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CORPORATE RESTRUCTURING AND ITS WEALTH EFFECTS: THE CASE OF LION GROUP

FAUZIAS MAT NOR
NORAZLAN ALIAS
MOHD HASIMI YAACOB
Faculty of Economics and Business
Universiti Kebangsaan Malaysia

ABSTRACT

This case study evolves around four announcements related to a specific corporate restructuring proposal. The primary reason for the corporate restructuring is to restructure the debt of six companies: Lion Industries (LICB), Silverstone (SCB), Amsteel Corp Berhad (ACB), Lion Corporation (LCB), Lion Forest Industries (LFI), and Lion Diversified Holding Berhad (LDH). The track record of the companies revealed that these companies have been heavily levered causing them to be financially risky and therefore, highly sensitive to any economic shocks, let alone a fatal financial typhoon like the 1997 economic crisis. As at the end of the study period on June 30, 2003, that is, more than three years after the initial announcement of the proposed corporate restructuring, the plan has yet to be completed. Nonetheless, the present study had managed to produce some interesting results. By applying the common event-study approach, the results indicated that information about the restructuring plan has been significantly conveyed to the market in each restructuring announcement. Generally, the market regards all announcements in event window (-1,+1) unfavourably.

Keywords: *Financial Ratio; Corporate Restructuring; Event Study.*
Topic Code: Case Studies/Finance.

ABSTRAK

Kajian kes ini memberi fokus kepada empat pengumuman cadangan penstrukturan korporat Syarikat Kumpulan Lion Berhad yang terdiri daripada, Lion Industries (LICB), Silverstone (SCB), Amsteel Corp Berhad (ACB), Lion Corporation (LCB), Lion Forest Industries (LFI) and Lion

Diversified Holding Berhad (LDH). Didapati kumpulan syarikat ini menggunakan pembiayaan hutang yang tinggi menyebabkan syarikat terdedah kepada risiko kewangan yang tinggi dan sangat sensitif kepada perubahan ekonomi, terutama pada masa kegawatan ekonomi 1997. Setelah tamat tempoh kajian (Jan 1990 – Jun 2003), penstrukturan korporat syarikat masih belum berakhir lagi. Walau bagaimananpun beberapa penemuan menarik dikesan, antaranya ialah maklumat berkenaan cadangan penstrukturan korporat syarikat telah berjaya disampaikan secara signifikan kepada pasaran pada setiap kali pengumuman dibuat dan secara keseluruhannya pasaran menganggap kesemua pengumuman pada tetingkap peristiwa (-1,+1) sebagai tidak menarik.

Kata kunci: *Nisbah kewangan; penstrukturan korporat; kajian peristiwa.*
kod topik: kajian peristiwa/kewangan.

INTRODUCTION

The origin and more specifically the growth and performance of the business firm have always been an object of considerable interest to scholars especially from business related disciplines such as finance and strategic management. The fact that managers may be facing with a changing environment makes firms vulnerable to unforeseen circumstances that lead to poor performance. A long period of poor performance may gradually bring firms into financial distress. Financial distress is defined as the condition in which the liquidation value of the firm's assets is less than the total value of creditor claims (Weston, Mitchell, & Mulherin, 2001). Firms must seek a way out to resolve and remove the operational and financial constraints due to the financial distress. Corporate restructuring, be it voluntary or involuntary, is a way out for these troubled firms in order to survive. The corporate restructuring schemes may vary from one to another, but the objectives should basically enable the troubled firms to reduce or remove the current operational and financial constraints, and enhance the firm value. Voluntary restructuring is accomplished without a threat by external mechanisms while involuntary restructuring is a response to adversarial external mechanisms. Ofek (1993) outlined two major responses known as operational and financial. Operational responses include (1) changing the asset structure by selling assets, divesting divisions, and discontinuing unprofitable operations; (2) changing the size and scope of operation by consolidating production facilities and laying off of employees; and (3) changing top management. Financial responses include dividend cuts, debt restructuring, and bankruptcy filings. Debt restructuring is defined as an agreement by the firm's creditors to resolve outstanding financial claims currently held against the firm. Voluntary debt restructuring are informal and simple. They are also relatively inexpensive because legal and administrative expenses are held to a minimum. If the situation is such that informal procedures are not feasible, then it becomes necessary to use formal reorganisation or formal bankruptcy proceedings.

In terms of the Malaysian setting, none has studied the determinants, firms' characteristics, and overall performance of the corporate restructuring exercise either using overall data on restructured firms or a case approach based on individual firms. Hence, this case study approach is expected to contribute to the body of knowledge in the area of corporate restructuring and policy making guidelines in relation to the corporate restructuring exercise.

This case study on corporate restructuring had involved six public listed companies of the Lion Group, with four classified under the Practice Note 4 (PN4) imposed by Malaysian Securities Exchanges Berhad, which was effective in February 13, 2001, namely Lion Corporation Berhad (LCB - PN4 since 26/2/01), Amsteel Corporation Berhad (ACB - PN4 since 25/5/01), Lion Industries Corporation Berhad (LICB) and Silverstone Corporation Berhad (SCB), PN4 since 23/5/02. The other two are Lion Forest Industries (LFI) and Lion Diversified Holding Berhad (LDH), formerly known as Chocolate Product Bhd. Under the PN4, an affected listed issuer that fails to comply with the obligations set out may be suspended and/or de-listed. The provisions of this PN4 include one or more of the following:

a. Deficit in the adjusted shareholders' equity of the listed issuer on a consolidated basis;
b. Receivers and/or managers have been appointed over the property of the listed issuer, or over the property of its major subsidiary or major associated company which property accounts for at least 70% of the total assets employed of the listed issuer on a consolidated basis;
c. The auditors have expressed adverse or disclaimer opinion in respect of the listed issuer's going concern, in its latest audited accounts; or
d. Special administrators have been appointed over the listed issuer or the major subsidiary or major associated company of the listed issuer pursuant to the provisions of the Pengurusan Danaharta Nasional Berhad Act 1998.

LICB suffered its first deficit in shareholders' equity for the year ended 30 June 1999 (-1.3 billion) followed by ACB in 2001 (-0.47 billion), LCB and SCB the year after (Table 1). Thereafter, the entire group began to streamline its financial condition via its proposed corporate and debt restructuring exercises, which was announced as Group Wide Restructuring Scheme (GWRS) or also known as Proposed Corporate Restructuring (PCR). The first announcement was made via the KLSE link on 5 July 2000 and was followed then by three major revisions on 8 October 2001, 26 March 2002 and 21 February 2003. As at 5 March 2003, the entire group was suspended from trading on the KLSE before resuming trading on 1 April 2003.

Lion Corporation Berhad (LCB) is the group's investment holding company while Lion Industries Corporation Berhad (LICB) (formerly known as Lion Land Berhad) engaged in manufacturing of steel bars, beer brewing, and pulp and paper mill operation. Silverstone Corporation Berhad (SCB) (formerly known as Angkasa Marketing Berhad) engaged in property development and retailing, while Amsteel Corporation Berhad (ACB) engaged in the business of manufacturing tyres and distribution of motorcycles. Lion Diversified Holding engaged in breweries and property investment holding, while Lion Forest Industries is involved in the timber industry. As at 1 April 2005, the corporate restructuring exercise has still remaining outstanding items not resolved.

