Malaysian CORPORATE GOVERNANCE Report 2010

– Index and Findings

MSWG
MINORITY SHAREHOLDER WATCHDOG GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia • Company No. 524989-M)

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ISSN: 2180-2092

ISSN 2180-2092

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CORPORATE PROFILE

Minority Shareholder Watchdog Group (MSWG) was set up in the year 2000 as a Government initiative to be a part of a broader Capital Market framework to bring about awareness and help protect the interests of minority shareholders through shareholder activism. MSWG is a professional body licensed under the Capital Markets and Services Act. It is a self-governing and non-profit body funded essentially by the Capital Market Development Fund. It is one avenue of market discipline to encourage good governance amongst public listed companies (PLCs) with the objective of raising shareholder value over time.

It has evolved into an independent corporate governance research and monitoring organisation which also advises both retail and institutional minority shareholders on voting at company meetings.

VISION

To be a recognised and respected organisation in promoting corporate governance through shareholder activism.

MISSION

To encourage sustainable shareholder value in companies through engagement with relevant stakeholders, with a focus on minority shareholder interests.

FOREWORD

I am pleased to present the ***Malaysian Corporate Governance (MCG) Report 2010 : Index and Findings*** which examines the findings of all public listed companies (PLCs) in terms of corporate governance practices. The Report, which is published on an annual basis, calculates an index and ranks the companies according to scores achieved in six broad areas, namely: Base Corporate Governance Score, Bonus & Penalty, Financial Performance, Market Capitalisation, Assessment by MSWG Analysts and Corporate Social Responsibility. The Report also presents and discusses relevant and important findings.

Corporate governance best practices will lead to long-term sustainable financial performance and will also create an open and transparent system which will improve communication, decision-making and ultimately benefit shareholders and stakeholders as a whole. MSWG believes that enhancement of shareholder value and shareholder equality can be affected when both the institutional and retail shareholders exercise their rights at company general meetings.

As a body entrusted to promote awareness amongst all shareholders, particularly minority shareholders of their rights in companies they have invested in, MSWG will continue to monitor the financial performance as well as corporate governance practices of public listed companies. Corporate governance issues such as quality of independent directors, separation of the role of the Chairman and CEO, disclosure of directors' remuneration, and related party transactions will continue to be important focus areas. Corporate governance is a shared responsibility. As Malaysia begins to liberalise its financial markets to attract more foreign investment, all parties, be they regulators, market players or companies themselves have a responsibility to play their part effectively to ensure that companies not only have good business fundamentals, but good governance and transparency. I hope that the directors of the PLCs will find valuable information and benefit in the insights provided by the findings of this MCG Report.

I offer my sincere appreciation to the members of the Main Committee and to Nottingham University Business School (Malaysia Campus) for their commitment to this Project.

I would also like to congratulate the Chief Executive Officer for her initiative and implementation of this Project as well as the Management Team of MSWG for their dedication and hard work in bringing this project to fruition.

Tan Sri Abdul Halim Ali
Chairman

PREFACE

The main objective of the ***Malaysian Corporate Governance (MCG) Report 2010 : Index and Findings*** was to gauge the level of corporate governance in Malaysia. It was undertaken in line with MSWG's objective of ensuring the use of best corporate governance practices amongst public listed companies (PLCs). MSWG promotes disclosure of these practices in line with the disclosure-based regime of the Malaysian capital market so that minority shareholders, both institutional and retail, can use Annual Reports and websites as windows to the company. It encourages transparency amongst the corporations to promote accountability on the part of the Board and Management of PLCs.

Various industry players, from organisations such as Internal Auditors of Malaysia (IIAM), Association of Stockbroking Companies of Malaysia (ASCM), Malaysian Institute of Corporate Governance (MICG), Malaysian Institute of Chartered Secretaries & Administrators (MAICSA), Malaysian Association of Asset Managers (MAAM), Institute of Corporate Responsibility and Asian Strategy & Leadership Institute (ASLI) as well as selected professionals, acted as the Adjudicators on the MCG Index Main Committee. This adds an important dimension to the MCG Index project, where the market plays its role to raise the standard of corporate governance practices.

The MCG Report 2010 presents the findings on the level of adherence by all PLCs to recommended corporate governance principles and best practices - which include selected international best practices and principles. The overall findings revealed that the MCG Index level in 2010 was 66 points, which was a 2.48 per cent improvement from the 64.4 points achieved in 2009. The findings found gaps in terms of overall corporate governance practices. These gaps have been identified and discussed in the relevant sections of the Report and Concluding Remarks. It is hoped that access to the relevant information on corporate governance matters will spark discussions to address these gaps for a better corporate Malaysia in the years ahead.

MSWG will continue to undertake the MCG Index on an annual basis as a means of tracking the level of corporate governance in Malaysia. It is hoped that the Index will reflect a higher level of corporate governance practices over the years. This Index is by no means a guarantee that the companies do not or will not engage into transactions or practices that can bring corporate governance into question in the future.

My appreciation goes to the Main Committee members for making this Project a success through the contribution of their time, input, and guidance. I would also like to thank Professor Salleh Hassan and his team from the NUBS for their research, diligence, and input, which is crucial in calculating the base scoring for all the companies as well as for the bonus and penalty scoring for Stage 2. Special thanks also go to Professor Salleh for drafting the report.

I would like to thank the Capital Market Development Fund for their support and funding.

I would also like to thank the Board of Directors of MSWG for their encouragement and valuable support.

Lastly, I extend my heartfelt appreciation to my Management Team and staff for their dedication and commitment as well as to MSWG's associates, friends and partners for the support given.

Rita Benoy Bushon
Chief Executive Officer

EXECUTIVE SUMMARY

Introduction

Malaysia has made significant improvements to corporate governance standards over the last decade, since the Malaysian Code on Corporate Governance was first issued in March 2000. Corporate governance reforms have certainly borne fruit as Malaysia continues to show steady progress in raising governance standards in its capital market.

According to the recent World Bank's report entitled ***Doing Business 2011, Making a Difference for Entrepreneurs***, Malaysia improved its ranking from 23rd in 2009 to 21st in 2010, in terms of ease of doing business among the 183 economies surveyed. Malaysia also retained its 6th spot in the recent ACGA-CLSA ***CG Watch 2010***, with marginal improvement in the overall score. The survey assessed the corporate governance standards covering 11 economies in the Asian region: Singapore, Hong Kong, Japan, Taiwan, Thailand, India, China, Korea, Indonesia, Philippines and Malaysia. Two categories in which the study noted marked improvements were CG rules and practices, and the political and regulatory environment. The study also mentioned that Malaysia is lacking in the area of poll voting. This is an area in which foreign investors would like to see more positive improvements.

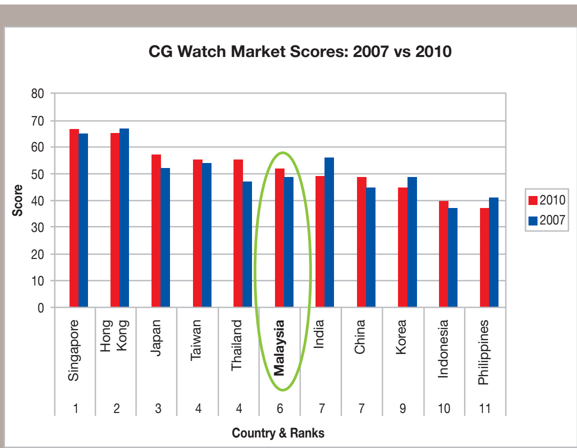
ECONOMY OVERVIEW MALAYSIA

REGION	East Asia & Pacific	DOING BUSINESS 2010 RANK	DOING BUSINESS 2009 RANK	CHANGE IN RANK
INCOME CATEGORY	Upper middle income	21	23	↑ 2
POPULATION	27,467,837			
GNI PER CAPITA (US$)	7,230.00			

- Malaysia ranked No.21 out of 183 economies surveyed
- Ranked No.1 in terms of getting credit
- Ranked No.4 in terms of investor protection

Country	Overall Rank
Singapore	1
Thailand	19
Malaysia	21
Vietnam	78
Brunei Darussalam	96
Indonesia	122
Cambodia	147
Philippines	148
Lao PDR	171

Source: The World Bank's Doing Business 2011 - Malaysia



Source: CG Watch 2010

Corporate Happenings in 2010

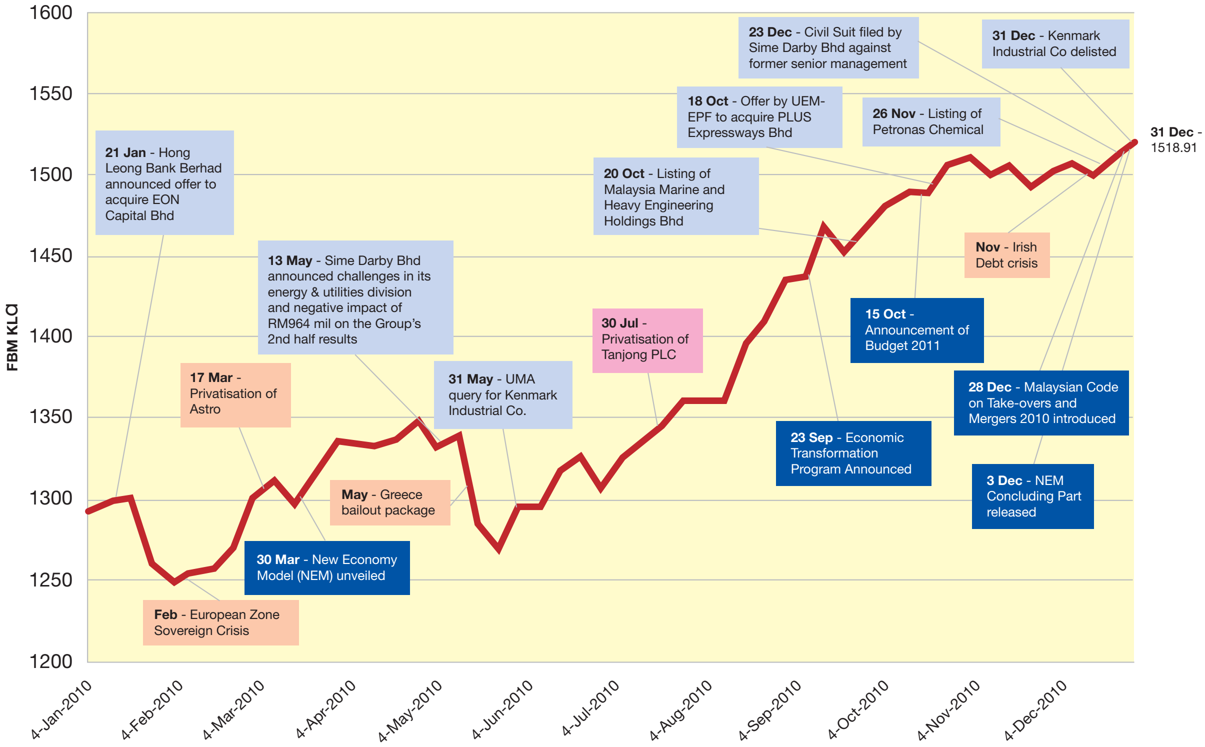
There was certainly a hive of activity in the corporate arena and boardrooms in 2010. The FBMKLCI broke the 1,300 point level in mid-January 2010, and breached the 1,500 point level sometime in mid-October 2010. The government's Budget 2011 featured several major projects that boosted investor interest, and the FBMKLCI reached a record high of 1,528 points on 10 November 2010. The market then underwent a consolidation phase and closed at 1,519 points on 31 December 2010.

Mergers and Acquisitions (M&As) were a significant part of 2010 from the word go, with some of the takeover bids being made under the acquisition of assets and liabilities route. MSWG urged Malaysian regulators to consider amending the rules surrounding M&As to require 75 percent shareholder approval (as opposed to a simple majority), to be more in line with the spirit of minority shareholder protection found in the Takeover Code governing takeover activities.

A total of 12 companies in MSWG's monitoring portfolio were taken private in 2010, including the likes of Astro All Asia Networks plc and Tanjong plc. To balance this, there were 29 IPOs during the year, which had, to some extent offset the effects of the privatisations. The IPO of PETRONAS Chemical Group Bhd which debuted on 26 November 2010 was the biggest ever IPO in Southeast Asia. This took place on the heels of the listing of another PETRONAS-owned company, namely Malaysia Marine and Heavy Engineering Holdings Berhad.

Board tussles, more often than not, were detrimental to the interests of minority shareholders. In a few such cases, MSWG stepped in to ensure that the Board as a whole acted in the best interests of the company. Corporate governance-related scandals also hogged the limelight in 2010, notably the happenings at Sime Darby and Kenmark.

FBM KLCI MOVEMENT AND SELECTED CORPORATE EXERCISES FOR 2010



MCG Index level

The overall MCG Index 2010 score for the top 100 companies was 66 points. This is a 2.48 per cent improvement from the 64.4 points achieved in the MCG Index 2009. The increase is marginal but, more importantly, is a positive development overall.

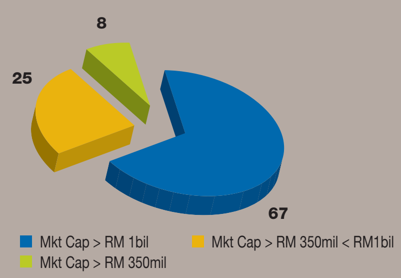
INDEX LEVEL — 2010: **66.0** | 2009: **64.4**

RATINGS	NO. OF PLC (2010)	NO. OF PLC (2009)
A+	11	11
A	13	9
B	37	12
C	39	69
Total	100	100

OVERALL: MCG INDEX TOP 100 PLCS

- Index measures conformance, performance and practices aspects
- 24 new companies in the Top 100 PLCs
- 67% are big cap companies
- 8% small cap companies

MARKET CAP PROFILE - TOP 100 PLCS AS AT 6 DEC 2010



The calculation of the MCG Index was accomplished through a four-stage process outlined as follows.

