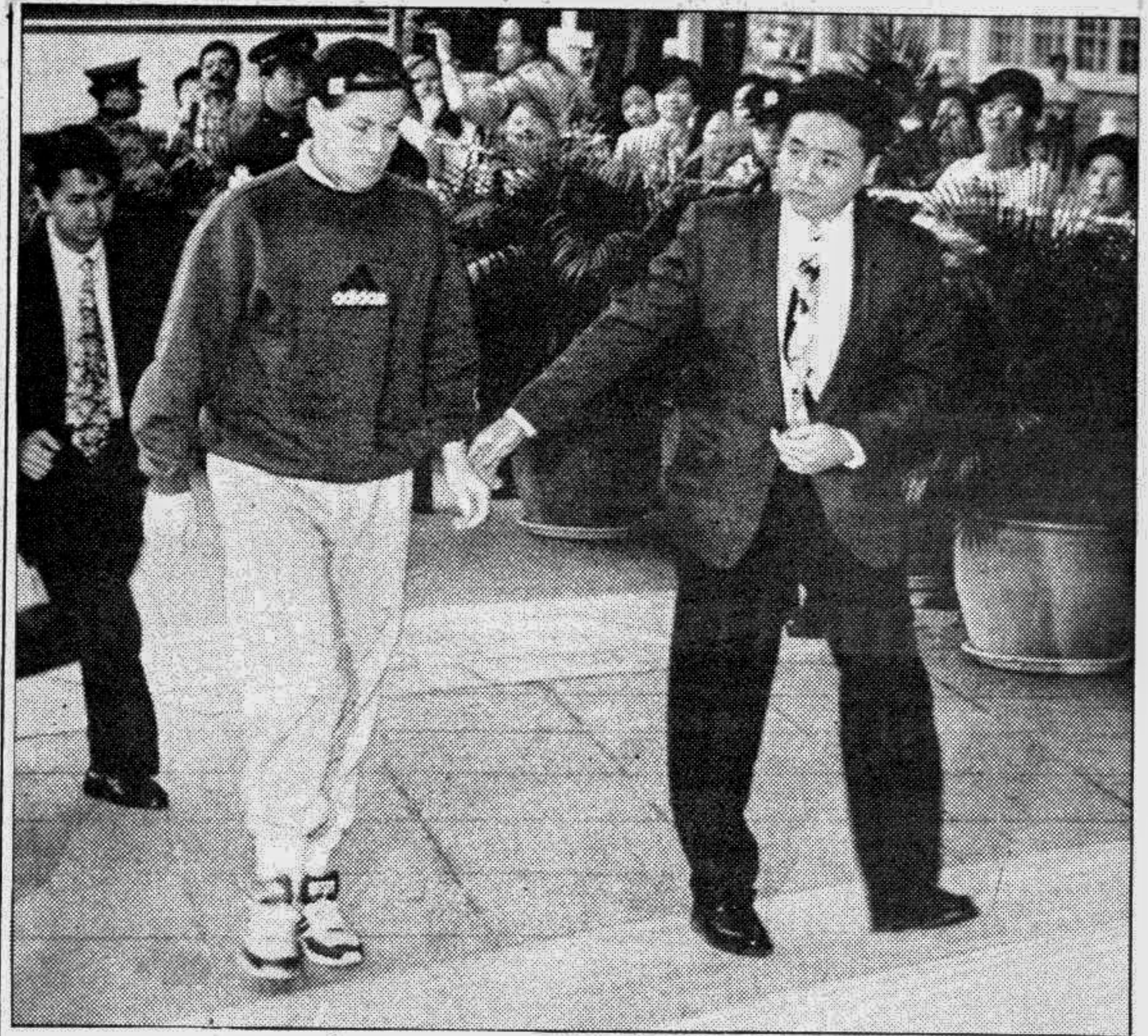
This could open the floodgates of further share market manipulation.