The purpose of this study is to achieve the following research objectives:

1. To track the financial history that leads to financial distress.
2. To identify operational and financial responses that have been taken and proposed in the restructuring scheme.
3. To determine whether or not the announcements convey information to the market.
4. To estimate the wealth effects of the specific restructuring announcements and the combined wealth effects of these announcements.

THE FINANCIAL BACKGROUND

The Financial History

The selected financial data in this study were selected based on its theoretical relationships with the probability of firm to meet its debt-service obligations. Ofek (1993) and Baek, Kang, and Park (2001) used two basic variables (capital structure and profitability) when examining the responses of financially distressed firms to poor performance. Most of the capital structure characteristics used by Ofek (1993) that were adopted included leverage, liquidity ratios, and market value of equity (MVE). Leverage is measured by debt ratio, total debt to equity ratio, and interest coverage ratio. Liquidity is measured by current ratio and acid test ratio, while MVE is measured by market price multiplied by number of shares outstanding. Following Ofek (1993), profitability measure is earnings before interest, tax, and depreciation (EBITD), because the main purpose was to evaluate the firm's operating ability to pay interest in addition to return on equity and return on total assets. The net tangible asset (NTA) per share was also reported as an indicator of the firm's fundamental value. Dividend per share was reported to see responses of the company regarding its dividend policy when faced with poor performance (Ofek, 1993; Severin, 2000). Total assets and total debts were used to see, among others, the size and turning points when these firms finally become heavily burdened with debts.

Over the period of study, the Group has remarkably expanded into various activities and used considerably large debt to finance these expansion activities. The large debt effect had worsened when the financial crisis hit the region in mid-1997. Consequently, the entire Group suffered from extremely high leverage and large losses. LICB recorded negative shareholders equity during year 1990 (RM-61.66 Million), 1991 (RM-76.746 Million), and 1999 (RM-1,305 Million). ACB recorded negative shareholders equity during year 2001 (RM-469.516 Million), 2002 (RM-1,179.782 Million) and 2004 (RM-1,165.14 Million), while the other companies also suffered significant erosion of their shareholders funds, except for LFI and LDH.

Lion group assets increased steadily during the period 1990 to 1999, but after that, some of the companies had their assets reduced as part of the group divestment. The group paid-up capital also increased steadily during the study period.

The EBITD stream of ACB, LCB, LICB, and SCB was fluctuating, but decreasing over the years and this was inadequate to cover the huge amount of debts and depreciation from large fixed assets investments, thus, and they suffered huge losses substantially from 1998 to 2002. Each company registered a huge amount of debts over the study period, for example LCB from RM121.674 million (1990) to RM5.004 billion (2004). This had indicated that the companies used more debt to finance their asset expansion as compared to equity. Consequently, the Group had suffered huge fixed commitment in terms of loan principal and interest payment denominated in US and local currencies. Table 1 displays a serious erosion of NTA (except for LICB and LFI) indicating that most of the assets for the whole Group are not owned by their shareholders but rather creditors. From Table 1, it can be seen that all Lion group companies, except for LICB, LFI, and LDH, have total debts to total assets of more than 75% towards 2004, and this served to indicate that creditors nearly own the group. This evidence is further supported by the debt to equity ratios, which had clearly exceeded 100% of equity available to these companies.

Table 1

Leverage Ratio of the companies for the period of 1990 – 2004

	Amsteel					Lion Corp				
Year	TD/TA (%)	TD/TE	BL/TA (%)	BL/TD (%)	IC	TD/TA (%)	TD/TE	BL/TA (%)	BL/TD (%)	IC
1990	58.05	1.38	20.32	35.01	4.06	33.55	0.50	na	na	na
1991	65.27	1.88	22.17	33.96	2.69	43.06	0.76	28.93	67.19	4.18
1992	67.13	2.04	30.77	45.84	1.69	52.02	1.08	37.23	71.56	2.68
1993	63.92	1.77	22.36	34.97	1.19	56.74	1.31	40.45	71.29	1.50
1994	69.53	2.28	51.53	74.11	1.82	na	na	na	na	na
1995	69.75	2.31	50.56	72.48	1.50	52.13	1.09	37.48	71.89	2.39
1996	71.32	2.49	53.92	75.60	0.92	58.78	1.43	42.72	72.67	1.62
1997	73.57	2.78	55.29	75.15	0.93	53.75	1.16	40.40	75.17	1.84
1998	71.33	2.49	57.09	80.03	-1.58	81.03	4.27	71.09	87.73	-7.29
1999	76.61	3.27	57.41	74.95	-1.36	84.89	5.62	70.79	83.39	-0.01
2000	81.15	4.31	58.61	72.22	-1.07	88.39	7.61	66.76	75.53	-5.12
2001	103.70	-27.99	59.45	57.32	-1.26	95.85	23.10	67.88	70.82	-1.83
2002	109.82	-11.19	60.10	54.73	-1.06	99.71	343.87	66.17	66.36	-0.83
2003	95.53	21.35	2.93	3.07	3.78	85.81	6.05	36.28	42.28	1.16
2004	129.14	-4.43	2.08	1.61	0.18	85.71	6.00	33.25	38.79	0.89

	Lion Ind					Silverstone				
Year	TD/TA (%)	TD/TE	BL/TA (%)	BL/TD (%)	IC	TD/TA (%)	TD/TE	BL/TA (%)	BL/TD (%)	IC
1990	138.27	-3.61	61.59	44.54	-0.80	64.15	1.79	0.00	0.00	192.60
1991	156.26	-2.78	61.70	39.49	-0.83	56.65	1.31	0.59	1.05	10.89
1992	27.74	0.38	6.05	21.81	27.80	61.89	1.62	3.19	5.15	7.54
1993	69.57	2.29	15.03	21.61	3.29	61.24	1.58	4.86	7.93	2.12
1994	75.55	3.09	17.52	23.20	2.15	61.99	1.63	31.38	50.63	2.41
1995	56.67	1.31	36.74	64.83	2.75	62.64	1.68	38.38	61.28	1.70
1996	59.58	1.47	41.40	69.48	1.21	69.91	2.32	31.51	45.07	1.73
1997	54.82	1.21	39.46	71.97	1.82	75.70	3.12	39.59	52.30	2.15
1998	62.77	1.69	48.67	77.54	-0.19	76.27	3.21	49.23	64.54	-1.02
1999	202.69	-1.97	161.11	79.49	-0.37	76.76	3.30	46.48	60.54	-0.32
2000	70.09	2.34	46.48	66.31	-0.58	81.67	4.45	49.48	60.59	-1.53
2001	79.61	3.91	49.01	61.56	-2.83	90.44	9.46	51.12	56.53	-2.34
2002	85.16	5.74	48.08	56.46	-1.24	104.09	-25.47	55.74	53.55	-3.14
2003	71.49	2.51	30.86	43.17	0.91	82.82	4.82	28.45	34.35	1.42
2004	57.02	1.33	29.49	51.71	3.73	75.00	3.00	13.30	17.73	-0.64