Stage 1

Overall, 898 companies listed on the Bursa Malaysia were surveyed in the **Stage 1**, culminating in the MCG Index 2010 Top 100 companies. The average corporate governance score measured in **Stage 1** for all the listed companies revealed an upward trend since 2009 ie. from 52.00 points in 2009 to 55.63 points in 2010. Corporate governance scores for companies in **Stage 1** were derived from the measurement of local and international best practice components. Scores for both components experienced an upward trend. The score for compliance with local best practices increased from 33.26 points in 2009 to 34.41 points in 2010, while the score for compliance with international best practices increased from 14.97 points in 2009 to 16.83 points in 2010.

Government-linked companies (GLCs) reported the highest scores compared to other types of companies including foreign multinational companies and state-linked companies. The average corporate governance score for GLCs increased from 62.36 points in 2009 to 67.28 points in 2010.

A post mortem of last year's Index results was carried out and many companies appear to have made some effort to address the gaps. MSWG encouraged Boards to address their gaps or weaknesses through its monitoring of PLCs, engagement with Boards and attendance at AGMs. According to the results of the 2010 MCG Index, all these areas saw varying degrees of improvement except for tenure of INEDs.

PRACTICE MEASURED	2010 %	2009 %	IMPROVEMENT %
Separation of roles between Chairman and CEO	82.5	59.5	+38.7
Independent Chairman on Board	33.5	29.9	+12.0
Boards with ≥ 50% Independent directors	40.2	37.0	+8.6
Independent directors serving > 12 years	25.5	21.6	+18.1
Board assessment	23.7	17.2	+37.8
Disclosure of directors remuneration by individual directors	5.6	5.2	+7.7
Disclosure of Whistle-blowing policy	6.2	2.6	+138.5
Disclosure of Dividend policy	5.7	5.3	+7.5
Disclosure of CSR policy	50.9	49.4	+30.4
Women on Boards	8.2	7.5	+9.3
Women CEOs	3.56	n/a	n/a

Following are specific findings regarding practices related to Directors' Remuneration.

Directors' Remuneration

The issue of directors' remuneration, particularly that of Executive Director remuneration, has always been one that attracts attention and debate. However, the amount of remuneration would not be a contentious matter if the company had been transparent in having and disclosing a remuneration policy and articulating clearly the process of determining directors' remuneration.

Regardless, companies in the Infrastructure Project sector reported the highest average ED remuneration by sector at RM3,912,750. As in preceding years, companies in the Finance sector led by having the highest average ED remuneration at RM1,647,668. See ***Figure 24*** and ***Table 5*** later in this report for a complete breakdown of ED remuneration by sector.

In contrast, companies in the Finance sector reported both the highest average NED remuneration by sector, at RM1,937,060 and the highest average NED remuneration at RM299,783. See ***Figure 25*** and ***Table 6*** later in this report for a complete breakdown of NED remuneration by sector.

Closer examination of the remuneration awarded to the NEDs of Government Linked Companies (GLCs) revealed that, save for PNB-controlled and LTAT-controlled companies, average NED remuneration in companies controlled by other GLICs had increased over the year and that NEDs at Khazanah-controlled and PNB-controlled companies received higher average remuneration than their counterparts in companies controlled by other GLICs. See ***Figure 27*** later in this report for a breakdown of average NED remuneration by GLC.

Stage 2

Only 473 companies met the selection criteria to move on to **Stage 2** where company practices were evaluated against a set of desirable and undesirable practices and were accorded bonus or penalty points respectively.

There were 44 desirable corporate governance practices providing a maximum possible 88 bonus points. All of the short-listed companies had engaged in at least one of the 44 desirable corporate governance practices. While the average of bonus points awarded was 20.44 points, three companies were awarded a total of more than 50 bonus points: Bursa Malaysia Berhad (66 points), British American Tobacco (Malaysia) Berhad (52 points) and Telekom Malaysia Berhad (51 points).

Following are specific findings regarding practices related to Board Diversity.

Board Diversity

Diversity in the boards of directors can be in the form of diversity in gender, ethnicity, skill sets and nationality. With regard to gender, 208 of the 473 short-listed companies had at least one female board member. Most of these directors were executive directors. Only 79 companies had at least one female independent director.

In terms of ethnic diversity, almost 90 per cent of the boards of the short-listed companies had a multi-ethnic outlook, though only about one-third of the short-listed companies had at least one foreign national on the board. Perhaps more can be done to convince corporate Malaysia of the positive impacts of diversity of gender and nationality.

See ***Figure 52*** later in this report for additional statistics related to board diversity.

Stage 3

The financial performance of these companies as measured by the 5-year average ROE were also assessed and accorded points in **Stage 3**.

Stage 4

Companies qualified to move to **Stage 4** were analysed by MSWG analysts in seven areas of interest as indicated in the table below.

NO.	AREAS OF INTEREST	MAXIMUM POINTS
1.	Quality of the chairman's statement and/or CEO's review, and/or operational review	20
2.	Quality of corporate governance statement, internal control statement and risk management statement	15
3.	Shareholding structure	5
4.	Board structure	5
5.	Related party transactions	10
6.	Conduct of the AGM, company's replies to queries, and restrictions on proxies	20
7.	Overall conduct in the marketplace	15
Total score		**90**
Weighted score		**20**

Corporate Social Responsibility (CSR):

The quality of CSR reporting, and the nature of CSR activities in the major pillars of workplace, environment, and community were assessed. The 2010 findings indicated better quality reporting and increasing conformance in substance. Companies, primarily in the service industry, considered the impact of the carbon footprint associated with their activities. They have, amongst other things, attempted to conserve the usage of electricity, water, paper and recycled resources to the extent feasible. Some banks have started to incorporate environmental impact analysis (EIA) in their lending policies and loan evaluations when providing financing. More, however, needs to be done to incorporate elements of CSR – including sustainability into business practices.

Following are specific findings on Conduct of AGMs.

Conduct of AGM:

MSWG representatives attended a total of 250 AGMs in 2010. Approximately 69 per cent of the AGMs had full board attendance. In relation to shareholder participation, by and large the boards gave sufficient time for shareholders to raise questions and express their opinions during the meeting. Questions raised by MSWG were addressed during meetings, with many providing their shareholders with PowerPoint presentations on the questions. Sixty-one per cent of the companies presented information on their operations, financial results and future outlook.

Approximately six per cent of the companies had restrictions on proxies and allowed only certain approved persons to attend the AGM. Such a practice does not encourage active shareholder participation at general meetings and MSWG is of the view that the restriction should be removed.

Most resolutions voted at the AGMs were carried out by a show of hands. Nine of the general meetings attended by MSWG had voting carried out by poll upon the request of shareholders holding the requisite number of shares, and in accordance with the respective company's Articles of Association.

Concluding Remarks

This second annual MCG Index project has yielded a number of positive results. For one, both the average base corporate governance scores and the MCG Index scores across the 898 eligible companies have increased over the one year period. In addition, more companies moved beyond **Stage 1** of the project. These positive developments, whilst laudable, should not allow companies and interested stakeholders to be complacent. On the contrary, these results show that efforts by companies and stakeholders thus far have brought about desired outcomes and that there have been commitments and willingness on the part of companies to enhance their corporate governance practices.

Several items were identified in the MCG Index 2010 as requiring further improvement in the coming years. These include the need to:

(i) Enhance the role of Independent Non-Executive Directors (INEDs), especially in the context of being critical towards related-party transactions (RPTs).
(ii) Ensure a transparent nomination process for independent directors and encourage the sourcing of independent directors from pools of qualified individuals.
(iii) Ensure adequate separation of roles and powers between the Chairman and CEO.
(iv) Increase the timeliness of financial information.
(v) Adopt and disclose a transparent directors' remuneration policy.
(vi) Conduct a periodic (annual) appraisal of board and individual director performance.
(vii) Develop sound risk management and whistle-blowing policies and implement them.
(viii) Facilitate poll and proxy voting.
(ix) Be transparent in corporate exercises, including disclosing the purpose and utilisation of proceeds raised via a mandate sought pursuant to Section 132D of the Companies Act, 1965.
(x) Pursue the agenda of board diversity and corporate sustainability.

MCG INDEX 2010 : TOP 100 COMPANIES (BY RANK) Index Level : 66			
COMPANY	**RANK**	**COMPANY**	**RANK**
PUBLIC BANK BERHAD	1	JAYA TIASA HOLDINGS BERHAD	52
BURSA MALAYSIA BERHAD	2	KUALA LUMPUR KEPONG BERHAD	53
LPI CAPITAL BERHAD	3	UEM LAND HOLDINGS BERHAD	54
TELEKOM MALAYSIA BERHAD	4	AIRASIA BERHAD	55
BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD	5	DIALOG GROUP BERHAD	56
PLUS EXPRESSWAYS BERHAD	6	HAP SENG PLANTATIONS HOLDINGS BERHAD	57
CIMB GROUP HOLDINGS BERHAD	7	TITAN CHEMICALS CORP. BERHAD.	58
MALAYAN BANKING BERHAD	8	MALAYSIAN AIRLINE SYSTEM BERHAD	59
GUINNESS ANCHOR BERHAD	9	KPJ HEALTHCARE BERHAD	60
DIGI.COM BERHAD	10	STAR PUBLICATIONS (MALAYSIA) BERHAD	61
NESTLE (MALAYSIA) BERHAD	11	MAH SING GROUP BERHAD	62
MEDIA PRIMA BERHAD	12	DIJAYA CORPORATION BERHAD	63
MALAYSIA AIRPORTS HOLDINGS BERHAD	13	CARLSBERG BREWERY MALAYSIA BERHAD	64
AXIATA GROUP BERHAD	14	FABER GROUP BERHAD	65
TH PLANTATIONS BERHAD	15	C.I. HOLDINGS BERHAD	66
SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD	16	CCM DUOPHARMA BIOTECH BERHAD	67
		COASTAL CONTRACTS BERHAD	68
UMW HOLDINGS BERHAD	17	ALLIANZ MALAYSIA BERHAD	69
TENAGA NASIONAL BERHAD	18	HONG LEONG BANK BERHAD	70
SYMPHONY HOUSE BERHAD	19	ALAM MARITIM RESOURCES BERHAD	71
IJM CORPORATION BERHAD	20	SUNRISE BERHAD	72
BOUSTEAD HOLDINGS BERHAD	21	FAR EAST HOLDINGS BERHAD	73
KULIM (MALAYSIA) BERHAD	22	KIM LOONG RESOURCES BERHAD	74
RHB CAPITAL BERHAD	23	PACIFICMAS BERHAD	75
UNITED PLANTATIONS BERHAD	24	WEIDA (M) BERHAD	76
UCHI TECHNOLOGIES BERHAD	25	KENCANA PETROLEUM BERHAD	77
HAI-O ENTERPRISE BERHAD	26	PANASONIC MANUFACTURING MALAYSIA BERHAD	78
OSK HOLDINGS BERHAD	27	LEADER UNIVERSAL HOLDINGS BERHAD	79
TA ENTERPRISE BERHAD	28	CAHYA MATA SARAWAK BERHAD	80
SUNWAY CITY BERHAD	29	THREE-A RESOURCES BERHAD	81
TA ANN HOLDINGS BERHAD	30	TSH RESOURCES BERHAD	82
AMWAY (MALAYSIA) HOLDINGS BERHAD	31	HELP INTERNATIONAL CORPORATION BERHAD	83
MY E.G. SERVICES BERHAD	32	ANN JOO RESOURCES BERHAD	84
MAXIS BERHAD	33	ALUMINIUM COMPANY OF MALAYSIA BERHAD	85
MALAYSIA BUILDING SOCIETY BERHAD	34	DAIBOCHI PLASTIC AND PACKAGING INDUSTRY BERHAD	86
JT INTERNATIONAL BERHAD	35		
IJM PLANTATIONS BERHAD	36	NCB HOLDINGS BERHAD	87
KFC HOLDINGS (MALAYSIA) BERHAD	37	GENTING PLANTATIONS BERHAD	88
QSR BRANDS BERHAD	38	AMMB HOLDINGS BERHAD	89
DRB-HICOM BERHAD	39	MNRB HOLDINGS BERHAD	90
S P SETIA BERHAD	40	SCOMI GROUP BERHAD	91
PARAMOUNT CORPORATION BERHAD	41	RCE CAPITAL BERHAD	92
RIVERVIEW RUBBER ESTATES BERHAD	42	DAYANG ENTERPRISE HOLDINGS BERHAD	93
SUNWAY HOLDINGS BERHAD	43	SAPURACREST PETROLEUM BERHAD	94
PETRONAS DAGANGAN BERHAD	44	EASTERN PACIFIC INDUSTRIAL CORPORATION BERHAD	95
IOI CORPORATION BERHAD	45		
JOBSTREET CORPORATION BERHAD	46	UNITED MALACCA BERHAD	96
WAH SEONG CORPORATION BERHAD	47	SCOMI ENGINEERING BERHAD	97
GAMUDA BERHAD	48	AFFIN HOLDINGS BERHAD	98
PETRONAS GAS BERHAD	49	MULTI-PURPOSE HOLDINGS BERHAD	99
CHEMICAL COMPANY OF MALAYSIA BERHAD	50	MALAYAN FLOUR MILLS BERHAD	100
TOP GLOVE CORPORATION BERHAD	51		

Detailed Report and Findings

DETAILED REPORT & FINDINGS

Introduction

The MCG Index project has the following three objectives:

1) To gauge the level of corporate governance of companies in Malaysia.
2) To provide information on corporate governance so that gaps can be addressed and strengths can be highlighted.
3) To incentivise better corporate governance standards through recognition.

Methodology

The preceding objectives are accomplished through the following four-stage evaluation process that forms the methodology of this exercise.

The MCG Report 2010 is based on the respective listed companies' annual reports for financial year 2009. Comparisons were made based on disclosures in the 2009 Annual Reports and 2008 Annual Reports.

In **Stage 1**, all eligible 898 companies were assessed against a set of local best practices and selected best practices not already enjoined by local requirements; these are referred to as international best practices. Thereafter the companies were ranked in terms of their weighted composite corporate governance scores.

Companies that reported 5-year average ROE of less than 4 per cent were eliminated. The rationale for this filter was based on the presumption that sound corporate governance practices ought to lead companies to produce positive medium to long-term financial performance. The remaining companies were scored on a range of ROE above 4 per cent.