He also pointed out that under the provisions of the Companies Act, 1994, companies are allowed to buy back their shares.

The decision of a company to reduce its share capital is subject to confirmation by the court. Under the Act, when a company passes a resolution for reducing share capital, it needs to apply to the court for an order confirming the reduction. The court may then direct the applicant company to publish a public notification about the filing of application for reducing share capital. This is also done to invite objections, if any, especially from the company creditors.

If the court feels satisfied after hearing all the parties concerned, it may pass an order confirming the reduction.

The court determines the terms and conditions of share capital reduction on the basis of the facts and circumstances of each particular case.



File photo dated 23 November 1995 shows Nick Leeson (L) escorted to the Criminal Affairs Department office in Singapore. The Singapore government confirmed yesterday that cancer-stricken British rogue trader Nick Leeson, who caused the collapse of Britain's oldest merchant bank Barings, will be released from jail in July. — AFP photo

Int'l packaging fair in Seoul on May 27

Star Business Report

A five-day international packaging exhibition will begin at the Seoul Trade Exhibition Center in South Korea on May 27.

All kinds of packaging materials and packing related machinery, converting machinery, package design, physical distribution and material handling equipment, logistics software and hardware items will be displayed at the Seoul International Packaging Exhibition '99.

Korea Trade Center (KOTRA), commercial section of the embassy of the Republic of Korea, is organising a trade delegation from Bangladesh to participate in the fair, a press statement issued by KOTRA in Dhaka said yesterday.

KOTRA requested interested companies willing to join the delegation may contact business consultants by April 20 with company profile, two copies of import L/Cs and participant's passport copy.

'Taiwan to open South China Sea island to tourism'

TAIPEI, Apr 5: Taiwan is considering letting tourists visit a fortified islet it controls in a contested area of the South China Sea in order to reinforce its sovereignty claim, a newspaper reported Monday, says AP.

Local government and the Interior Ministry are pushing to open up Pratas island, also known as Tungsha, to visitors, although the army has not yet given its consent, the China Times reported.

Rival China, meanwhile, is moving to open the nearby Parcel islands, also known as Xisha, to tourism in order to solidify its South China Sea claims, the paper said.

China and Taiwan exercise overlapping claims to the Paracels and Pratas groups, while Vietnam also claims the Paracels.

If protested by other nations, the unconfirmed moves could inflame sovereignty disputes in the South China Sea, where Brunei, China, Malaysia, the Philippines, Taiwan and Vietnam claim territory. Most of the disputes center on the Spratly islands, located to the south of the Pratas and Parcel groups.

NGO leaders tell Kibria Budget allocation should aim at poverty alleviation

Finance Minister Shah AMS Kibria yesterday said that the government was working with a favourable attitude to forge a fruitful and meaningful cooperation with the NGOs for attaining national development, reports BSS.

During a pre-budget discussion with the NGO leaders at the NEC Bhāban' here the finance minister called upon the NGOs to play due role in eradicating corruption and launching a social movement for socio-economic development of the nation.

ADAB Chairperson and Proshika President Dr Qazi Faruque Ahmed, ADAB Vice-Chairperson Aroma Goon, Treasurer Abdul Matin, Director Shamsul Huda, Executive Committee member Rashida K Chowdhury and representatives of various NGOs took part in the discussion. National Board of Revenue (NBR) Chairman Abdul Moyeed Chowdhury also took part in the discussion.

Earlier, Dr Faruque Ahmed read out a memorandum to the

finance minister in which the NGO leaders drew the attention of the government to prepare the next national budget in such a way that the poor could enjoy the benefits of budgetary allocations in the social sector.

The finance minister said good relations based on confidence and trust should be between the government and the NGOs as "all of us are working with a same mission and vision to alleviate poverty from society."

Kibria said the government had taken decision to implement various development programmes like housing for the rural poor and education through NGOs. He also informed about government's steps for attaining real development of the nation, have taken concrete steps for empowerment of women.