	Lion Forest Industries					Lion Diversified Holding				
Year	TD/TA (%)	TD/TE	BL/TA (%)	BL/TD (%)	IC	TD/TA (%)	TD/TE	BL/TA (%)	BL/TD (%)	IC
1990	87.62	7.08	44.32	50.58	1.84	95.08	19.34	47.67	50.14	0.82
1991	84.66	5.52	43.98	51.95	2.21	86.91	6.64	44.46	51.16	2.00
1992	68.40	2.16	19.93	29.15	3.05	85.82	6.05	41.92	48.85	1.79
1993	67.35	2.06	13.96	20.73	3.79	90.27	9.28	61.92	68.59	-0.32
1994	69.11	2.24	6.20	8.97	2.42	63.49	1.74	45.35	71.43	0.48
1995	70.80	2.42	39.08	55.20	1.61	66.30	1.97	40.93	61.74	-0.79
1996	72.09	2.58	38.38	53.23	1.13	44.74	0.81	29.55	66.04	1.82

(continued Table 1)

1997	11.81	0.13	4.06	34.41	3.58	54.28	1.19	34.34	63.27	0.52
1998	13.83	0.16	3.87	27.97	2.57	50.88	1.04	30.07	59.10	-0.67
1999	11.43	0.13	5.50	48.13	3.84	48.71	0.95	26.42	54.25	-0.20
2000	8.12	0.09	3.06	37.67	13.90	49.82	0.99	24.51	49.20	-1.00
2001	7.93	0.09	2.89	36.42	7.17	50.90	1.04	25.26	49.63	0.53
2002	5.77	0.06	1.91	33.11	0.46	53.80	1.16	24.62	45.77	0.20
2003	4.87	0.05	1.25	25.77	4.93	53.62	1.16	23.58	43.97	1.04
2004	5.79	0.06	0.87	15.09	26.25	59.76	1.49	12.98	21.71	35.63

Notes: BL/TA is the ratio of bank loans to total assets and TD/TA is the ratio of total debts to total assets. TD/TE is the ratio of total debts to total equity and BL/TE is the ratio of bank loans to total equity. BL/TD is the ratio of bank loans to total debts and IC is the interest coverage for the companies.

The Group's bank loan to total debt were in the range of 45% - 75% in the last three years prior to the crisis, except for LFI. Overall, it may be concluded that these companies' debt management was not really prudent, which consequently dragged the companies into severe financial condition and distress. The Group announced it had been unable to meet its interest and fee obligations and subsequently announced a debt restructuring arrangement in 5 July, 2000. These scenarios were consistent with Gilson, Kose & Lang (1990) where higher leveraged firms are most likely to experience corporate restructuring once default occurs. The companies' current ratios were mostly below 1.0, as shown in Table 3, with the lowest ratio recorded in 2002 (0.084) by LCB and the highest in 2003 (4.6) by SFI. This means that their current liabilities were rising faster than its current assets, which subsequently deteriorated both companies' liquidity positions. Acid test ratios were also low with the lowest recorded in 1990 (0.072) by LCB and the highest in 2000 (3.465) by SFI.'

Table 4 shows the profitability ratios for the companies. The Group profitability was badly hit during the financial crisis. All companies recorded negative ROE during the 1998 financial year, and this situation continued for several years after that period, before slowly recovering from the restructuring exercise carried out. The ROTA stream was fluctuating, but decreasing over the years which indicated the inefficient use of assets, and this was proven by lowered Tobin's Q value that was lower than 1.0 by most of the companies.

The scenario depicted by Table 1 through to 4, consistently indicated a deteriorating liquidity, weak profitability, and increasing debt burden.

Table 2

Liquidity Ratios of the companies for the period 1990 – 2004

	ACB		LCB		LICB		SCB		LFI		LDH	
Year	CR	QR	CR	QR	CR	QR	CR	QR	CR	QR	CR	QR
1990	1.01	0.39	1.51	1.04	0.25	0.10	1.54	1.54	0.92	0.73	0.58	0.28
1991	1.08	0.44	1.06	0.72	0.30	0.16	1.64	1.14	0.69	0.46	0.87	0.42
1992	0.84	0.41	0.79	0.55	2.11	1.08	1.32	0.78	0.99	0.64	0.79	0.37
1993	0.95	0.48	0.82	0.61	0.90	0.63	1.32	0.74	1.26	0.95	0.68	0.32
1994	0.91	0.58	na	na	0.89	0.68	1.16	0.75	1.33	0.97	0.93	0.59
1995	0.87	0.55	0.82	0.57	1.13	0.73	0.97	0.73	1.16	0.93	0.72	0.43
1996	0.74	0.47	0.74	0.46	1.08	0.78	0.95	0.75	1.09	0.88	1.16	0.84
1997	0.80	0.59	0.83	0.48	1.23	0.97	0.90	0.73	1.26	0.57	0.89	0.69
1998	0.69	0.48	0.96	0.62	1.02	0.83	0.79	0.59	1.22	0.73	0.76	0.57
1999	0.44	0.31	0.75	0.52	0.88	0.79	0.79	0.68	1.37	0.86	0.71	0.50
2000	0.39	0.26	0.57	0.34	0.79	0.71	0.67	0.56	2.08	1.37	0.73	0.55
2001	0.34	0.25	0.36	0.17	0.66	0.57	0.54	0.45	2.52	1.63	0.79	0.60
2002	0.35	0.26	0.084	0.07	0.65	0.56	0.51	0.43	3.60	2.66	0.73	0.53
2003	0.90	0.78	0.59	0.32	1.08	0.72	0.60	0.45	4.62	3.46	0.75	0.57
2004	1.01	0.93	0.45	0.18	1.68	0.94	0.79	0.58	3.88	2.85	0.94	0.72

Table 3

Profitability Ratios of the companies for the period 1990 – 2004

	ACB			LCB			LICB		
Year	ROE (%)	ROTA (%)	Tobin's Q	ROE (%)	ROTA (%)	Tobin's Q	ROE (%)	ROTA (%)	Tobin's Q
1990	9.46	3.97	1.38	5.76	3.83	1.06	18.80	-7.19	1.28
1991	12.82	4.45	1.09	7.97	4.54	0.79	7.29	-4.10	1.22
1992	9.71	3.19	0.60	5.86	2.81	0.40	14.93	10.79	1.40
1993	7.88	2.84	1.13	8.24	3.56	0.89	10.32	3.14	1.31
1994	9.42	2.87	0.72	na	na	na	13.67	3.34	1.72
1995	6.12	1.85	0.47	16.19	7.75	0.65	7.79	3.37	0.67
1996	4.69	1.34	0.30	7.83	3.23	0.60	8.81	3.56	0.62
1997	4.25	1.12	0.18	6.05	2.80	0.24	13.96	6.30	0.31
1998	-23.00	-6.59	0.19	-71.38	-13.54	0.80	-1.83	-0.68	0.22
1999	-24.84	-5.81	-0.19	-61.84	-9.35	0.62	4.12	-4.23	0.16
2000	-25.15	-4.74	-0.37	-62.49	-7.25	0.40	-7.72	-2.31	-0.08
2001	143.80	-5.33	-0.31	-165.16	-6.85	0.07	-55.95	-11.41	-0.20
2002	48.81	-4.79	-0.39	-956.88	-2.77	1.14	-31.03	-4.60	-0.23
2003	319.99	14.32	0.63	7.24	1.03	0.55	3.80	1.08	0.49
2004	-2.14	0.62	1.05	5.18	0.74	0.42	13.84	5.95	0.62