A total of 473 eligible companies then proceeded to **Stage 2**, where the aim of this stage was to examine that companies fully embraced the spirit of the various sound corporate governance best practices. In this respect, companies were awarded bonus points when they had undertaken any of the 44 desirable practices, and given penalty points when they exhibited any of the 11 undesirable practices.

The aim of **Stage 3** was to recognise companies that produced positive financial performance. In this respect, appropriate points were awarded to all of the 473 companies based on their reported 5-year average ROE and market capitalisation. The latter was used as a proxy for stakeholder evaluation of the companies' historical performance and hence future expectations.

At the conclusion of **Stage 3**, companies were ranked and the top 220 companies were subjected to qualitative evaluation by MSWG's analysts. During **Stage 4,** MSWG's analysts evaluated the quality of key company disclosures, namely: the Chairman's Statement, the CEO's Review, the Internal Control Statement, the Corporate Governance Statement and Financial Statements, the nature and type of Related Party Transactions (RPTs) undertaken during the year, and matters pertaining to CSR practices and communication with stakeholders. Samples of the scorecards used during the MCG Index assessments can be found in **Appendix 4.**

Following the completion of **Stage 4**, the 220 companies were ranked based on the weighted composite scores from **Stages 1 to 4**, and only the top 100 companies were selected to form the component stocks of the Malaysian Corporate Governance (MCG) Index 2010. The final MCG Index score was then computed and tracked against the prior year score.

The methodology for the MCG Index 2010 which includes conformance, performance and practices is depicted in the diagram shown in ***Figure 1***.

FIGURE 1: SUMMARY OF METHODOLOGY

STAGE 1

- Scoring based on the Malaysian Code on Corporate Governance, Listing Requirements, best practices (114 key parameters)
- Box ticking exercise whether companies have complied
- Weighted on Board Structure (40%), Remuneration (10%), Shareholders Matters (20%) and Accountability & Audit (30%)

BASE SCORE (40%) 898 PLCs

PLCs must score ≥ 50% in the base score and 5-year average ROE ≥ 4% to go to Stage 2

BONUS & PENALTY (20%) 473 PLCs

- Some criteria that are more important in these current times will be given additional points
- Penalties imposed if reprimanded by authority or issues that irk minority shareholders

STAGE 2

- Scoring based on 20 best practices which include :
  - Separation of Chairman/CEO
  - Self-imposed term limit of independent directors
  - Directors' training
  - Board diversity
  - Whistle blowing policy
  - Dividend Policy

PERFORMANCE (10%) 220 PLCs

MARKET CAP (5%) 220 PLCs

STAGE 3

- Performance criteria 5-year average ROE is given additional points when above minimum, depending on range
- Market Capitalisation

CSR (5%) 220 PLCs

Quality of disclosures in Annual Report and website as well as practices up to 9 December 2010 is monitored and taken into consideration

ANALYST INPUT (20%) 220 PLCs

STAGE 4

- Quality of Chairman Statement/ CEO Review, Internal Control Statement, CG Statement and Financial Statement
- CSR matters
- Communications matters
- RPTs not detrimental to minority shareholders
- Shareholding structure

MCG INDEX 2010 TOP 100 PLCs

Key Findings

Stage 1: Compliance with local and international principles and best practices

In **Stage 1,** the level and extent of compliance with selected benchmarked recommended corporate governance principles and best practices of companies on the Bursa Malaysia (hereafter referred to as the Exchange), was examined. A corporate governance scorecard comprising 114 items was developed ***(Table 1)***. A "Basic Compliance Score (BCS)" was calculated based on a measure of compliance with 54 key items that reflect the principles and best practices enjoined by the Malaysian Code on Corporate Governance (Revised 2007) - hereafter referred to as the Code, and Bursa Malaysia's Listing Requirements (hereafter referred to as the LR). An "International Best Practices Score (IBP)" was derived from the measurement of a company's conformance with 60 key items of international best practices drawn from other influential principles, guidelines and codes on corporate disclosure and governance. These included the OECD Principles, the IMF Principles, the CalPERS Guidelines on Corporate Governance and the Hermes Principles on Corporate Governance.

Table 1: Composition of Corporate Governance Scorecard

MAJOR SECTIONS OF THE MALAYSIAN CODE ON CORPORATE GOVERNANCE	LOCAL BEST PRACTICES		INTERNATIONAL BEST PRACTICES		TOTAL	
	Items	Weights	Items	Weights	Items	Weights
Part A: Board of Directors	24		15		39	**40%**
Part B: Directors' Remuneration	8		11		19	**10%**
Part C: Shareholders	2		17		19	**20%**
Part D: Accountability & Audit	20		17		37	**30%**
Total	**54**	**70%**	**60**	**30%**	**114**	**100%**

For each BCS and IBP item, a score of "1" was given only if the company had substantially complied with items in the scorecard and disclosed such compliance accordingly. If an item did not deserve a point, it was marked as a "0". ***Table 1*** also illustrates the weights attached to the BCS, IBP and major sections of the scorecard towards the overall Corporate Governance Score (CGS). Whilst BCS and IBP ranged between 0 to 54 points and 0 to 60 points respectively, the range for the CGS was 0 to 100 per cent.

As at 31 December 2009, there were 959 companies listed on the Exchange. However, 61 listed companies were excluded for various reasons (***Appendix 1***) leaving 898 companies for **Stage 1** evaluation.

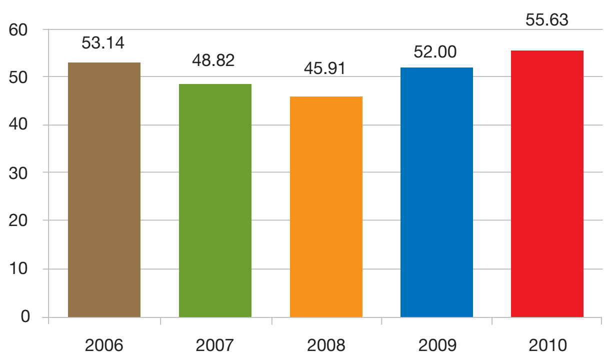
Table 2 shows the key parameters examined in the 898 companies assessed in **Stage 1**. The average CGS was 55.63 per cent, with maximum and minimum scores of 88.69 per cent and 29.22 per cent respectively.

Table 2: Key parameters of Corporate Governance Score and its components (*N* = 898)

	MEAN	MEDIAN	MINIMUM	MAXIMUM
Corporate Governance Score (CGS)	**55.63**	**55.62**	**29.22**	**88.69**
• Part A - Board of Directors	19.20	19.00	7.00	36.00
• Part B - Directors' Remuneration	5.18	5.00	0.00	15.00
• Part C – Shareholders	7.29	7.00	1.00	18.00
• Part D - Accountability & Audit	19.56	19.00	11.00	33.00
Basic Compliance Score (BCS)	34.41	34.00	19.00	50.00
International Best Practices Score (IBP)	16.83	16.00	5.00	46.00

Figure 2 reveals an upward trending line for the average CGS from 2008, the year when the project assessed all eligible listed companies for the first time. Clearly, this finding reflects a positive development for the Malaysian capital market. It also suggests that increasing numbers of companies have been embracing the recommended corporate governance best practices, albeit perhaps at a slower pace. Despite this progress, there should not be any room for complacency as there are opportunities for improvement.

FIGURE 2: AVERAGE CGS SCORES



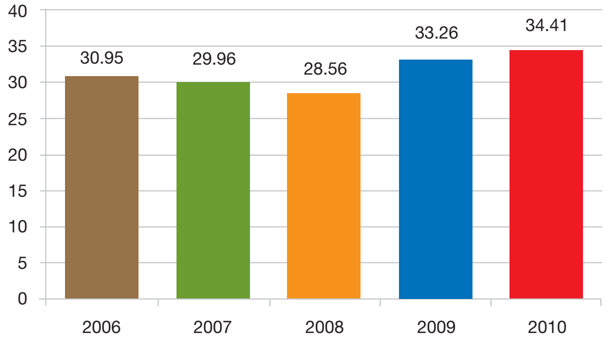
The BCS component of the CGS is the score derived from evaluating the compliance of companies with corporate governance best practices currently enjoined by local requirements, rules and regulations. In this regard, ***Table 3*** summarises the performance of the 898 companies in terms of the level of compliance with these best practices. The average BCS across the companies was 34.41 points, surpassing the average levels observed in prior years as shown in ***Figure 3***. The company that achieved the highest score of 50 points was Symphony House Berhad.

Table 3: Key parameters of Basic Compliance Score and its components (*N* = 898)

	MEAN	MEDIAN	MINIMUM	MAXIMUM
Basic Compliance Score (BCS)	**34.41**	**34.00**	**19.00**	**50.00**
• Part A - Board of Directors (0 to 24)	15.24	15.00	7.00	14.00
• Part B - Directors' Remuneration (0 to 8)	3.25	3.00	0.00	7.00
• Part C – Shareholders (0 to 2)	1.65	2.00	0.00	2.00
• Part D - Accountability & Audit (0 to 20)	14.27	14.00	10.00	20.00

There could be many factors influencing this increasing level of compliance with local recommended corporate governance best practices, including greater awareness by companies and their key officers, and increasing motivation (or perhaps pressure – subtle or otherwise) from interested stakeholders. Regardless, possibilities exist for further improvement to the BCS, especially with respect to the recommended best practices pertaining to board of directors and directors' remuneration.

FIGURE 3: AVERAGE BCS SCORES



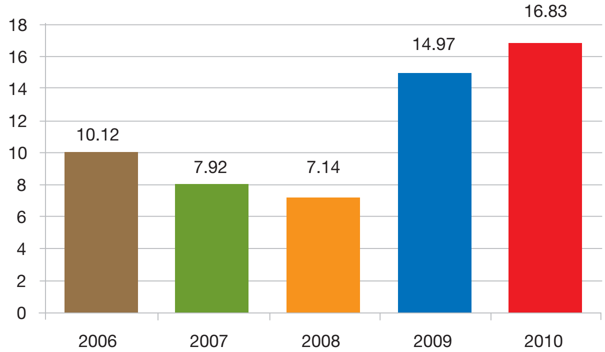
With regard to the level of compliance with International Best Practices a summary of performance by companies is presented in ***Table 4*** and ***Figure 4***.

Table 4: Key parameters of International Best Practices Score and its components (N = 898)

	MEAN	MEDIAN	MINIMUM	MAXIMUM
International Best Practices Score (IBP)	**16.83**	**16.00**	**5.00**	**46.00**
• Part A - Board of Directors (0 to 15)	3.96	4.00	0.00	14.00
• Part B - Directors' Remuneration (0 to11)	1.93	2.00	0.00	8.00
• Part C – Shareholders (0 to 17)	5.64	5.00	0.00	16.00
• Part D - Accountability & Audit (0 to 17)	5.30	5.00	0.00	13.00

Table 4 and ***Figure 4*** reveal that the average IBP across the 898 companies in 2009 was 16.83 points. This represented a further improvement from the previous year where the average IBP was 14.97 points. To a great extent, credit must be given to all 898 companies for even attempting to voluntarily comply with these best practices. Evidently this suggests that companies were indeed embracing both the letter and spirit of corporate governance. Nevertheless, more can be done to encourage companies to adopt more of these international best practices in all four aspects cited in ***Table 4***. By way of recognition, five companies attained an IBP score of more than 40 points: Telekom Malaysia Berhad (46 points), Bursa Malaysia Berhad (45 points), British American Tobacco (Malaysia) Berhad (42 points), Public Bank Berhad (42 points) and Malaysia Airports Holdings Berhad (40 Points).

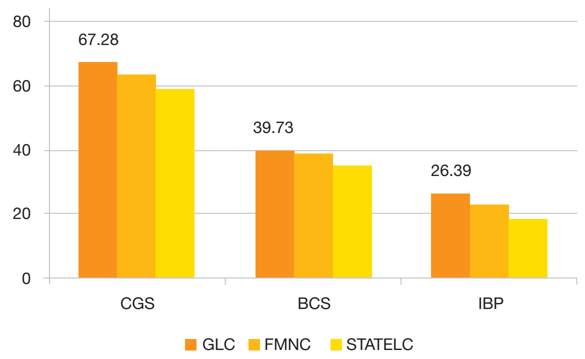
FIGURE 4: AVERAGE IBP SCORES



It has been nearly five years since the Green Book "Enhancing Board Effectiveness" was released by the Putrajaya Committee on GLC Transformation. There has been an expectation that GLCs will take the leading role in enhancing the quality of corporate governance. In this respect, ***Figure 5*** reports that GLCs lead the other companies by recording the highest CGS, BCS and even IBP scores compared to other types of companies (including FMNCs and STATELCs). In fact the average CGS for GLCs increased from 62.36 points in the previous year to 67.28 in the current year of review.

As the government moves toward divesting its stake in the GLCs, a high level of corporate governance practices amongst GLCs would certainly make these companies attractive to potential private-sector investors. The detailed findings from **Stage 1** are presented in the following four major sections consistent with classifications used by the Malaysian Code on Corporate Governance.

FIGURE 5: STAGE 1 PERFORMANCE BY TYPES OF COMPANIES



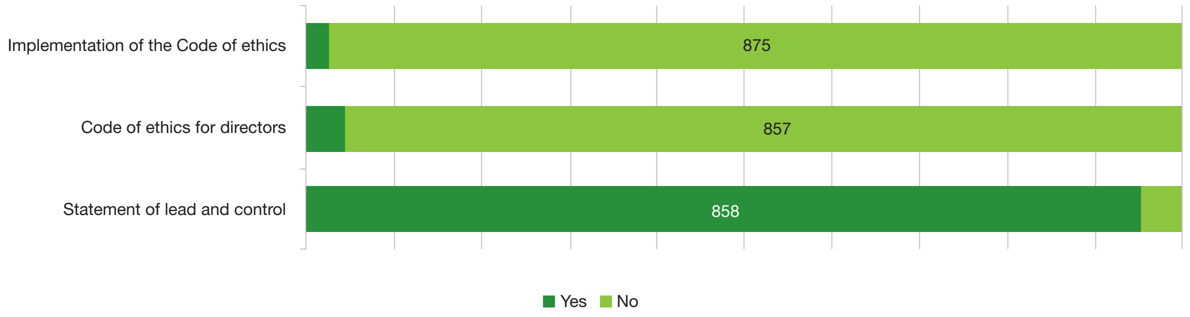
Part A: The board of directors

Principal responsibilities of the board

Figure 6 reports that a significant majority of companies acknowledged that the primary role of the board is to lead and control. Specifically, 95.55 per cent of companies disclosed a statement to this effect in 2009 compared to 86.10 per cent of companies in 2008. This is indeed an encouraging development because such positive statement ought to be made in every edition of the annual report to remind and educate stakeholders of the important role of the board of directors. However, it is equally important for board not to misconstrue its role to lead and control so as to encroach into management. McDonald and Westphal (2010) argued that there is an unexpected side effect to the board's increased control over management: CEOs are now less willing to give strategic advice to one another.

