# ISS Tells Minority Investors to Reject Li Ka-Shing's Latest Deal

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Li Ka-shing.

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Hong Kong billionaire Li Ka-shing's efforts to reorganize his business empire hit a setback after an influential proxy advisory firm recommended investors reject a $12.3 billion buyout offer from the tycoon for low-balling minority shareholders.

The all-stock offer from Li's Cheung Kong Infrastructure Holdings Ltd. for affiliate Power Assets Holdings Ltd. should be as much as 13 percent higher, Institutional Shareholder Services Inc. said in a report Monday. ISS, which provides advice to more than 1,600 institutional clients worldwide, also said that CKI's special dividend should be paid before a deal goes through, not after as proposed by CKI.

The recommendation from ISS, which also flagged concerns about conflicts of of interest, is the latest setback facing Hong Kong's richest tycoon in his pursuit to merge his utility businesses as the octogenarian billionaire prepares to hand over power to his eldest son Victor Li. Investor opposition prompted CKI in October to sweeten its offer.

"We believe that in the end they might raise the offer a little bit," said Niklas Hageback, who helps oversee about $212 million -- including Power Assets shares -- at Valkyria Kapital Ltd. "In the end, they will probably go through with this because they need the deal."

## Offering Discount

CKI shares fell 2.4 percent to close at HK$68.55 in Hong Kong, while Power Assets dropped 1.4 percent to HK$73.85, meaning CKI is offering a 1.1 percent discount for Power Assets shares based on Tuesday's close. Representatives at both companies didn't respond to queries about the ISS recommendation.

Considering ISS's influence and the low bar needed to derail the transaction, CKI's deal is "almost impossible" to pass unless it's sweetened, CLSA analysts wrote in a research note to clients on Tuesday.

"The time for small incremental moves is over," CLSA said in its note. "CKI should step up to the game and make an offer investors can't refuse."

Power Assets shareholders are due to vote Nov. 24 on the offer. To pass, the deal must be approved by at least 75 percent of minority shareholders voting at the meeting. The deal would also fail if more than 10 percent of all minority shareholders reject it. If CKI sticks to its proposal and the deal fails, the company will have to wait at least a year before making another offer.

## Conflicts of Interest

Li has reason to pursue Power Assets. The proposed merger, first announced on Sept. 8, would give CKI access to the $8.7 billion in cash and equivalents held by Power Assets and bring together holdings in 11 projects globally. After the acquisition, the Li family's CK Hutchison Holdings Ltd. would own 49 percent of the combined company.

In its report, ISS said a fair value for Power Assets would be for CKI to offer 1.09 to 1.2 of its own shares for each Power Assets share, compared with the 1.066 merger ratio CKI proposed. It also questioned the independence of Power Assets directors and said neither CKI nor Power Assets have a formal nomination committee. Many of their independent directors serve concurrently on the boards of multiple companies in the CK Hutchison group of companies, ISS said.

ISS is among the most influential proxy advisory firms providing corporate governance advice to fund managers, covering about 38,000 companies in 115 markets. The Financial Times reported that another influential proxy adviser, Glass Lewis & Co., also recommended investors to vote against the deal.