	SCB			LFI			LDH		
Year	ROE (%)	ROTA (%)	Tobin's Q	ROE (%)	ROTA (%)	Tobin's Q	ROE (%)	ROTA (%)	Tobin's Q
1990	12.53	4.49	0.35	25.85	3.20	na	34.14	1.68	1.34
1991	2.91	1.26	1.90	28.26	4.33	na	60.68	7.94	1.95
1992	22.18	8.45	0.95	14.80	4.68	na	49.34	7.00	1.50
1993	10.51	4.07	1.39	16.91	5.52	1.97	-21.61	-2.10	3.66
1994	11.52	4.38	0.94	7.22	2.23	1.00	3.18	1.16	1.85
1995	10.58	3.95	0.48	11.33	3.31	1.03	-5.69	-1.92	3.04
1996	10.78	3.24	0.41	8.76	2.45	4.16	3.26	1.80	0.66
1997	13.29	3.23	0.18	0.74	0.65	0.33	0.67	0.31	0.21
1998	-17.60	-4.18	0.11	1.57	1.36	0.24	-4.31	-2.12	0.17
1999	-0.01	0.00	-0.01	2.15	1.90	0.28	-1.75	-0.90	0.09
2000	-25.74	-4.72	-0.20	3.83	3.52	0.33	-7.22	-3.62	0.10

(continued Table 3)

2001	-98.80	-9.44	-0.38	1.82	1.67	0.30	-0.42	-0.20	0.20
2002	285.64	-11.67	-0.49	-0.02	-0.02	0.33	-1.07	-0.50	0.15
2003	31.33	5.38	0.09	0.41	0.39	0.36	-0.08	-0.04	0.10
2004	-14.22	-3.55	0.43	1.96	1.84	0.42	37.50	15.09	0.32

ACB = Amsteel Corporation Berhad

LCB = Lion Corporation Berhad

LICB = Lion Industries Corporation Berhad

SCB = Silverstone Corporation Berhad

LFI = Lion Forest Industries

LDH = Lion Diversified Holding / Chocolate Product

Of the six companies, it was observed that from Table 2, LCB, LICB, and ACB rely more on term loans compared to the other companies. This scenario is symptomatic of a financial distress for a company that has consistently showed deteriorating liquidity and weak profitability, and yet increasingly trusting debt capital.

Provided debt is the underlying reason for financial distress and it is interesting to discover that banks and financial intermediaries, which are considered special in an economy for their capability to closely monitor their portfolio investment, are among the creditors to these firms. Ofek (1993) argued that private debt held by intermediaries offers a monitoring role, especially as it gets into trouble, while small investors who usually hold public debt do not monitor. The monitoring which minimises about the firms causes large bank borrowing to serve as a signal that the firms are undertaking positive NPV projects (Leland & Pyle, 1977; Diamond, 1984; Allen & Santomero, 1998; Agarwal & Elston, 2001). In addition, as free-rider investors read the favorable signal, the firm would benefit because it would have greater accesses to external funds. All these and the tendency to obtain stronger support from banks during economic difficulties lead toward increasing the value of the company. That is, the bank monitoring minimises information asymmetry and thus agency costs would be reduced.

Furthermore, Gilson *et al*. (1990) reported that firms with a high ratio bank debt are more likely to successfully restructure their debt. Nonetheless, Baek *et al*. (2001) explained that the bank-firm relationship may be negative in a case where bank credits are used because availability of alternative external funds is limited or non-existent. All of the above arguments emphasise on the monitoring role of the financial institutions, especially banks, to reduce asymmetric information and agency cost that consequently assist in improving the firm's value or performance. Brickley and Van Drunen (1990) and Francis, Hanna, and Vincent (1996) found a positive stock market reaction to the initial restructuring announcement, but Brickley and Van Drunen (1990) also found that those firm restructuring to reduce costs continued to lag the market and industry return on equity up to three years after the restructuring. These studies suggested that although the restructuring is initially welcomed by the market, investors may experience difficulty interpreting the valuation impact of restructuring.

The Relationship between Firm Performance, Leverage and Investment

Theoretically, debt overhang problem or underinvestment is a situation whereby the firm may not be able to finance positive NPV investment due to its existing debt obligation. This situation, as portrayed in Figure 1.1 to 1.6, shows that as debt increases, the total assets remain unchanged or fall, followed by lower profitability and an increase in Tobin's Q value. In the case of the Lion Group, underivestment behaviour or debt overhang occurred during year 1990 to 1992 and 1999 in LCB. As for LICB, debt overhang occured during year 1992, while for ACB this scenario occured in 1994 to 1996, 1998 to 2000, and 2002. A series of debt overhang occurred during year 1995 to 2003 in SCB. A series of GWRS from 2000 to 2003 had somewhat corrected this debt overhang problem and subsequently improved the companies' performance. There are no clear indications for SFI and LDH.

Ownership Structure

The corporate restructuring proposal resulted in refocusing the core business for each of the subsidiaries as follows:

i) Lion Corporation Berhad (LCB): Steel through Megasteel.
ii) Lion Industries Corp. Berhad (LICB): Steel and wood products through Sabah Forest Industries.
iii) Chocolate Products (LDH): Breweries and property investment holding.
iv) Silverstone: Automotive through Suzuki and Silverstone, also tyre.
v) Amsteel Corporation Berhad (ACB): Property development, Parkson retail and plantation assets.

The Role of Bank Monitoring

As reported in Table 2, average bank loans relative to total debt (BL/TD) were between 35% (LFI) and 68% (LCB) capital during 1990 to 2004. While, total value bank loans as at 2004 is about RM10 billion (RM 9,500,357,000). Agarwal and Elston (2001) argued that firms that maintain a close relationship with banks tend to be better off in their performance. That is, as bank monitoring minimises information asymmetry, thus agency costs would be reduced. Since banks are the main creditors of the financially distressed companies, asymmetric information and therefore agency costs cannot explain why the bank-firm relationship in this case does not conform to the arguments in previous studies. With the Malaysian capital market for debt (PDS or private debt securities) still being very much inactive, access to external funds is restricted to equity capital. However, market timing is all wrong in an economic environment which is still recovering from at least next to worst economic crisis causing firms to turn away to the only alternative source of funds, i.e banks. Baek *et al*. (2001) argued that in such a condition where the bank is simply the main source of capital, the resulting relationship may indeed significantly adversely affect the firm's value just as the case of Korean firms. Heavy reliance on banks (or any particular substantial stakeholder) has a trade-off. In return to access to a pool of funds, banks would closely and constantly monitor firms. The very existence of banks is viewed as a pool of household and firm surpluses for greater, or at least equal but never less, consumption in the future. Their obligation to lenders (and also the central bank and the government) and the availability of resources require banks to be more likely than other groups of creditors to force defaulting companies to file for involuntary bankruptcy.

THE PROPOSED CORPORATE RESTRUCTURING

The Board of Directors of the Lion Group had announced the proposed Group Wide Restructuring Scheme (GWRS) or Proposed Corporate Restructuring (PCR) to provide the Lion Group the ability to meet their financial commitments to creditors, to continue operations on an ongoing concern basis, and in the long-term to regain a position of profitability. Details of the GWRS on the first announcement dated 5 July 2000 (referred to as PCR-I), second announcement (referred to as PCR-II) dated 8 October 2001, third announcement (referred to as PCR-III) dated 26 March, 2002, and the fourth announcement (referred to as PCR-IV) dated 22 March 2003. Figure 2.1 and Figure 2.2 exhibit the corporate and shareholding structure before and after the proposed restructuring.