However, as in previous years, very few of them (*n* = 41) had a code of ethics in place for directors. Slightly more than one-half of these companies (*n* = 23) made some disclosure about the implementation of codes of ethics for directors. In both aspects, the number of companies that complied with these recommendations increased from 31 and 17 companies respectively in 2008. Notwithstanding the marginal increase in compliance, what could explain this dismal lack of codes of ethics for directors?

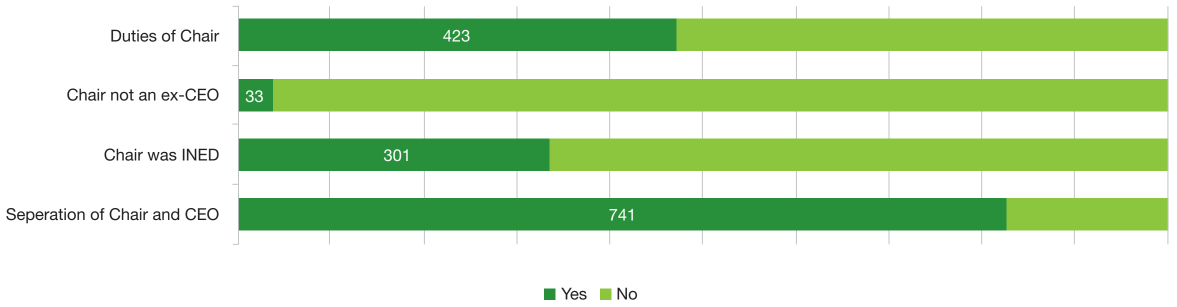
FIGURE 6: PRINCIPAL RESPONSIBILITIES OF THE BOARD



Chairman and CEO

Amongst the 898 companies, 157 of them had one person holding both the positions of chairman of the board of directors and CEO of the company. None of these companies explained their reasons for not complying with the Code. Out of the 741 companies that had separated the roles of the chair and CEO, 301 of them (33.52 per cent) had an Independent Non-Executive Director ("INED") serving as chairman of the board. Only 33 companies stated that their chairmen were not ex-CEOs of the companies. Slightly less than one-half (*n* = 423; 47.10 per cent) of all of the companies evaluated in **Stage 1** disclosed, to varying degrees, the duties of the chairman of the board. By way of comparison, 59.91 per cent of companies had separated the roles of the chair and CEO and 43.49 per cent of companies had disclosed the duties of the chairman of the board in 2008.

FIGURE 7: ROLE OF CHAIRMAN OF THE BOARD

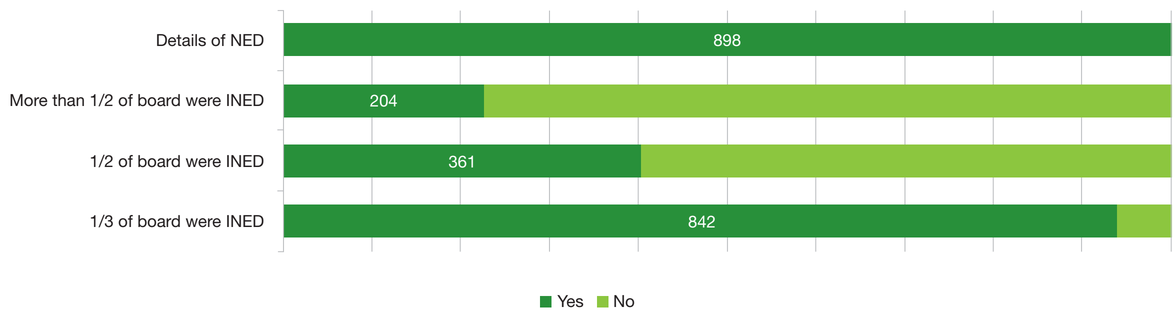


There were some interesting practices observed in the context of the roles of the chair and CEO. In one case, Tradewinds Corporation Berhad was one company that had separated the roles of chairman of the board and the CEO at the time of assessment. In fact, the company's CEO had not been appointed as a member of the board. The company briefly indicated that the CEO would be on sabbatical leave for 14 months with effect from 1 June 2010, however no further details were provided regarding the arrangement to cope with the CEO's absence. In another case, that of Tan Chong Motor Holdings Berhad, the company had a director appointed as deputy executive chairman but there was no chairman appointed during the period under review.

Board balance

Save for 56 companies, the remaining 842 companies as reported in ***Figure 8*** appeared to have boards comprising at least one-third independent directors (INEDs). Of these, 361 companies had INEDs comprising one-half of the boards.

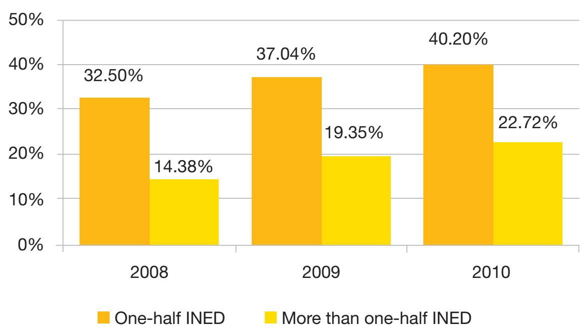
FIGURE 8: BOARD BALANCE



A further 204 companies (22.72 per cent) had INEDs comprising the majority of directors on the boards.

In 2008, less than one-fifth of companies (19.35 per cent) had INEDs comprising the majority on boards of companies. ***Figure 9*** even indicates an increasing trend of companies having boards comprising more than one-half or a majority of INEDs.

FIGURE 9: TREND OF INDEPENDENCE OF BOARDS



A review of all companies revealed two companies having INEDs comprising 100 per cent of the boards: Litespeed Education Technologies Berhad and Infortech Alliance Berhad. However, both of these companies had small boards consisting of only three directors. Aside from these two companies, the company with the highest representation of INEDs on the board was Bursa Malaysia Berhad, with 12 INEDs (including four directors designated as "Public Interest Directors") out of a total of 13 directors.

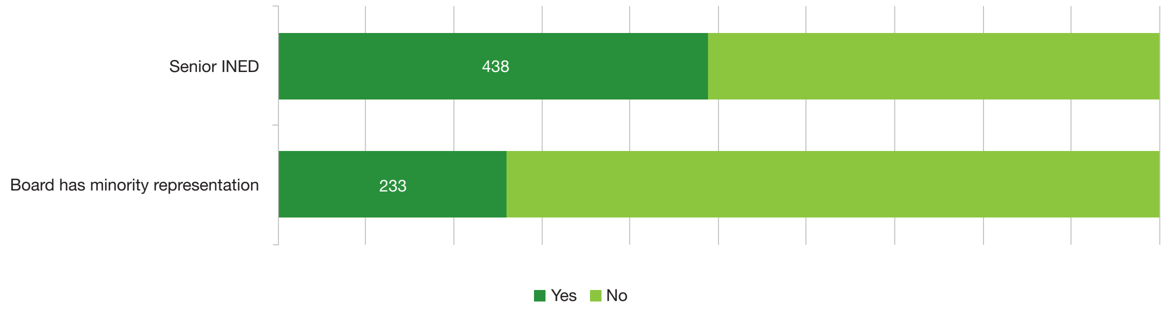
Comparing between types of companies, GLCs continued to have the highest average number of INEDs in 2009: an average of four INEDs on GLC boards compared to three INEDs on average on FMNC and STATELC boards.

All companies disclosed details that would allow stakeholders to assess the calibre, skill and experience of non-executive directors (NEDs).

Significant shareholders, minority representation and senior independent directors

About one-quarter of companies continued, in 2009 to explicitly maintain that the interests of minority shareholders were represented by virtue of the composition of the board of directors. The remaining three-quarters of companies remained silent on this aspect. In 2009, there were more companies (*n* = 438; 48.77 per cent) that had appointed a senior INED to whom shareholder concerns, particularly those of minority shareholders, could be conveyed. See ***Figure 10***. This compares to 46.61 per cent of companies in 2008. In the case of one particular company, Jadi Imaging Holdings Berhad, all three INEDs seemed to have taken the role of senior INED as "…they have been identified as persons to whom concerns may be conveyed to…" (Page 24). Not all relevant companies used the title "senior independent director" for directors appointed to play such a role. Two particular companies, Suria Capital Holdings Berhad and DKSH Holdings (Malaysia) Berhad used the titles "Reference Director" and "Ombudsman", respectively, for such positions.

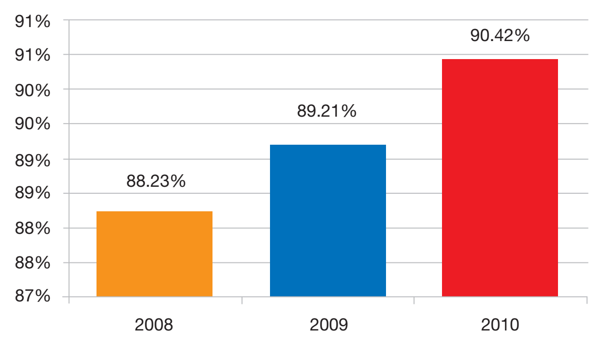
FIGURE 10: SIGNIFICANT SHAREHOLDER - MITIGATING MECHANISMS



Appointment to the board

During the period under review, 812 companies had established a Nomination Committee (NC) as recommended by the Code. The remaining 86 companies chose not to do so for various reasons, with some more forthcoming with their reasons than others. The reasons proffered could include that due to size of the company and board, matters normally delegated to NC were dealt with by the board. Or that the functions of the NC were assumed by the board of a penultimate holding company. Over the last three years, an increasing number of companies have established NCs (***Figure 11***).

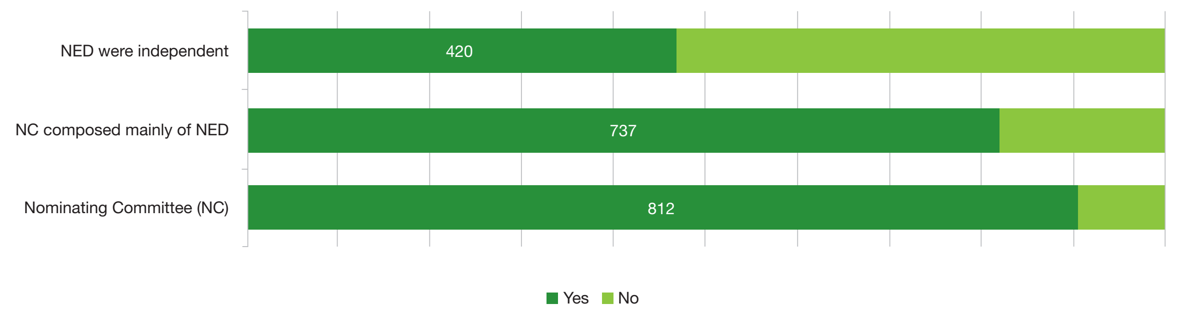
FIGURE 11: NOMINATING COMMITTEE



As in 2009, three of the PETRONAS-controlled companies continued in 2010 to remain without an NC. In the case of FMNC, three did not have an NC in 2009. However, in 2010 one of them – Shell Refining Company (Federation of Malaya) Berhad – decided to form an NC. As for the STATELC, the same seven companies that did not have an NC in 2009 continued this practice in 2010. Six of the seven STATELC were those controlled by the investing arm of the State of Johor via Johor Corporation Berhad. Matters normally delegated to the NC were attended to by the NC at Johor Corporation Berhad.

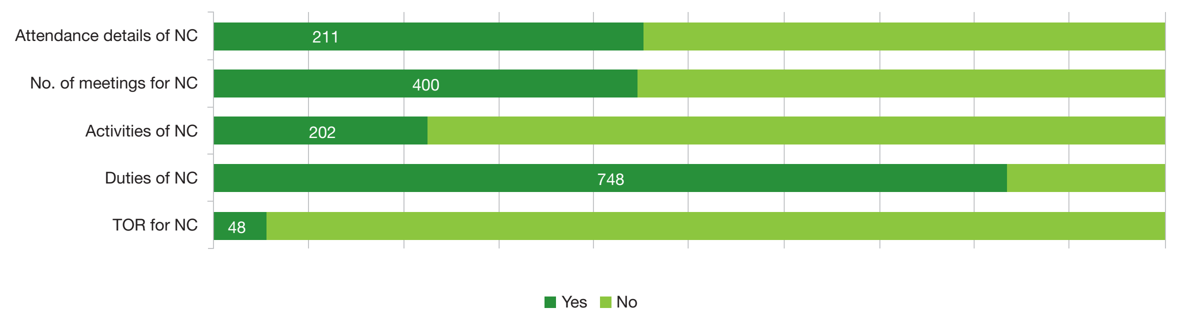
Despite the Code's recommendation, only 737 companies had NCs composed mainly of NEDs. Of these, the NCs of 420 companies (51.72 per cent) were composed entirely of INEDs (***Figure 12***). Comparatively, 54.36 per cent of companies had an NC in 2008 which were composed entirely of INEDs.