In this connection he referred to the mandatory provision to elect women representatives in all local body organisations which had brought revolutionary changes to the life-

style and status of the hitherto neglected women.

The finance minister said it could not be desirable that the NGOs would receive funds from foreign donors only. The government would also provide considerable financial assistance for implementing various development programmes of the Non-Governmental Organisations, he added.

In the memorandum, Dr Qazi Faruque Ahmed lauded the government for taking various social welfare programmes like providing shelter to the river erosion affected and landless people through *ashrayan prokapa*, giving house building loan to the poor, taking decision on principle to set up social development foundation, banning import of lead-containing fuel and other steps for environmental protection.

Among others, he suggested immediate implementation of social development foundation and start its execution from the 1999-2000 fiscal.

FBCCI team off to Agartala

A 30-member delegation led by Abdul Awal Mintoo, President of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), left Dhaka for Agartala, in Tripura yesterday by road, says a press release.

During their stay at Agartala, the delegation will call on Chief Minister of Tripura and Commerce and Industries Minister and hold meeting with Tripura Chamber of Commerce and Industry.

The delegation would explore the possibilities of enhancing trade and investment with the north eastern states of India, specially Tripura and also discuss about forthcoming meeting of the leading businessmen of West Bengal and north eastern region of India to be held in Dhaka during September or October 1999.

The businessmen conference will be attended by the Chief Ministers of West Bengal and north eastern states of India.

The delegation comprises FBCCI directors Rajab Sharif, Md Montaz Uddin, Alhaj Alif Hossain, Alhaj Sheikh Nurul Alam, Dewan Sultan Ahmed, Abu Alam Chowdhury, Aminul Hoque Sohel, Zafar Ahmed Chowdhury, Afzal Khan and Md Fariduddin Ahmed.

It also includes, AJM Emamul Haque SA Quader Keron, Harunur Rashid, Giasuddin Ahmed, Rafique Bhuiyan, Md Azizul Haque and Paritosh Ranjan Saha.

Asian Clearing Union annual meet opens in Nepal

KATMANDU, Apr 5: India has no immediate plans to introduce capital account convertibility, India's central bank governor said Monday, reports AP.

"No time frame has been set so far for convertibility in the capital account. The international scenario has shown that a cautious move toward convertibility is needed," said Governor Bimal Jalan in Katmandu, the Nepalese capital.

Jalan, governor of the reserve bank of India, is in Katmandu attending the annual meeting of the Asian Clearing Union, comprising central banks of seven nations.

The ACU was established in 1970 to facilitate transactions, economic use of foreign exchange reserves and promote trade among member nations — India, Nepal, Iran, Myanmar, Pakistan, Sri Lanka and Bangladesh.

Japanese business confidence shows slight improvement

TOKYO, Apr 5: Giving a rare glimmer of hope to Japan's limping economy, the Bank of Japan announced Monday that confidence at recession-hit manufacturers improved slightly during the past three months, bouncing back from record lows, reports AP.

In a closely-watched quarterly report, the central bank said business-sentiment at small manufacturers had improved since the last survey to minus 53. Medium-sized manufacturers were also more optimistic, with sentiment there improving to minus 48.

The survey measures the percentage of firms seeing business conditions improve minus the percentage seeing conditions worsen.

In the previous report, sentiment at small companies was at minus 56 and that at medium-sized companies at negative 52 — the lowest level for both categories since the "tankan" survey in 1967.

For large manufacturers, the confidence measurement fell to a negative 47 — down from negative 49 in December. The December figure was the worst since February 1994.

The survey showed that the government's massive economic stimulus measures were beginning to break Japan's economic slide, but analysts said the survey still revealed glaring weaknesses in corporate sentiment.

In particular, they said predictions by big companies that capital spending would decline by 9.4 per cent this fiscal year — up from projections of a 5.4 per cent drop for the last fiscal year — indicated that domestic demand was unlikely to recover anytime soon.