The Group had taken some operational and financial measures as announced in the GWRS, which can be summarised as follows[1]:

PCR-I (5 July, 2000)

i) the proposed corporate restructuring exercise for LCB, LLB, ACB, AMB, and CPB is to facilitate the tapping of future cashflow from various key operating entities ("KOC") in the Lion Group in respect of which the business outlook is expected to be stable for the purposes of the debt restructuring exercise, and where possible, to streamline each listed group such that they have one-two core businesses ("Proposed Corporate Restructuring Exercise");
ii) the proposed divestment programme for the LCB, LLB, ACB, AMB, and CPB to rationalise their activities through the sale of non-core and peripheral assets and businesses ("Proposed Divestment Programme");
iii) the pooling of cashflow from KOCs and proceeds from the divestment programmes under the relevant listed company;
iv) the consolidation of applicable debts of affected subsidiaries ("Scheme Companies") of the relevant listed company at the listed company level for settlement by the listed company; and
v) the pooling together of the applicable debts and the application of the pool of cashflow available for repayment of the applicable debts, at the relevant listed company level, are to reduce the risk of default through diversification of sources of cashflow backing repayment ("Proposed Debt Restructuring Exercises").

PCR-II Revised GWRS Proposals (8 October, 2001)

However, subsequent to the aforesaid announcement, it became apparent that the growth of the Malaysian economy had reduced significantly and the economy faced the prospect of further slow down, due to the stronger than expected deceleration of growth in the economy of the United States of America, the continuing weakness of the Japanese economy, and the uncertainties facing the global financial markets.

The weaker domestic economy had led to less favourable operating conditions which have necessitated downward revisions under the Initial GWRS Proposals to the projected cashflows of Megasteel Sdn Bhd ("Megasteel"), Silverstone Bhd ("Silverstone"), and Sabah Forest Industries Sdn Bhd ("SFI") (collectively referred to as the "Key Operating Companies") and lower projected realisable divestment proceeds from the sale of non-core and peripheral assets, both of which are key sources of cashflows to support the proposed repayment of the Lion Group's debts under the Initial GWRS Proposals. Furthermore, the level of indebtedness of the scheme companies whose debts are to be restructured as set out, has increased as a result of interest accrued. In view of the foregoing, revisions have been made to the structure and terms of the various debt restructuring, asset divestment, and corporate restructuring exercises proposed earlier under the Initial GWRS Proposals.

Key Changes under the Revised GWRS Proposals

i) Reduction of the share capitals of LCB, LLB, AMB and ACB.
ii) Reduction in the yield-to-maturity ("YTM") applicable to the Bonds and Consolidated and Rescheduled Debts to be issued to affected financial institution creditors ("FI-Creditors"). Waiver of certain principal portion of the Outstanding Principal Amounts by the affected FI-Creditors.
iii) Longer repayment profile for the Bonds and Consolidated and Rescheduled Debts to be issued under the Revised GWRS Proposals.
iv) Reduction in the transaction values of assets to be transferred under the proposed corporate restructuring exercises under the Revised GWRS Proposals.

PCR-III (26 March 2002)

Due to changes in the domestic and global market conditions, revisions were made to the structure and terms of the Initial Revised GWRS Proposals.

Following the close of the first half of the financial year ending 30 June 2002, the Lion Group's management had re-examined the operational performance and actual financial results achieved by the key operating companies within the Lion Group such as Megasteel and noted that the actual results achieved were lower than previously forecasted in the Revised GWRS Proposals. As a consequence, the future financial forecast and projections of the key operating companies have been further revised. The revisions have had a flow-through impact on the terms of the Revised GWRS Proposals. In view of the foregoing, further revisions have been made to the terms of the Revised GWRS Proposals (collectively referred to as the "Further Revisions") in the manner set out hereafter.

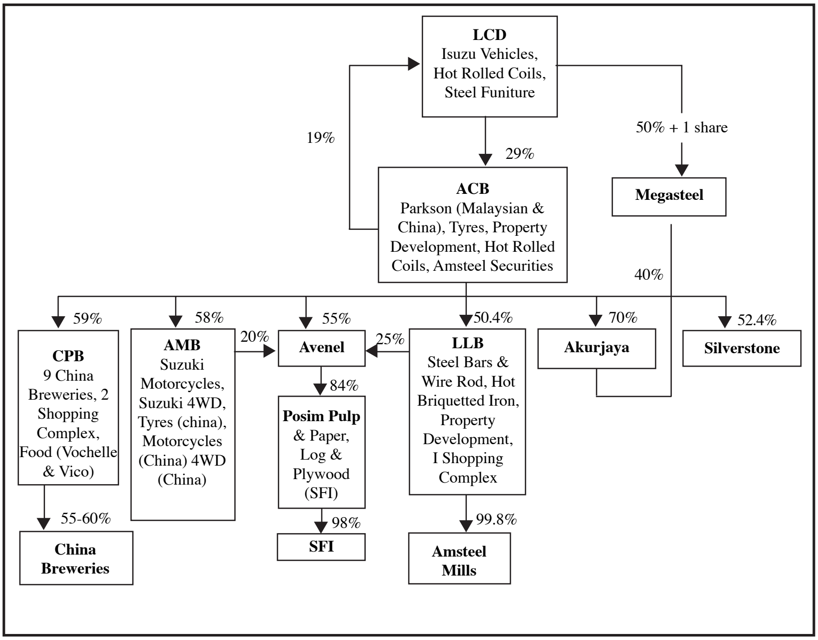

Figure 2.1
Existing Group Before Restructuring

Key Changes Under the Further Revisions

Generally, the Further Revisions relate to and/or involve the following:

i) Reduction in the transaction values of assets to be transferred under the proposed corporate restructuring exercises, and variation in the structure, terms, and mode of settlement of certain assets to be transferred under the proposed corporate restructuring exercises.

ii) Slower build-up in the repayment profile of the Bonds and Consolidated and Rescheduled Debts to be issued.

iii) Revisions in the proposed mode of settlement for financial institution creditors ("FI-Creditors") in the LCB Scheme Companies and ACB Scheme Companies as listed in Table 1 of the earlier announcement dated 8 October 2001, in respect of their portion of the indebtedness which is unsecured.

PCR-IV (22 March 2003)

i) The Lion Group had obtained the approvals for the listing of and quotation for new shares, warrants (ACB), and new shares to be issued pursuant to the exercise of the new warrants and conversion of redeemable cumulative convertible preference shares into new shares (SCB) under the GWRS.

ii) High Court of Malaya had granted an order pursuant to Section 176(3) of the Companies Act 1965, sanctioning the proposed scheme of arrangement of the Lion Group and of Amsteel Mills Sdn Bhd (a 99.9% owned subsidiary company of LLB).

The restructuring exercise was to facilitate the tapping of future cash flows/dividends from four companies; Megasteel, SFI, Silverstone, and brewery investment under LDH. The business activities would be streamlined to be more focused by way of segregating the companies accordingly

i) Lion Corporation Berhad (LCB): Steel through Megasteel.
ii) Lion Industries Corp. Berhad (LICB): Steel and wood products through Sabah Forest Industries.
iii) Chocolate Products (LDH): Breweries and property investment holding.
iv) Silverstone: Automotive and tyres through Suzuki and Silverstone.
V) Amsteel Corporation Berhad (ACB): Property development, Parkson retail, and plantation assets.