FIGURE 12: NC AND ITS STRUCTURE



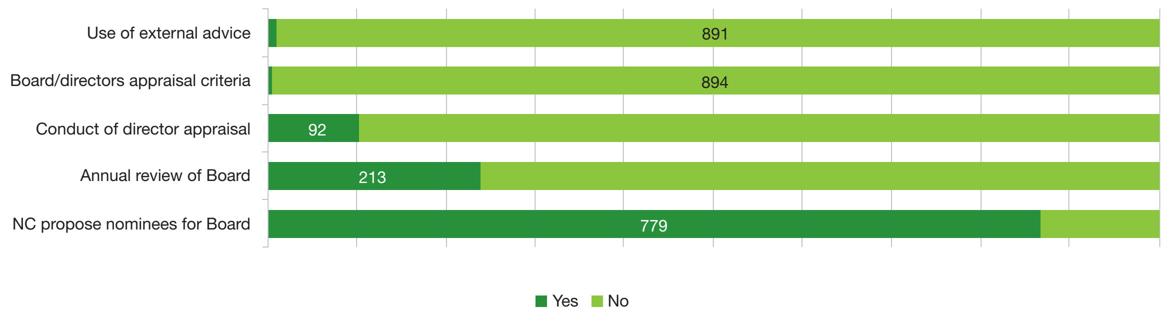
Very few companies that had formed an NC disclosed the terms of reference (TOR) of their committee (***Figure 13***). Whilst over 80 per cent of companies disclosed the duties of the NC, only 202 of them disclosed the activities of the NC that were carried out during the period under review. Out of the 812 companies that had NCs, 400 of them disclosed the number of NC meetings convened during the period. However, only 211 companies (five fewer companies than in 2008) provided details of attendance at NC meetings.

FIGURE 13: DISCLOSURE OF NC PRACTICES



Upon assessment, the main function of the NC was determined to be the proposal of nominations for the appointment of directors for the board's consideration and approval. In this context, only 213 NCs (23.75 per cent compared to 17.24 per cent of companies in 2008) conducted an annual review of the board to assess the individual and collective skills, experience and performance of directors (***Figure 14***). A fewer number of NCs conducted appraisals of individual directors during the period under review. Even fewer NCs had: (i) disclosed the criteria used in appraising board and individual directors (*n* = 4), and (ii) used external advice in matters under the purview of the NC (*n* = 7). Three companies, Axiata Group Berhad, Bursa Malaysia Berhad and Telekom Malaysia Berhad complied with both these best practices. Typically, an external consultant was engaged to carry out a board effectiveness evaluation. The evaluation included the areas of composition, administration, accountability and responsibility, conduct and the performance of the chairman and CEO. In the case of Petra Perdana Berhad, the company reported to have appointed two INEDs sourced from the MSWG's Independent Directors' Pool. Two companies, OSK Holdings Berhad and the related OSK Property Holdings Berhad, disclosed the results of director appraisals in which all directors were reviewed and had been rated as "Good". This type of disclosure is certainly an encouraging development.

FIGURE 14: OTHER ASPECTS OF NC



Since very few companies claimed to have conducted an appraisal of directors, those that did should expect the results to be scrutinised. Hence, the relevant companies should ensure they keep and provide complete and accurate information. As an example, one company, M3nergy Berhad, claimed that its NC had conducted an assessment during the financial year. However the NC's report seemed to indicate that it had not held any meetings during the year.

When the issue of board appraisals was examined further, it was found that more GLCs (*n* = 17) and FMNCs (*n* = 10) had conducted such an exercise in 2009 as compared to 2008 (*n* = 15 and n = 8 respectively). It is hoped that, in time to come, even more companies (especially GLCs) will conduct board appraisals and share the findings and experiences with others through disclosures in annual report.

Various indicators have been suggested and even implemented as criteria in assessing whether a particular individual could be considered to serve as an INED or otherwise. Certainly, these indicators cannot really assess if someone possesses the ultimate criteria of independence, which are independence in character and judgement. Despite this difficulty, the length of appointment as INED has been advocated for use as one such indicator, whereby independence is assumed to diminish with the length of service (or appointment). The current assessment examined this potential indicator and determined that the average length of service of INEDs across all companies was 5.99 years (the median was 5.26 years). On an overall basis, the issue of long-serving INEDs cannot be considered a problem for Malaysian companies. There were 66 companies with INEDs whose average length of service was more than 12 years. One company, Hong Leong Financial Group Berhad (HLFG), reported the highest average length of service for an INED, at 24 years. In addition, two of the company's INEDs have served for nearly 30 years; one of these directors did not seek re-election at the most recent AGM. Stakeholders, especially shareholders, need to be convinced that these INEDs still have independence of mind despite their significant above average length of service.

Size of the board

Figure 15 reports that only 80 of the 898 companies claimed to have reviewed the size of their boards. This was lower than in the previous year: 8.90 per cent in 2009 compared to 12.90 per cent in 2008. Perhaps the prevailing economic conditions have influenced the need to do so? Regardless, stakeholders are left to wonder why so few companies perform such a review from year to year.

A review of the 898 companies revealed that the average board size in 2010 was 7.27 directors, with the median being 7. ***Figure 16*** shows that that average size of boards has remained virtually unchanged, most notably since 2008 when all eligible companies were assessed and not just the larger companies as in 2006 and 2007. This seems to be consistent with the view that the ideal board size is seven members to ensure decision-making effectiveness (Pozen, 2010).

FIGURE 15: REVIEW OF BOARD'S SIZE

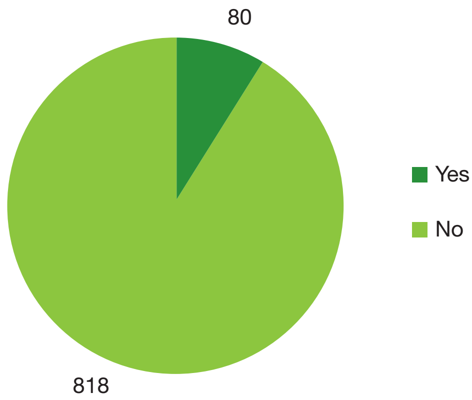
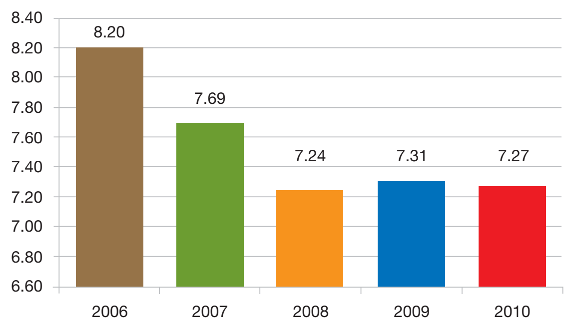


FIGURE 16: AVERAGE SIZE OF BOARDS



An analysis of board size according to types of companies yielded an interesting finding. Whilst the average board size of GLCs (2010: μ = 8.18; 2009: μ = 8.45) and FMNCs (2010: μ = 7.76; 2009: μ = 8.00) became marginally smaller over the one year period, the average board size of STATELCs had in fact grew (2010: μ = 8.22; 2009: μ = 7.86). Since there is correlation between size of board and size of company (ρ = 0.1962), does this mean STATELCs had grown and became more complex? This is fine as long as these companies continue to deliver value to their stakeholders.

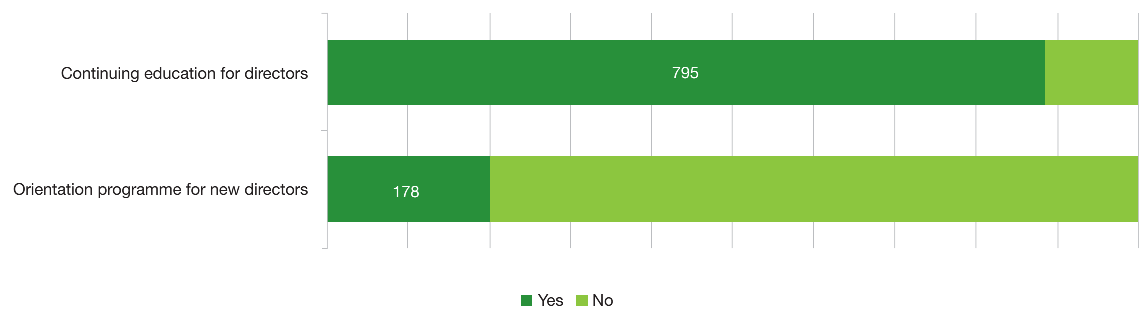
As in the previous year, the same two companies had the largest boards: Wang-Zheng Berhad with 17 directors and YTL Cement Berhad with 15 directors. Two companies had only three directors: Infortech Alliance Berhad and Litespeed Education Technologies Berhad. The former had the same number of directors in the preceding year.

It was also found that the number of companies which did not have EDs increased from 22 companies in 2008 to 30 companies in 2009. No doubt that for these companies the boards were dominated and controlled by NED (and perhaps also INED). However, it would be welcoming if these companies were to share the wisdom and rationale underlying this practice.

Directors' orientation, continuing education and training

During the period under review, fewer companies (*n* =178) had a policy on directors' orientation and training (***Figure 17***), or had conducted orientation programmes for newly appointed directors. This is important because new directors will be in a better position to contribute to board discussions and decision-making after getting a comprehensive orientation about the company, its business, competitive landscape, and people. Perhaps the effect of the recent global financial crisis is still being felt and there were fewer new board appointments. On another aspect, nearly 90 per cent of companies (795) stated that their directors had attended continuing education sessions during the year. What about the remaining 103 companies? What were the reasons for the directors of these companies not participating in continuing education programmes during the year? Perhaps, this issue needs to be raised at the AGMs of the respective companies.

FIGURE 17: DIRECTORS' ORIENTATION, CONTINUING EDUCATION AND TRAINING

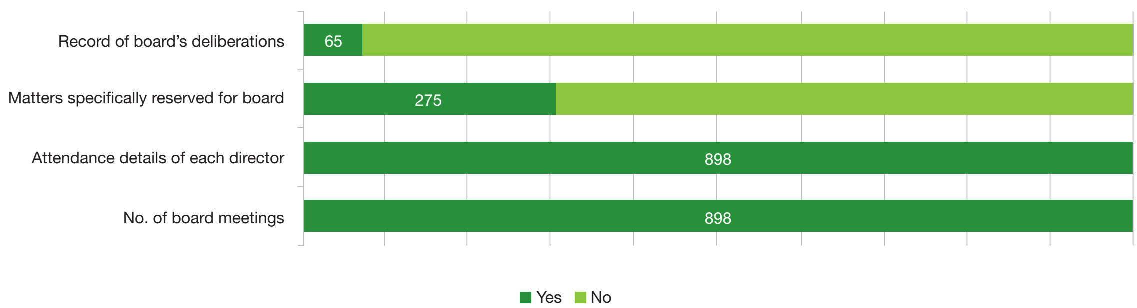


Some of the training and/or continuing education programmes attended by directors were, judging by the titles, rather interesting. In the case of Putrajaya Perdana Berhad, the directors attended a seminar on "How to ace media interviews". In another instance, BHS Industries Berhad maintained that a visit to a book fair held abroad was a continuing education programme for a director. One company, Green Ocean Corporation Berhad, advised that no directors had attended training in 2009 due to cost constraints. Another company, Integrax Berhad, reported that 4 of its 6 directors could not find suitable dates to attend any training in 2009.

Board structures and processes

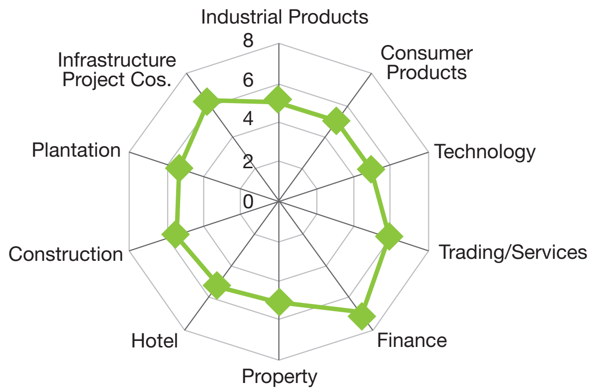
All companies (including two newly listed companies that had not convened any board meetings) reported both the number of board meetings convened during the year and the attendance details of each of the directors. Only 65 companies maintained that the board's deliberations – in terms of the issues discussed and the conclusions reached – were properly recorded and maintained (***Figure 18***). It was also found that about one-third of companies had disclosed matters specifically reserved for the board. The typical material matters specifically reserved for the board include overall group/company strategies and directions, acquisitions and divestment policies, approval of major capital expenditure projects, plans and budgets, succession planning, risk management policies, internal control and management information systems, and investor relations programmes.

FIGURE 18: BOARD STRUCTURE AND PROCEDURES



During the period under review, the average number of board meetings was 5.35. This has effectively remained unchanged since 2008. ***Figure 19*** reports the average number of board meetings convened during 2009 by companies in the 10 major sectors. Perhaps as expected, the Finance and Consumer Products sectors report the highest (μ = 7.18) and lowest (μ = 4.95) average number of board meetings respectively. Two companies, as mentioned earlier, did not convene any board meetings and had explained accordingly. At the other end, two companies reported convening more than 20 board meetings during the year: Southern Acids (M) Berhad and Malayan Banking Berhad, with 27 and 24 board meetings respectively. Whilst it is not a surprise to hear about large banking groups like Malayan Banking Berhad convening very frequent board meetings, it is quite different for other types of companies such as Southern Acids (M) Berhad. Perhaps, as alluded by the chairman, the company was facing numerous allegations of questionable related party transactions and required a large number of meetings to discuss and deal with them.