The capital spending figure was "worse than most people expected and it really drives home the fact that companies continue to re-trench aggressively," said Kenneth Landon, a strategist at Deutsche Bank.

"If companies aren't spending, then the people who work there won't spend either," he added.

Economists surveyed by Dow Jones Newswires had anticipated a bigger rise in confidence among large manufacturers, forecasting a minus 45 in the central bank's latest poll.

Nevertheless, many analysts took any improvement in sentiment as a positive sign for the

economy.

"The data confirm that the economy has begun to bottom and that its outlook is expected to improve," said Masatoshi Sato manager of the investment information group at Kankaku Securities.

The release of the survey sent Tokyo stock prices sharply higher early Monday, with the benchmark Nikkei average rising more than 1 per cent to close the morning session at 16,522.39 points.

The bank changed its tankan format starting with this survey. It sampled 9,433 companies and classed them as large, medium-sized and small. Before, small and medium-sized businesses were surveyed together.

The improving numbers come as Japan struggles with its worst recession since World War II. Unemployment has risen to all-time highs, bankruptcies have soared, consumer spending has shriveled and growth continues to decline.

Manufacturers also predicted that business sentiment would show more improvement by the time of the next survey.

India's export performance improves in February

By I. Gopalakrishnan

NEW DELHI, Apr 5: The prospect of a turnaround in India's trade in the fiscal year 1999-2000 has brightened with exports recording a more than four per cent increase in February over the same month a year ago.

The export growth for the first 11 months (April-February) of 1998-99 now works out to 1.66 per cent, a very modest figure but nevertheless a much better rate of growth than the 0.41 per cent for the April-January period.

Commerce Minister Ramakrishna Hegde had been put off by the low growth rate for the first ten months of the last fiscal while announcing the exit policy for 1999-2000.

He declined to forecast any growth rate for the current year, pointing out that he had been wide off the mark last year when he set a target of 15 to 20 per cent growth rate for 1998-

99.

Hegde however, had defended India's export performance, pointing out that the country had registered a positive growth, while countries in the southeastern region, notably China, had recorded negative export growth during the year in the wake of the severe currency collapse.

Even the global growth in exports was only one per cent. "In a situation like this, even the growth rate of 0.41 per cent (for April-January 1998-99) is not something to be scoffed at", he said.

According to figures released by the Commerce Ministry a day after the announcement of the 1999-2000 trade policy, during April-February, exports aggregated \$29.98 billion compared to \$29.52 billion during the corresponding period in 1997-98.

Exports during February

were estimated at \$2.82 billion. Imports for the 11-month period were valued at \$38.16 billion, compared to \$35.30 billion for April-January 1998.

The adverse balance of trade for April-February 1998-99 works out to \$8.15 billion against \$5.78 billion a year ago.

Hegde defended India's poor trade performance last year, pointing out that many parts of the world were hit by recession and the situation in Southeast Asia did not improve as expected. Owing to the fierce competition from countries which had sharply devalued their currencies, the unit value of exports dropped, aggravating the country's trade performance.

India's export performance last year is the worst since 1991-92 when the growth rate in exports was negative, compared to 1990-91.

— India Abroad News Service



A chicken seller is busy packing chicken to meet the demand at a market in Kuala Lumpur yesterday. As the death toll in Malaysia's pig-borne encephalitis outbreak rises to 86 people, Malaysia is now facing a shortage of chicken as most ethnic Chinese consumers switch to poultry in fear of the killer virus outbreak. — AFP photo

Elephant ivory ready to finance conservation

WINDHOEK, Namibia, Apr 5: On the outskirts of this arid African capital, thousands of elephant tusks fill metal shelves stretching into the gloom of a nondescript warehouse, says AP.

Some are weathered gray, like driftwood. Others are yellowed from the sun. The smell of a fresh elephant skull in the corner turns the air rank.