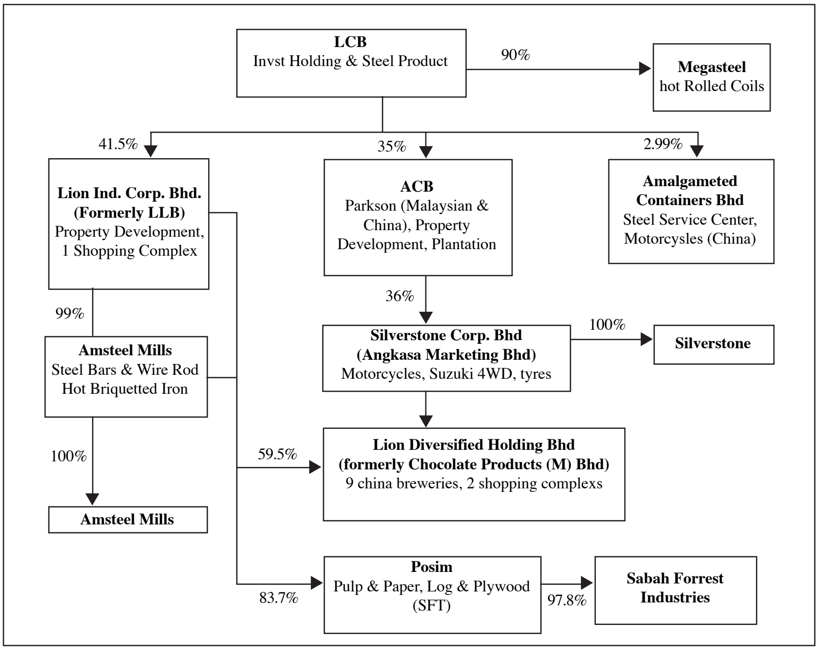

Figure 2.2
Lion Group of Companies after Restructuring

WEALTH EFFECT OF THE GROUP PROPOSED CORPORATE RESTRUCTURING

The main interest to our study is the wealth effect or returns to the shareholders resulting from the corporate restructuring at the four stages, referred to earlier as *PCR-I, PCR-II, PCR-III*, and *PCR-IV*. In other words, the "event" in this case study is defined as the initial restructuring announcement dated 5 July 2000 (*PCR-I*), the second announcement dated on 8 October 2001 (*PCR-II*), the third announcement on 26 March 2002 (*PCR-III*) and fourth announcement on 19 March 2003 (*PCR-IV*), whereas, the "event date" is the date the announcement first appears in the KLSE listed company announcement. Data for the daily prices and Kuala Lumpur Composite Index (KLCI) price index for the event windows for the period of 2000 to 2003 were downloaded from the Datastream. Table 2 provides the descriptive statistics of the abnormal return of individual company's stock prices according to the individual restructuring announcement and event windows. Furthermore, we discuss the changes in the abnormal return due to these announcements.

This study used the daily stock return of the six companies for the period of 50 days prior to the announcement and 50 days after the announcement window period. To determine whether the announcements convey information to the market, cumulative abnormal returns (CARs) were calculated based on the simplified market model, which constrainted alpha and beta to 0 and 1, respectively.

In determining the CARs, the study followed the standard market model event study which contrains a and b to equal to 0 and 1 respectively, such that $R_{M,t}$ (the Kuala Lumpur Composite Index) is the company *i*th's expected return. Thus, the abnormal return ($AR_{i,t}$) for company *i* is the difference between the actual return on day t and its expected return ($R_{M,t}$). $AR_{i,t} = R_{i,t} - (R_{M,t})$, where the daily returns of stock I, is calculated as follows; $R_{i,t} = \frac{P_t - P_{t-1}}{P_{t-1}} \times 100$, where P_t is the price of stock i on trading day t and P_{t-1} is its price one trading day before that. Similarly, the market return equals to; $R_{M,t} = \frac{KLCI_t - KLCI_{t-1}}{KLCI_{t-1}} \times 100$.

The cumulative abnormal returns (CAR) for company i is calculated as; $CAR_{i,t} = \sum_{t-1}^{N} AR_{i,t}$. It is important to determine if the announcements convey information to the market at all. Following Baek *et al*. (2001), t-statistics was used to test the hypothesis that the average CARs are significantly different from zero at each event windows. We were able to find the t-statistic using the following equation:

$\frac{CAR}{\sigma_{CAR}}$ where $\sigma_{CAR} = \sigma_{AR}\sqrt{K}$ and σ_{AR} is the standard error of daily return over the estimation period excluding the exclusion period, and K is the number of days in the CAR statistic. Results of the t-tests are presented in Table 4.

T-TEST RESULTS

PCR-I (5 July 2000)

The results in Table 4 revealed that prior to the announcement, only LFI reported positively significant price impact (20.35%), while for the post announcement, only LICB reported positively significant stock price impact in event window (+10,-10), (-5,+5), and (0,+5), respectively, while SCB was only positively significant (15.53%) in event window (0,+5). LFI was also positively significant in event window (-10,+10), (+5,-5), (-5,0), (+1,-1), (-1,0), and (0,+1). LICB stock price impact as measured by CAR was also significantly positive (21.29%) while in contrast, SCB was significantly negative (-29.664%) in event window (-1,+1) and (-1,0) respectively, around the announcement. The average CAR was positively significant in event window (-5,+5) (0,+5), and (-1,+1) respectively. Moreover, the announcement had no significant price impact at all on LCB and ACB. These results show that the market responses were based on information content of individual companies in the Group announcement eventhough the announcement referred to the Group as a whole.

PCR-II (8 October 2001)

The second announcement was about another debt restructuring scheme where these six companies divested its assets to settle some of their term loans. This exercise also helped the Group to focus more on its core business. The proceeds from the asset divestment would provide the cash flow to service the term loans over the next five years. Prior to this announcement, none of the companies reported significant price impact while for the post announcement period, only SCB reported negative significant (-23.915%) price impact in event window

Table 4

The Cumulative Abnormal Returns of Individual and Combined Companies at the Restructuring Announcement 1-4