FIGURE 19: AVERAGE NO. OF BOARD MEETINGS BY SECTOR

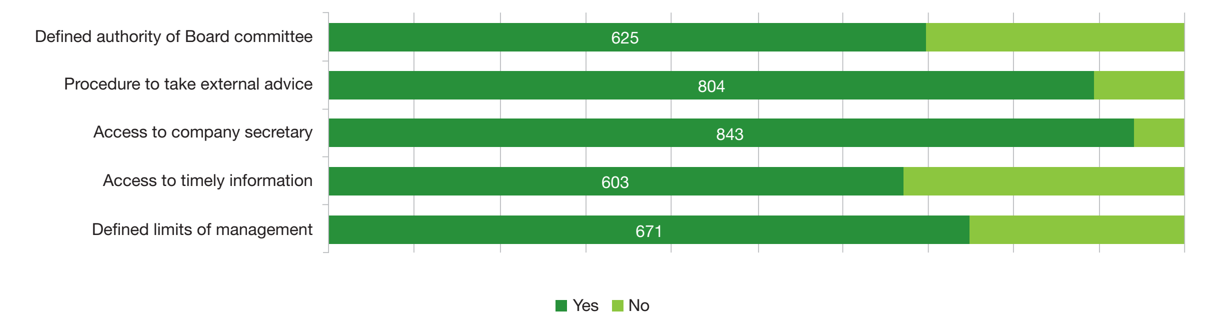


With respect to GLCs, FMNCs and STATELCs, the average number of board meetings convened during 2009 (8.73, 6.55 and 4.47 meetings respectively) for these companies had barely changed from that in 2008 (8.87, 6.78 and 4.47 meetings respectively). One can also presume the prevailing conditions in 2009 were similar to those in 2008 and did not necessitate the boards of these companies to convene either more or fewer meetings.

Board relationship to management (including access to quality information and advice)

Many, if not most, companies stated they had policies and procedures in place to provide directors with timely relevant information, independent and separate access to the company secretary, and external advice at the company's expense (***Figure 20***). No company had thus far provided specific evidence, including details and instances, showing actual practices. Perhaps, companies should consider reporting actual activities moving forward.

FIGURE 20: BOARD'S ACCESS TO MANAGEMENT, INFORMATION AND ADVICE



Part B: Directors' remuneration

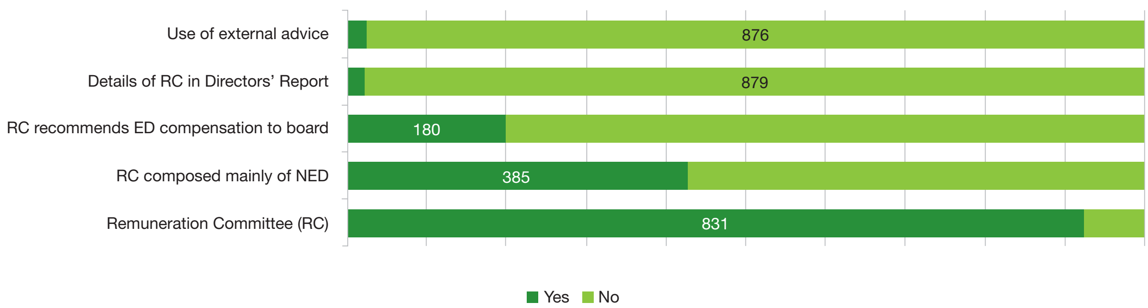
Determination of directors' remuneration

Out of the 898 companies assessed, 831 (***Figure 21***) had established a Remuneration Committee (RC). Various reasons were offered by companies that chose not to form such a committee. Of the companies that had established an RC, it was determined that 385 of the committees were composed mainly of NEDs. The remaining 446 RCs had Executive Directors amongst their members, perhaps raising questions about the independence and credibility of their committees.

Out of the 33 identified GLCs, all three GLCs controlled by Petroliam Nasional Berhad (PETRONAS) did not have an RC. These companies maintained that since the sole ED on the board was the CEO who was also a salaried employee of PETRONAS, it was deemed not necessary to establish a separate RC. In the case of STATELCs, seven of them did not have RCs. All of the six companies controlled by the Johor Corporation Berhad maintained that matters pertaining to directors' remuneration were dealt with by the RC of the penultimate holding company. The other STATELC without an RC was PBA Holdings Berhad. The company maintained it was not necessary to have an RC because there was no ED on the company's board. In 2008, three FMNCs were reported to not have established an RC. In 2009, one of the FMNCs – Shell Refining Company (Federation of Malaya) Berhad – decided to establish a RC. The remaining two FMNCs, Nestle (Malaysia) Berhad and DKSH Holdings Berhad, were of the view that since their EDs were employees of the holding company, the remuneration of EDs was determined by the policies of the group/holding Company.

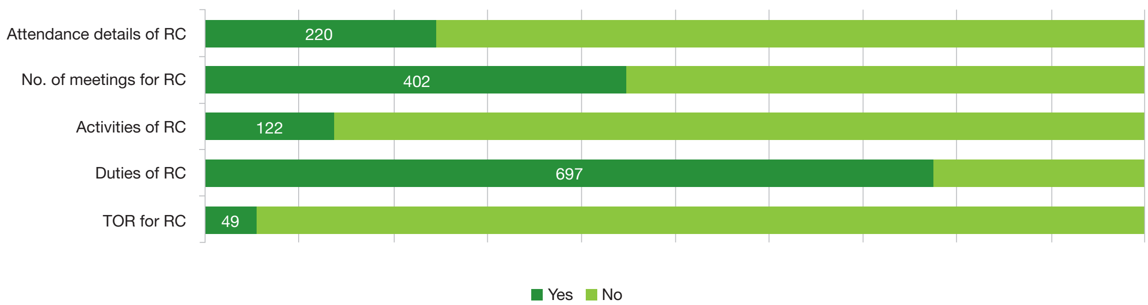
Even though one of the functions of the RC might be presumed to be the recommendation of ED compensation to the board for its consideration and approval, only 180 companies actually claimed to have done so. What, then, could be the excuse of the other 651 RCs for not doing so? In other aspects related to the RC, 19 companies had disclosed the details of their RC (particularly information pertaining to its constitution), in the statutory directors' report in the annual report. Very few companies (n = 22) had consulted external advice during the year under review in matters pertaining to directors' remuneration. In the case of GHL Systems Berhad, a member of the senior management team and an external consultant were appointed as members of the company's RC in 2009.

FIGURE 21: RC AND ITS STRUCTURE



Whilst 831 companies had an RC during the year, only 49 of them disclosed the TOR for their committee (***Figure 22***). Nearly 80 per cent of companies indicated the duties of their RC but less than 15 per cent revealed its activities. More information about RCs needs to be shared so stakeholders can assess their efficacy. A total of 402 companies revealed the number of RC meetings held, but far fewer companies (n = 220) revealed the attendance details of RC members. The number of companies reporting attendance details was an increase of 17 companies compared to in 2008.

FIGURE 22: DISCLOSURES OF RC PRACTICES



Level and make-up of remuneration

Almost two-thirds of companies (63.58 per cent) maintained that in considering remuneration for directors, industry pay and employment conditions had been taken into consideration (***Figure 23***). In addition, 50.78 per cent of companies declared to have taken performance – both at individual director and corporate level – into consideration in determining ED remuneration. In determining NED remuneration, less than one-half of companies (47.32 per cent) declared to have considered the contributions and responsibilities of NEDs.

FIGURE 23: GENERAL POLICY ON DIRECTORS' REMUNERATION

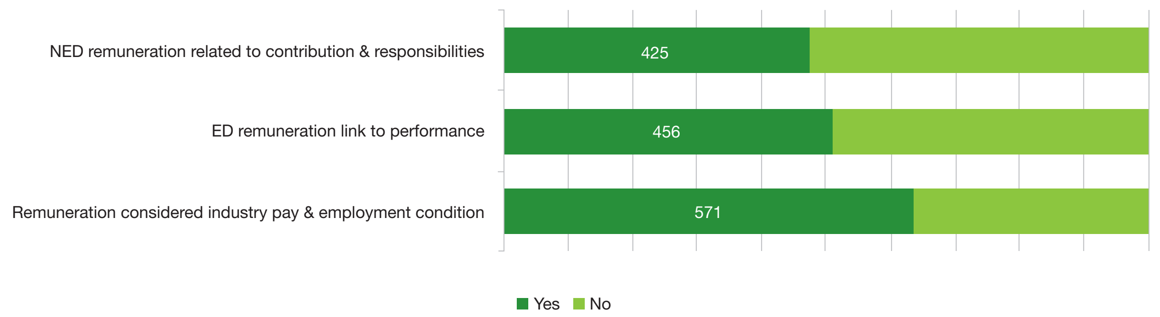
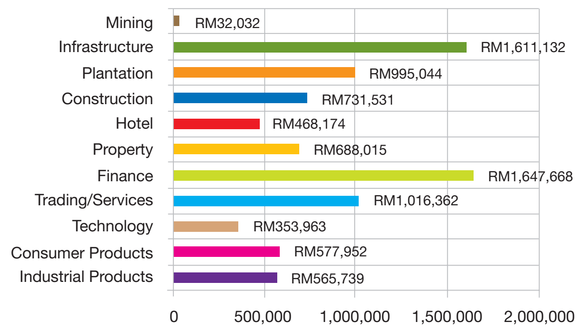


FIGURE 24: AVERAGE REMUNERATION PER ED BY SECTOR



The issue of directors' remuneration, particularly that of ED remuneration, has always been one that attracts attention and debate. However, the amount of remuneration would be a contentious matter if the company had been transparent in having and disclosing a remuneration policy and articulating clearly the process of determining directors' remuneration. Regardless, ***Figures 24*** and ***Table 5*** report the average remuneration received by ED according to the sector classifications of the companies. Infrastructure Project Companies once again reported the highest average ED remuneration by sector (µ = RM3,912,750). As in preceding years, companies in the Finance sector led by having the highest average ED remuneration (µ = RM1,647,668). In this context, 12 companies reported total remuneration in excess of RM10 million paid/payable to EDs in 2009, with Genting Berhad leading the pack.

Table 5: Remuneration of ED

SECTORS	NO. OF COMPANIES	TOTAL ED REMUNERATION (RM)	AVERAGE ED REMUNERATION BY SECTOR (RM)	NO. OF ED	AVERAGE ED REMUNERATION PER ED BY SECTOR (RM)
Industrial Products	273	409,594,737	1,500,347	724	565,739
Consumer Products	130	223,089,318	1,716,072	386	577,952
Technology	92	84,951,142	923,382	240	353,963
Trading/Services	183	476,673,688	2,604,774	469	1,016,362
Finance	39	87,326,409	2,333,831	53	1,647,668
Property	83	158,243,546	1,906,549	230	688,015
Hotel	3	2,809,041	936,347	6	468,174
Construction	45	112,655,723	2,503,461	154	731,531
Plantation	42	96,519,227	2,298,077	97	995,044
Infrastructure Project Cos.	7	27,389,252	3,912,750	17	1,611,132
Mining	1	64,063	64,063	2	32,032
Total	**898**	**1,683,009,146**		**2,378**	

Figures 25 and ***Table 6*** report the average remuneration received by NEDs according to the sector classifications of the companies. As in the preceding years, companies in the Finance sector led by reporting the highest average NED remuneration by sector (μ = RM1,937,060) and having the highest average remuneration for NEDs (μ = RM299,783). In terms of highest NED remuneration, Public Bank Berhad led by recording a total sum of RM9.2 million paid/ payable to its NEDs.

FIGURE 25: AVERAGE REMUNERATION PER NED BY SECTOR

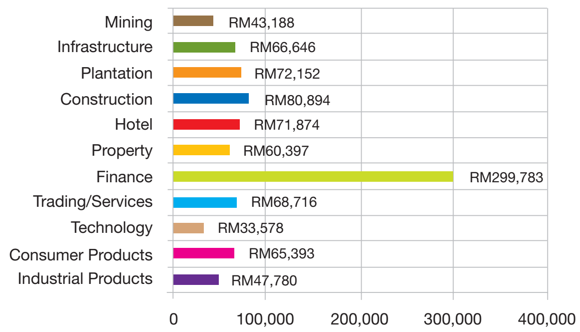
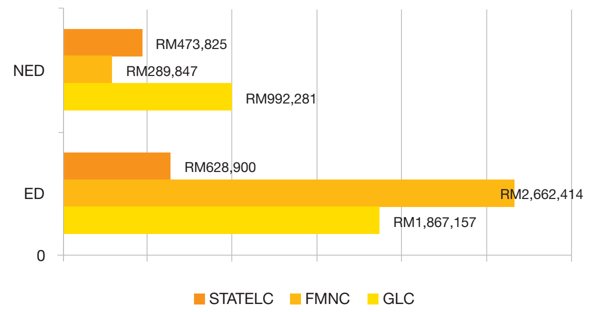


Table 6: Remuneration of NED

SECTORS	NO. OF COMPANIES	TOTAL NED REMUNERATION (RM)	AVERAGE NED REMUNERATION BY SECTOR (RM)	NO. OF NED	AVERAGE NED REMUNERATION PER NED BY SECTOR (RM)
Industrial Products	273	56,619,795	207,399	1,185	47,780
Consumer Products	130	37,143,116	285,716	568	65,393
Technology	92	12,524,597	136,137	373	33,578
Trading/Services	183	61,392,491	335,478	895	68,595
Finance	39	75,545,340	1,937,060	252	299,783
Property	83	23,796,389	286,703	394	60,397
Hotel	3	1,365,597	455,199	19	71,874
Construction	45	16,421,450	364,921	203	80,894
Plantation	42	15,945,696	379,659	221	72,152
Infrastructure Project Cos.	7	2,665,843	380,835	40	66,646
Mining	1	172,750	172,750	4	43,188
Total	**898**	**299,200,064**		**4,154**	

The average remuneration paid/payable in 2009 to EDs and NEDs respectively for GLCs, FMNCs and STATELCs is shown in ***Figure 26***. Consistent with prior years, the EDs of FMNCs were on average remunerated more than their counterparts in either GLCs or STATELCs. However, with regard to NEDs, GLCs on average paid out the highest remuneration amount compared to FMNCs and STATELCs. It had been observed that whilst most of EDs in FMNCs were generally expatriates, the EDs of GLCs were mainly local talent. There was certainly a huge gap in rewarding local and expatriate talent: should this issue be addressed in light of the need to attract and retain more local talent? On the other hand, the NEDs of GLCs were on average better remunerated than their counterparts at FMNCs. The evidence seems to suggest that relevant FMNCs need to examine the issue of fair and competitive remuneration for NEDs.