It is a trove of "white gold" — 13.8 tons of ivory that could earn millions of dollars for elephant conservation programs in Namibia.

In one-time sale being permitted by a United Nations wildlife panel, the ivory is to be auctioned off to Japanese buyers Friday. Zimbabwe is being allowed to sell 20 tons on April 13 and Botswana 25 tons on

April 17.

The decision by a committee of the Convention on International Trade in Endangered Species to allow the sales was a momentous one for the wildlife community. It came a decade after the ivory trade was banned to protect elephants from widespread slaughter for their tusks, which at the time sold for \$150 to \$200 a pound (a half kilogram).

Critics of the auctions are mainly non-African wildlife activists who want to protect elephants at all costs and fear the sales will encourage poaching. The sales are supported by local conservationists, who say the proceeds will provide badly needed financing for conservation efforts.

Caught in the middle of the

debate are villagers whose crops and water supplies are often under assault by southern Africa's burgeoning elephant population, estimated at 200,000.

None of the tusks being sold came from poachers. The elephants died naturally or were killed when herds were culled.

Moreover, proponents argue, Africa's south is having to grapple with exploding elephant populations and never saw the poaching problem of East Africa that led to the ivory trade ban.

Organisations like the Human Society of the United States and International Fund for Animal Welfare say the ivory auction will still send a message to poachers that it is open season again. The in-

creased flow of legal ivory will make it easier to mingle in poached ivory, they say.

The activists discount promises by Namibia, Zimbabwe and Botswana that new monitoring and enforcement systems are in place. They worry the sale will open the door to increased trade and have little faith the proceeds will go to conservation programs.

The decision was "against the precautionary principle of conservation," said Fred O'Regan, president of the International Fund for Animal Welfare. "If you're really not sure what's going to happen, then do no harm."

"Given the history of poaching in Africa, we felt it was a dangerous chance to take," he

said.

Local officials see it differently. They say the main threat to elephants is the growing presence of humans in the animals' habitats and loss of access to water and food supplies.

Malan Lindeque, the main elephant expert in Namibia's Environment Ministry, was a driving force behind the auction plan.

Guiding a visitor through the ivory warehouse, he points to the serial numbers marked on the tusks. Each one is registered in a database, which details how and where the elephant died.

"There's no chance that any other ivory will be leaked into this sale," he said.

'98 oil price plunge an economic catastrophe for Saudi Arabia

RIYADH, Apr 5: For Saudi Arabia, the world's largest oil exporter, last year's sharp drop in oil prices was an economic catastrophe, says AP.

The kingdom's oil revenues shrank to \$30 billion — a drop of \$20 billion from the year before — and plunged its budget deeply into deficit.

Government hiring has been frozen, construction projects have been shelved and foreign military contracts are being rescheduled.

The Central Bank has had to intervene at least once, and possibly twice, to keep speculators from forcing the depreciation of the Saudi currency, the riyal.

"This has been our warning, our wake-up call," said Mohammed Tunisi, editor of the financial daily Al-Eqtisadiyah.

"If we learn the lessons, it gives me hope for the coming century."

The most important lesson, experts say, is that Saudi Arabia has to diversify its economy so that it's not at the mercy of the ups and downs of world oil prices.

Kevin Taecker, chief economist at the Saudi American Bank, said that even if OPEC production cuts under discussion in Austria this week boost prices, "it doesn't change the fact that Saudi Arabia has to stay focused on economic

policies that promote diversification."

That's easier said than done in a country which has one-quarter of the world's oil reserves — 260 billion barrels — and has been dependent on that one commodity for five decades. It's also difficult because the kingdom's 20 million people have become used to government largesse that includes free education and health care, subsidized utilities, low-interest housing loans and guaranteed jobs.

Yet because of the oil crunch, once-unthinkable reforms are being discussed openly, including limiting the monthly stipends for the royal family.