Event Window		Proposed Corporate Restructuring 1							Proposed Corporate Restructuring 2						
		LICB	SCB	LCB	ACB	LFI	LDH	AVERAGE	LICB	SCB	LCB	ACB	LFI	LDH	AVERAGE
(-50,+50)	CAR	-21.328	-30.831	-30.664	-51.6	14.736	-34.257	-25.657	39.343	-14.987	-25.436	1.79	0.745	32.784	5.706
	t-test	-0.616	-1.184	-0.94	-1.21	0.548	-0.963	-1.289	0.355	-0.299	-0.495	0.025	0.024	0.626	0.138
(-50,0)	CAR	-17.292	-27.908	-7.896	-12.55	9.559	-11.58	-11.278	3.121	-2.254	-22.202	-21.144	-0.797	14.19	-4.848
	t-test	-0.858	-1.704	-0.333	-0.479	0.425	-0.576	-0.869	0.068	-0.056	-0.494	-0.478	-0.03	0.311	-0.15
(0,+50)	CAR	-5.375	-4.262	-24.107	-40.39	3.837	-24.016	-15.719	25.988	-16.88	-1.718	20.45	-0.963	20.11	7.831
	t-test	-0.189	-0.21	-1.066	-1.195	0.255	-0.812	-1.031	0.256	-0.556	-0.068	0.36	-0.059	0.766	0.301
(-30,+30)	CAR	-5.414	-18.39	-10.771	-21.698	13.938	-13.792	-9.354	28.291	-20.468	-13.306	6.428	6.385	11.33	3.11
	t-test	-0.186	-0.818	-0.39	-0.654	0.578	-0.629	-0.591	0.27	-0.563	-0.302	0.105	0.228	0.273	0.095
(-30,0)	CAR	-13.671	-22.495	-3.276	-13.658	6.296	-7.679	-9.081	-25.912	-16.797	-16.887	-23.413	-5.546	-7.375	-15.988
	t-test	-0.808	-1.633	-0.157	-0.577	0.366	-0.491	-0.804	-0.751	-0.58	-0.432	-0.685	-0.277	-0.249	-0.686
(0,+30)	CAR	6.918	2.766	-8.833	-9.379	6.302	-7.452	-1.613	43.969	-7.819	5.096	27.357	9.427	20.22	16.375
	t-test	0.291	0.156	-0.477	-0.397	0.367	-0.477	-0.143	0.44	-0.344	0.244	0.538	0.472	0.683	0.702
(-10,+10)	CAR	31.12	20.253	-7.507	7.366	28.233	14.593	15.677	51.435	-17.699	8.274	-3.576	33.14	15.452	14.504
	t-test	1.825*	1.535	-0.463	0.378	1.996*	1.134	1.687	1.157	-1.146	0.443	-0.138	2.014*	0.634	0.756
(-10,0)	CAR	10.65	7.014	-2.391	8.323	18.258	14.005	9.31	12.989	5.024	15.807	6.342	18.959	16.71	12.638
	t-test	0.863	0.735	-0.204	0.591	1.784	1.504	1.384	0.292	0.325	0.846	0.244	1.592	0.948	0.91
(0,+10)	CAR	19.131	11.899	-6.455	-2.296	8.636	-0.751	5.027	28.212	-26.87	-6.017	-12.402	11.676	0.258	-0.857
	t-test	1.55	1.246	-0.55	-0.163	0.844	-0.081	0.747	0.635	-1.74	-0.322	-0.478	0.981	0.015	-0.062
(-5,+5)	CAR	37.385	15.95	4.531	17.227	31.036	11.223	19.558	42.773	-10.007	-1.212	-4.458	24.609	5.952	9.61
	t-test	3.028*	1.67	0.386	1.222	3.032*	1.205	2.907*	0.962	-0.648	-0.065	-0.172	2.067*	0.338	0.692
(-5,0)	CAR	8.749	-0.925	1.316	7.702	20.356	6.094	7.216	2.098	9.761	2.307	-1.288	9.385	3.24	4.25
	t-test	0.96	-0.131	0.152	0.74	2.693*	0.886	1.452	0.064	0.856	0.167	-0.067	1.067	0.249	0.414
(0,+5)	CAR	27.297	15.535	1.875	8.185	9.34	3.789	11.004	30.441	-23.915	-2.003	-5.654	12.72	4.228	2.636
	t-test	2.994*	2.203*	0.216	0.786	1.236	0.551	2.215*	0.927	-2.097*	-0.145	-0.295	1.446	0.325	0.257
(-1,+1)	CAR	21.298	0.184	-2.7	7.076	27.365	3.042	9.377	-10.73	-17.091	18.378	-3.798	11.365	0.202	-0.279
	t-test	3.304*	0.037	-0.441	1.764	5.119*	0.626	2.669*	-0.462	-2.120*	1.883	-0.28	1.828	0.022	-0.038
(-1,0)	CAR	-4.69	-29.664	-7.99	-7.305	14.415	5.238	5.049	-13.047	-7.519	11.351	-2.149	-2.169	1.851	-1.947
	t-test	-0.891	-7.286*	-1.597	-1.216	3.303*	1.319	1.76	-0.688	-1.142	1.424	-0.194	-0.427	0.246	-0.329
(0,+1)	CAR	8.695	1.94	-2.607	1.832	11.611	-3.536	2.989	-7.917	-13.719	8.542	-4.133	11.03	-0.133	-1.055
	t-test	1.652	0.476	-0.521	0.305	2.660*	-0.891	1.042	-0.418	-2.084*	1.072	-0.374	2.172*	-0.018	-0.178

Event Window		Proposed Corporate Restructuring 3							Proposed Corporate Restructuring 4						
		LICB	SCB	LCB	ACB	LFI	LDH	AVERAGE	LICB	SCB	LCB	ACB	LFI	LDH	AVERAGE
(-50,+50)	CAR	-13.676	-59.015	26.943	-49.57	-33.433	-3.078	-21.971	33.369	-17.568	15.374	252.454	8.523	56.637	58.132
	t-test	-0.39	-0.98	0.655	-6.354*	-1.699	-0.093	-1.076	0.846	-0.239	0.444	1.028	0.392	1.576	1.191
(-50,0)	CAR	-33.7	-15.178	6.312	-25.629	-24.287	-14.18	-17.777	14.964	48.447	8.181	60.248	11.092	35.411	29.724
	t-test	-1.501	-0.569	0.168	-4.317*	-2.014*	-0.61	-1.248	0.48	0.803	0.611	0.749	0.645	1.338	1.259
(0,+50)	CAR	17.547	-44.512	18.859	-25.092	-9.279	10.427	-5.341	18.532	-65.888	7.319	192.332	-3.566	21.353	28.347
	t-test	0.657	-0.821	1.083	-4.860*	-0.594	0.442	-0.362	0.757	-1.611	0.228	0.826	-0.266	0.87	0.659
(-30,+30)	CAR	21.141	-0.676	34.488	-35.658	-19.502	9.773	1.594	39.096	37.513	27.072	289.331	0.646	10.513	67.362
	t-test	0.697	-0.017	0.918	-5.663*	-1.065	0.366	0.098	1.049	0.553	0.86	1.212	0.033	0.358	1.451
(-30,0)	CAR	-16.774	-7.397	4.361	-16.58	-16.901	-11.233	-10.754	13.264	68.38	8.692	70.736	5.995	7.267	29.056
	t-test	-0.807	-0.304	0.124	-3.282*	-1.295	-0.589	-0.925	0.448	1.182	0.747	1.09	0.426	0.347	0.878
(0,+30)	CAR	35.438	6.046	28.354	-20.229	-2.733	20.33	11.201	25.959	-30.74	18.506	218.721	-6.345	3.373	38.246
	t-test	0.54	0.28	0.857	-1.442	-0.209	1.067	0.963	1.124	-0.898	0.628	0.947	-0.451	0.161	1.155
(-10,+10)	CAR	29.64	-3.817	58.062	-14.682	-0.011	0.63	11.637	5.44	30.901	1.064	-0.88	-4.606	-13.138	3.13
	t-test	1.667	-0.159	2.633*	-3.974*	-0.001	0.04	1.216	0.249	0.776	0.058	-0.006	-0.398	-0.763	0.115
(-10,0)	CAR	8.161	1.072	35.332	-7.048	-1.188	-0.89	5.906	-0.088	10.385	1.63	-7.353	-0.02	-3.812	0.124
	t-test	0.634	0.062	2.214*	-2.636*	-0.153	-0.078	0.853	-0.006	0.36	0.122	-0.073	-0.002	-0.306	0.006
(0,+10)	CAR	19.002	-5.564	20.958	-8.785	1.045	0.845	4.583	5.654	20.643	-0.44	6.6	-5.583	-9.199	2.946
	t-test	1.476	-0.321	1.313	-3.285*	0.134	0.074	0.662	0.357	0.716	-0.033	0.065	-0.666	-0.738	0.149
(-5,+5)	CAR	19.028	-8.776	28.797	-5.895	0.232	4.459	6.308	-0.55	38.174	-5.245	-7.446	-7.063	-1.28	2.765
	t-test	1.478	-0.507	1.804	-2.204*	0.03	0.393	0.91	-0.035	1.325	-0.392	-0.073	-0.843	-0.103	0.14
(-5,0)	CAR	8.958	-1.971	24.406	-3.045	-3.088	5.009	5.045	3.213	8.475	0.334	-10.408	-1.357	0.391	0.108
	t-test	0.942	-0.154	2.071*	-1.542	-0.538	0.597	0.986	0.275	0.398	0.034	-0.139	-0.219	0.042	0.007
(0,+5)	CAR	7.593	-7.481	2.618	-4	3.188	-1.225	0.116	-3.637	29.826	-5.452	3.088	-6.703	-1.544	2.596
	t-test	0.799	-0.585	0.222	-2.026*	0.555	-0.146	0.023	-0.311	1.401	-0.552	0.041	-1.083	-0.168	0.178
(-1,+1)	CAR	2.209	-0.052	0.952	-1.502	1.032	-0.052	0.431	-3.392	1.904	1.428	15.713	0.304	-1.43	2.421
	t-test	0.329	-0.006	0.114	-1.075	0.254	-0.009	0.119	-0.41	0.126	0.205	0.297	0.069	-0.22	0.235
(-1,0)	CAR	2.902	0.642	1.645	-0.333	1.185	0.642	1.114	-1.401	-5.687	0.98	0.98	-0.144	-1.877	-1.191
	t-test	0.529	0.087	0.242	-0.292	0.358	0.133	0.377	-0.208	-0.463	0.172	0.023	-0.04	-0.353	-0.142
(0,+1)	CAR	-3.171	-1.369	-2.466	-2.319	-0.285	-1.369	-1.83	-1.865	7.717	0.574	14.86	-0.549	0.574	3.552
	t-test	-0.578	-0.185	-0.362	-2.034*	-0.086	-0.283	-0.619	-0.276	0.628	0.101	0.344	-0.154	0.108	0.422