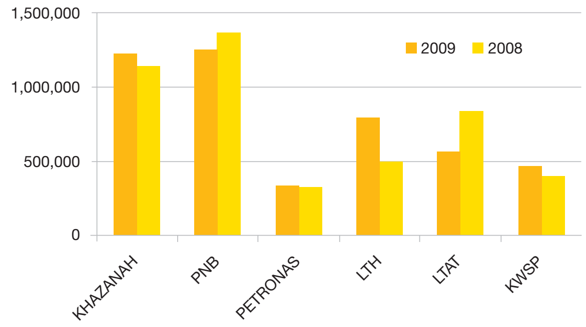
FIGURE 26: AVERAGE REMUNERATION BY TYPES OF COMPANIES



The EDs and NEDs of STATELCs, as shown in ***Figure 26***, received on average lowest remuneration compared to their counterparts at GLCs and FMNCs (and even other types of companies). However, the NEDs of STATELCs on average received higher remuneration than their counterparts at FMNCs and other types of companies. In the case of STATELCs, perhaps there is an issue with regard to ED remuneration that needs to be resolved in order to attract and retain talent that could enhance the performance of these entities.

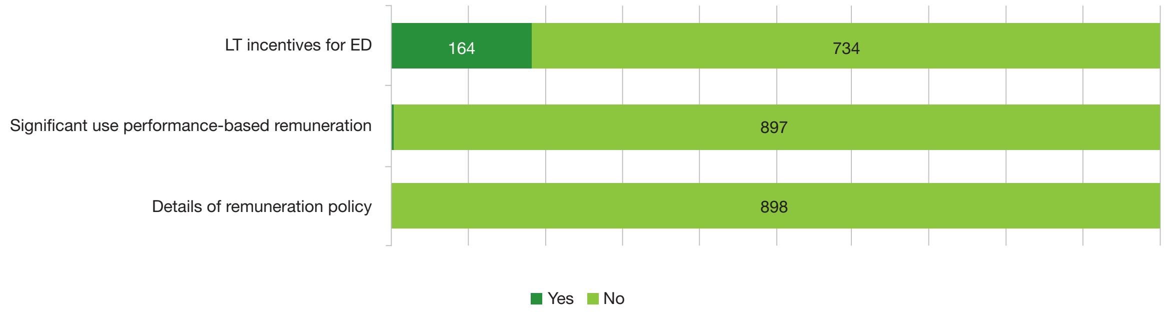
Closer examination of the remuneration awarded to the NEDs of GLCs (***Figure 27***) revealed that, save for PNB-and LTAT-controlled companies, average NED remuneration in companies controlled by other GLICs had increased over the year. Further, NEDs at Khazanah-controlled and PNB-controlled companies received higher average remuneration than their counterparts in companies controlled by other GLICs. What could be the basis for this disparity in average NED remuneration amongst GLCs?

FIGURE 27: AVERAGE NED REMUNERATION BY TYPE OF GLC



With regard to setting the remuneration for EDs, none of the companies disclosed their ED remuneration policy. Only one company, Public Bank Berhad, seemed to have used significant performance-based remuneration for their EDs. In 2009, only 164 companies appeared to have used long-term incentives (e.g. a share options scheme), to reward their EDs.

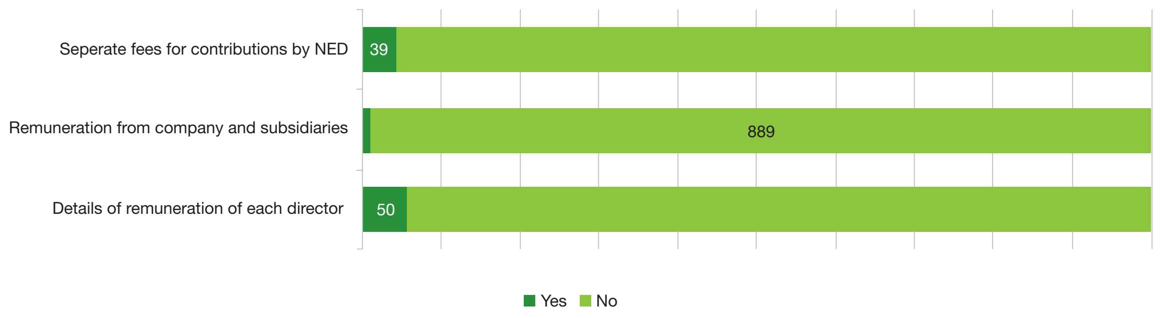
FIGURE 28: REMUNERATION FOR EXECUTIVE DIRECTORS



Disclosure of remuneration

Out of the 898 companies, only 50 reported the remuneration paid/payable to each director (***Figure 29***). These companies, as shown in ***Table 7***, should be commended for being transparent in terms of directors' remuneration. This number of transparent companies is a marginal improvement compared to the preceding year when only 47 companies adopted this recommended practice. Even fewer companies (*n* = 9) reported directors' remuneration paid by both the company and its subsidiaries. Only 39 companies separately disclosed the fees paid to NEDs for additional contributions including, but not limited to, attendance at board and/or committee meetings during the year.

FIGURE 29: DISCLOSURES OF DIRECTORS' REMUNERATION



Whilst it was expected that the remaining 848 companies would adopt band-disclosure of remuneration, one particular company, Naim Holdings Berhad, had the most opaque disclosure of directors' remuneration: it was not even possible to determine the aggregate amount of remuneration paid/payable to its EDs and NEDs. On the other hand, Johan Holdings Berhad and Malaysian Resources Corporation Berhad were amongst the very few companies that adopted both the detailed individual-disclosure and band-disclosure of directors' remuneration.

Table 7: List of companies disclosing individual directors' remuneration

1	ALLIANCE FINANCIAL GROUP BERHAD	26	MISC BERHAD
2	BINTULU PORT HOLDINGS BERHAD	27	MK LAND HOLDINGS BERHAD
3	BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD	28	PARAMOUNT CORPORATION BERHAD
4	BURSA MALAYSIA BERHAD	29	PELIKAN INTERNATIONAL CORPORATION BERHAD
5	C.I. HOLDINGS BERHAD	30	PERDUREN (M) BERHAD
6	CIMB GROUP HOLDINGS BERHAD	31	PETRONAS DAGANGAN BERHAD
7	DAMANSARA REALTY BERHAD	32	PETRONAS GAS BERHAD
8	DiGi.COM BERHAD	33	PLUS EXPRESSWAYS BERHAD
9	FORMIS RESOURCES BERHAD	34	PUBLIC BANK BERHAD
10	GEORGE KENT (MALAYSIA) BERHAD	35	QSR BRANDS BERHAD
11	GHL SYSTEMS BERHAD	36	S P SETIA BERHAD
12	IJM COPORATION BERHAD	37	SEG INTERNATIONAL BHD
13	IJM LAND BERHAD	38	SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
14	IJM PLANTATIONS BERHAD	39	SINDORA BERHAD
15	INCH KENNETH KAJANG RUBBER PUBLIC LTD CO.	40	SMR TECHNOLOGIES BERHAD
16	INTEGRAX BERHAD	41	SYMPHONY HOUSE BERHAD
17	JOHAN HOLDINGS BERHAD	42	TA ANN HOLDINGS BERHAD
18	KFC HOLDINGS (MALAYSIA) BERHAD	43	TELEKOM MALAYSIA BERHAD
19	KLCC PROPERTY HOLDINGS BERHAD	44	TENAGA NASIONAL BERHAD
20	KPJ HEALTHCARE BERHAD	45	TH PLANTATIONS BERHAD
21	KULIM (MALAYSIA) BERHAD	46	THE NOMAD GROUP BERHAD
22	LPI CAPITAL BERHAD	47	TIME DOTCOM BERHAD
23	MAJUPERAK HOLDINGS BERHAD	48	TRADEWINDS CORPORATION BERHAD
24	MALAYAN BANKING BERHAD	49	UMW HOLDINGS BERHAD
25	MALAYSIAN RESOURCES CORPORATION BERHAD	50	Y&G CORPORATION BERHAD

In reviewing the disclosures of directors' remuneration among the 898 companies, the following peculiar practices were observed.

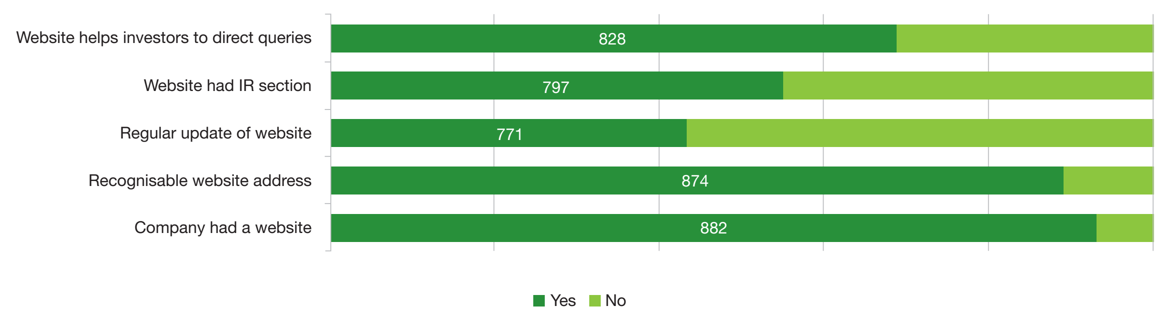
(i) 32 companies appeared to not have remunerated their EDs at all. Whilst 22 of these companies truly did not have any EDs, three companies (which were PETRONAS-controlled) had the remuneration of the ED paid directly by the holding company. Seven companies had one or more EDs that appeared not to have been remunerated during the period under review. Could this be an oversight on the part of the companies in terms of errors in disclosure? None of these companies offered any explanation for such a peculiar practice. The seven companies were Golden Pharos Berhad, Mulpha Land Berhad, Berjaya Assets Berhad, Scomi Marine Berhad, Scomi Engineering Berhad, Innoprise Plantations Berhad and Naim Holdings Berhad.

(ii) Six other companies appeared to not have remunerated their NEDs: Naim Indah Corporation Berhad, Minply Holdings Berhad, Cybertowers Berhad, DSC Solution Berhad, Mikro MSC Berhad and Maxbiz Corporation Berhad. Whilst four of these companies reported losses, DSC Solutions Berhad and Mikro MSC Berhad reported profits. These two companies were newly listed companies and only had EDs during part of the financial year.

Part C: Shareholders

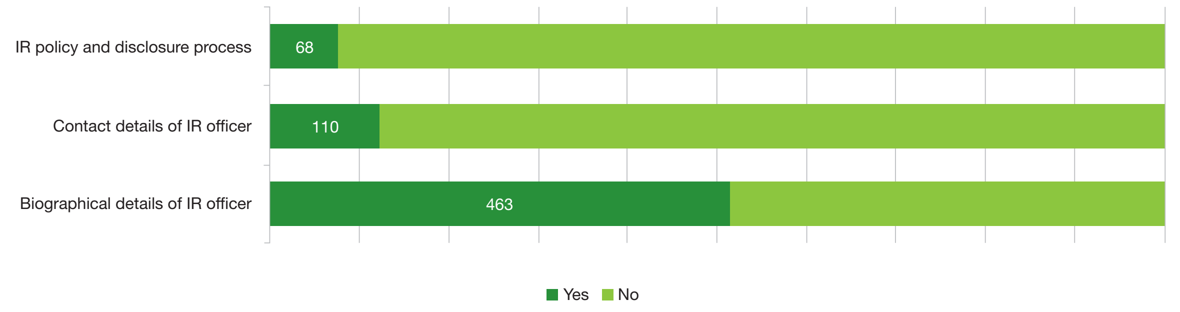
Out of the 898 companies, only 16 did not have active corporate websites at the time of assessment. Most of these corporate websites had a recognizable website address (URL) which would aid stakeholders to find them. It was also determined that 771 of these websites seemed to have been updated regularly, within the previous three months. At least 90 per cent of these corporate websites had a dedicated Investor Relations (IR) section. Most were visibly accessible from the homepage of the websites. It was also encouraging to observe that almost all (93.87 per cent) of the corporate websites had information and/or directions to help investors direct queries to the relevant party in the company.

FIGURE 30: CORPORATE WEBSITES AS REPORTING AND COMMUNICATION PLATFORM



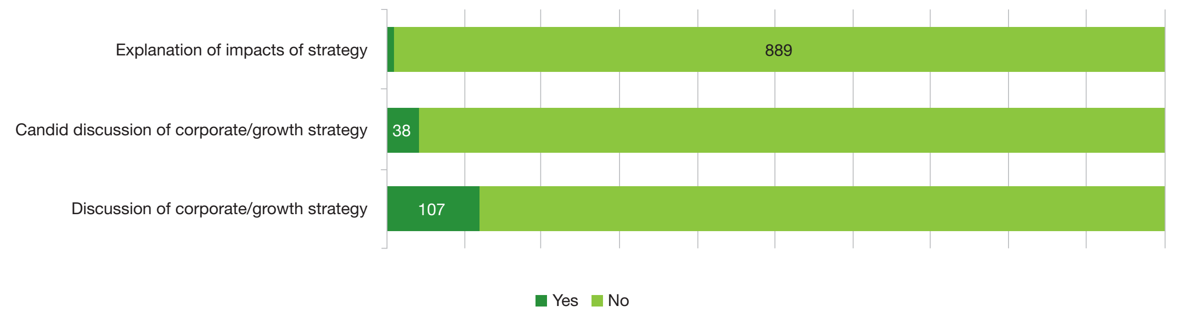
Having the appropriate infrastructure in the company (***Figure 31***) would arguably help in establishing and maintaining an effective working relationship with investors, both current and potential. In this regard, it was found that slightly more than half of companies disclosed the name, title and biographical details (e.g. age, qualifications and relevant experience) of the officer in the company responsible for managing IR. Rather surprisingly however, only 110 of these companies divulged the contact details (registered address, telephone number and email) of the IR officers. In terms of sharing information pertaining to IR policies and disclosure processes with stakeholders, only 68 companies did so.