Notes: Figures in the first row is the of CARs, in italics are the t-statistics, and * represent significant levels 0.1 to test the mean difference from test value = 0

Table 5
Summary of the Cumulative Wealth Effects at the Three Stages of the Restructing Process

Event Window	Specific Events	LICB	SCB	LCB	ACB	LFI	LDH	AVERAGE
(-5,+5)	PCR 1	37.385*	15.95	4.531	17.227	31.036*	11.223	19.558*
	PCR 2	42.773	-10.007	-1.212	-4.458	24.609*	5.952	9.610
	PCR 3	19.028	-8.776	28.797	-5.895*	0.232	4.459	6.308
	PCR 4	-0.55	38.174	-5.245	-7.446	-7.063	-1.280	2.765
		61.251	35.341	26.871	-0.572	48.814	20.354	38.241
(-1,+1)	PCR 1	21.298*	0.184	-2.7	7.076	27.365*	3.042	9.377*
	PCR 2	-10.73	-17.091*	18.378	-3.798	11.365	0.202	-0.279
	PCR 3	2.209	-0.052	0.952	-1.502	1.032	-0.052	0.431
	PCR 4	-3.392	1.904	1.428	15.713	0.304	-1.430	2.421
		11.913	-15.055	18.058	17.489	40.066	1.762	11.95

* represent significant levels 0.1 to test the mean difference from test value = 0

(0,+5), as shown in Table 5(b). LFI reported positively significant (33.14%) and (11.03%) price impact in event window (-10,+10) and (0,+1) respectively. However, only SCB reported negatively significant price impact (-17.091%) and (-13.719%) in event window (-1,+1) and (0,+1) respectively, around the announcement. Furthermore, none of the average CARs were significant. Overall, the market responses more favourably to the PCR-I compared to PCR-II, since it reported a positively significant price impact in the case of LICB, LFI, and Average, while LFI reported positively significant stock price impact in PCR-II around the announcement.

PCR-III (26 March 2002)

The results showed that only ACB reported a negatively significant (-2.319%) stock price impact around the announcement. Prior to the announcement, only LCB reported a positively significant price impact (24.406%) and (35.332%) in event window (-5,0) and (-10, 0), while in contrast. ACB reported negatively significant (-7.048%), (-16.580%), and (–25.629%) in event window (-10,0), (-30,0), and (-50,0). Meanwhile LFI was also negatively significant (-24.287%) in event window (-50,0). For post-announcement, only ACB reported a negatively significant price impact in each event window (0,+5), (0,+10), (0,+30), and (0,+50). None of the average CARs were reported significant.

PCR-IV(19 March 2003)

The results showed that none of the companies reported a significant price impact prior to, around and post announcement. Furthermore, none of the average CARs were significant. This was due to the fact that the market may already perceive the announcement as merely an adjustment and revision of the previous announcement made earlier.

CONCLUSION

The case study evolved the around four announcements related to a specific corporate restructuring proposal. The primary reason for the corporate restructuring was to restructure the debt of six companies, Lion Industries, Silverstone, Amsteel Corp Berhad, Lion Forest Industries, Lion Diversified Holding, and Lion Corporation. The track record of the companies revealed that these companies have been heavily levered causing them to be financially risky and therefore, highly sensitive to any economic shocks, let alone a fatal financial typhoon like the 1997 economic crisis. By applying the common event-study approach, the t-test results indicated that information about the restructuring plan had been significantly conveyed to the market in each restructuring announcement. Generally, the market regarded all announcements unfavourably.

The main interest of the study was the combined wealth effect of the event announcement at each stage of the restructuring announcement and overall announcements as shown by Table 6. Using CAR of the narrow event window of (-1,+1) the following results surfaced. The wealth of all companies had increase except SCB with LFI shareholders realising the highest return. Thus, if the results of the narrow event window of (-1,+1) were used to guide the evaluation, the restructuring process would end up a win-lose-win-win-win-win strategy for LICB, SCB,LCB ACB, LFI, and LDH, respectively.

Nonetheless, the broader event window of (-5,+5) produced higher positive wealth effects than event window (-1,+1). In contrast to event window (-1, +1), the wealth of all companies had increased except for ACB with LICB shareholders realising the highest return. Furthermore, LICB, SCB and LCB shareholders realised higher return due to PCR-II compared to PCR-I. In conclusion, based on the broader event window of (-5,+5), the restructuring process became a win-win-win-lose-win-win strategy for LICB, SCB,LCB ACB, LFI, and LDH, respectively.Whether the full value of the restructuring plan remains positive or negative, or whether the plan is a lose or win strategy, remains a question that only time can answer. Additionally, a follow up study is almost compulsory to make the present study more complete.

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END NOTES

[1] The key financial data of the financial performance, capital structure, and liquidity of these companies can be obtained upon request.

[2] Detailed information regarding GWRS1-GWRS4 can be obtained upon request.

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