FIGURE 31: INVESTOR RELATIONS



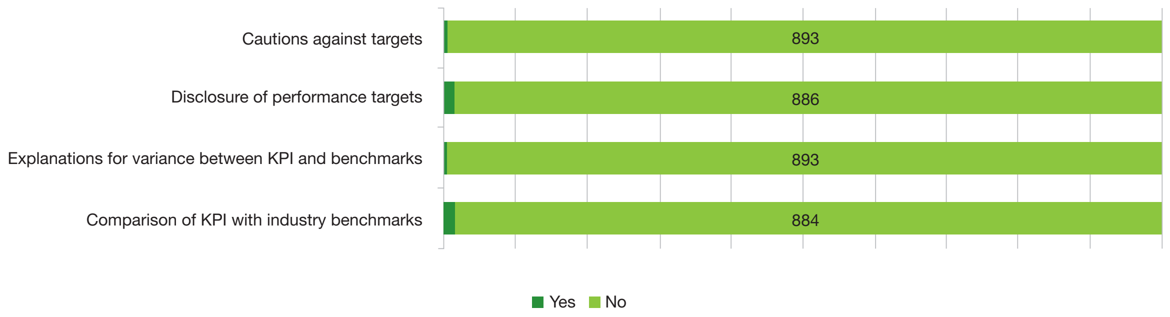
Only 12 per cent of companies discussed their corporate and/or growth strategies. Of these 107 companies, only 38 were judged to have discussed them in a candid and easy to understand manner. Even fewer companies (n = 9) explained the possible implications and effects of their strategies. The remaining companies are strongly advised to embrace these best practices in order to retain and attract investors/fund managers/analysts.

FIGURE 32: CORPORATE AND GROWTH STRATEGIES



The value of key performance indicators (KPIs), when disclosed, would be enhanced if performance targets and industry benchmarks were also disclosed. However, less than 3 per cent of the 898 companies included a report comparing KPIs with industry benchmarks, explanations for any variance between KPIs and the benchmarks, and performance targets in their annual reports. Only five companies went further to caution stakeholders that the disclosed targets were management aspirations which might or might not be realised.

FIGURE 33: KPI AND TARGETS



Despite the aforementioned findings, it was encouraging to observe that 51 companies (***Table 8)*** disclosed their dividend policies, and that 34 of those policies described the percentage of profit to be paid as dividends. More companies ought to emulate these transparent companies. One company, Swee Joo Berhad, was transparent in acknowledging that the company could not meet the stated dividend policy in 2009.

Table 8: List of companies disclosing dividend policy

1	ASTINO BERHAD	27	OPCOM HOLDINGS BERHAD
2	BERJAYA SPORTS TOTO BERHAD	28	PLUS EXPRESSWAYS BERHAD
3	BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD	29	POS MALAYSIA BERHAD
4	BURSA MALAYSIA BERHAD	30	PUBLIC BANK BERHAD
5	CAHYA MATA SARAWAK BERHAD	31	RCE CAPITAL BERHAD
6	CENTURY LOGISTICS HOLDINGS BERHAD	32	RHB CAPITAL BERHAD
7	CHEETAH HOLDINGS BERHAD	33	S P SETIA BERHAD
8	DAIBOCHI PLASTIC AND PACKAGING INDUSTRY BERHAD	34	SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
9	DIALOG GROUP BERHAD	35	SINDORA BERHAD
10	DiGi.COM BERHAD	36	SWEE JOO BERHAD
11	ESTHETICS INTERNATIONAL GROUP BERHAD	37	TA ENTERPRISE BERHAD
12	EVERGREEN FIBREBOARD BERHAD	38	TA GLOBAL BERHAD
13	FAR EAST HOLDINGS BERHAD	39	TALIWORKS CORPORATION BERHAD
14	HOCK SENG LEE BERHAD	40	TDM BERHAD
15	LCTH CORPORATION BERHAD	41	TELEKOM MALAYSIA BERHAD
16	LPI CAPITAL BERHAD	42	TENAGA NASIONAL BERHAD
17	MAH SING GROUP BERHAD	43	TH PLANTATIONS BERHAD
18	MALAYAN BANKING BERHAD	44	TRC SYNERGY BERHAD
19	MALAYSIA AIRPORTS HOLDINGS BERHAD	45	TSH RESOURCES BERHAD
20	MALAYSIAN RESOURCES CORPORATION BERHAD	46	UCHI TECHNOLOGIES BERHAD
21	MAXIS BERHAD	47	UMW HOLDINGS BERHAD
22	METROD (MALAYSIA) BERHAD	48	UNIMECH GROUP BERHAD
23	MNRB HOLDINGS BERHAD	49	YTL CEMENT BERHAD
24	MULTI SPORTS HOLDINGS LIMITED	50	YTL CORPORATION BERHAD
25	MY E.G. SERVICES BERHAD	51	YTL POWER INTERNATIONAL BERHAD
26	NOTION VTEC BERHAD		

With regard to common matters at AGMs, 844 companies provided full explanations of special business items in the Notice of AGM sent to shareholders. Slightly more than two-thirds of companies provided descriptions of varying length of directors standing for re-election at the AGM. Instances of non-compliance with these recommended best practices could be due to the absence of special business items and/or directors standing for re-election. A related issue pertained to the AGM notice period: the average notice period for 2009 was 22.59 days. Two companies had notice periods of less than 20 days: Kim Loong Resources Berhad and Crescendo Corporation Berhad. The longest AGM notice period was 62 days, provided by Analabs Resources Berhad.

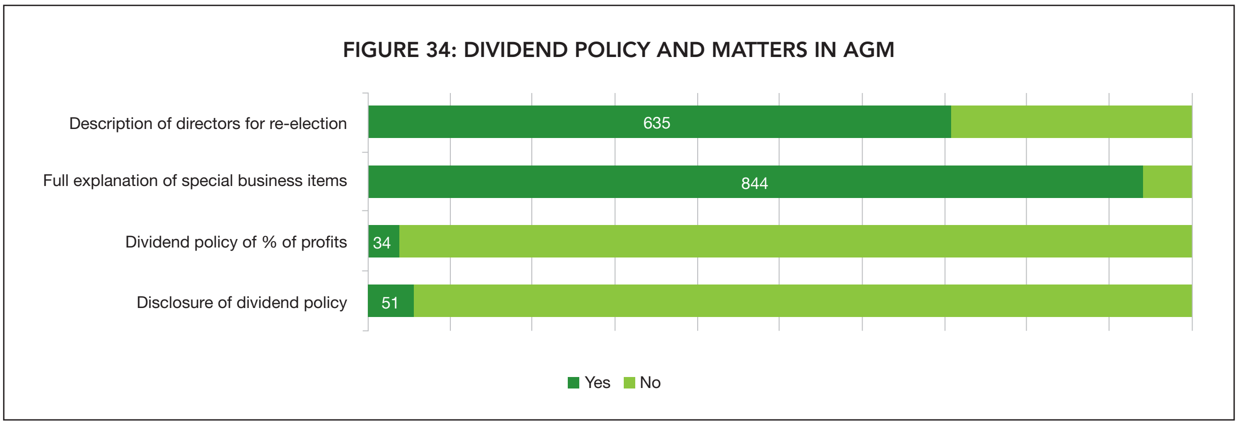
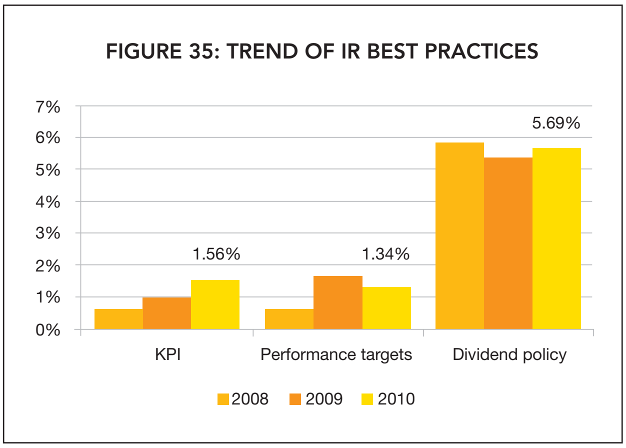


Figure 35 reports the historical disclosure rate for the three critical IR practices: disclosure of KPI, performance targets and dividend policy. The evidence suggests marginal progress for disclosure of KPI and dividend policies, but declining instances of disclosure of performance targets. Perhaps the prevailing macroeconomic conditions made it more challenging for companies to reveal performance targets for fear that these targets would turn out be unachievable due to the trying conditions.



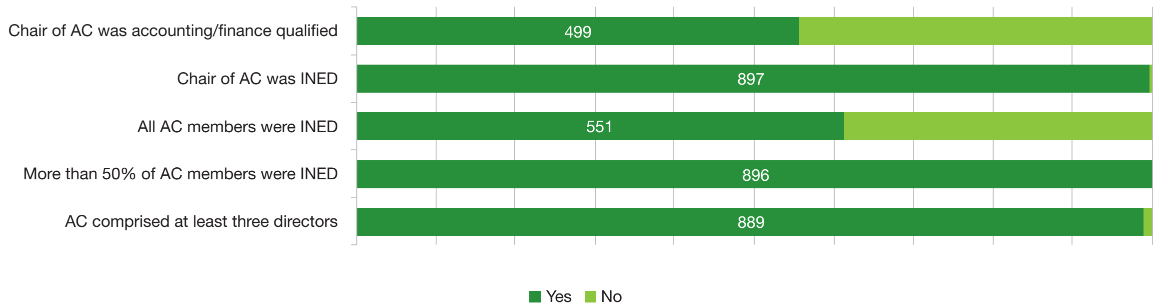
Part D: Accountability and audit

Audit committee (AC)

Out of the 898 companies, 9 failed to comply with the requirement of having an AC comprised of at least 3 directors at the end of the company's financial year. Six of the nine companies had resolved the issue and one company reported having been granted an extension by Bursa Malaysia to resolve the matter. There remained two companies that offered no explanation for having only two directors on their AC. In 2009, the average AC was composed of 3.19 directors. This was marginally smaller than the size of a typical AC in 2008.

Two companies did not have ACs comprised of a majority of INEDs: Federal Furniture Holdings (M) Berhad and Nova MSC Berhad. The latter company has since complied with the requirement. Amongst all ACs, only one company, Teo Seng Capital Berhad, did not have an INED serving as chairman of its AC. Slightly more than one-half of all ACs had chairmen who were deemed qualified in accounting/finance.

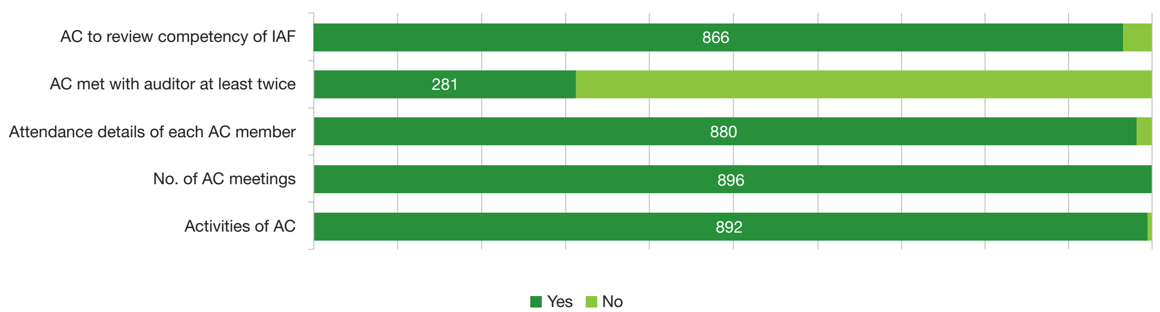
FIGURE 36: STRUCTURE OF AC



Perhaps it was a case of oversight but five companies did not provide sufficient details of the activities of their AC, one company failed to report the number of AC meetings convened during 2009 and another company failed to comply with both these requirements. The relevant companies were GHL Systems Berhad, Plus Expressways Berhad, GUH Holdings Berhad, Rubberex Corporation (M) Berhad, MISC Berhad, Dominant Enterprise Berhad and Xingquan International Sports Holdings Limited. ***Figure 37*** also reveals that there were eighteen companies that failed to report the attendance details of AC members. Throughout 2009, the average number of AC meetings was 4.93, marginally higher than the average in 2008. The company reporting the highest number of AC meetings was Malayan Banking Berhad, with 21 in 2009.

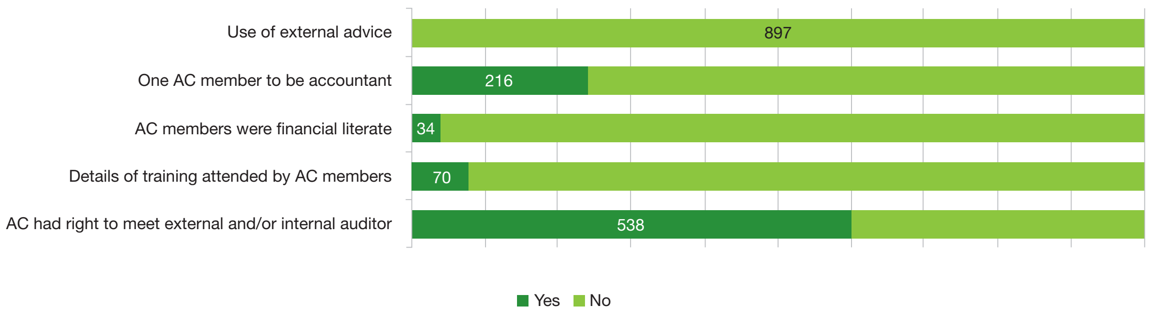
Though clearly stated in the LR that ACs should meet at least twice a year with external auditors without executive board members present, the ACs of only 281 companies claimed to have done so in 2009. A few of these companies appeared to have had private meetings with the external auditors more than twice in 2009. Such companies included Bursa Malaysia Berhad and UEM Land Holdings Berhad. The AC of one company, KESM Industries Berhad, did not convene any private meetings with auditors (external or internal) in 2009, declaring that such meetings were "…deemed not necessary…" (Page 15). Most ACs (n = 866) included a review of the adequacy and competency of the internal audit function (IAF) as part of their mandate.

FIGURE 37: PRACTICES OF AC



Nearly 60 per cent of companies included the right of the AC to convene meetings with external auditors, internal auditors or both, without the attendance of other directors and employees. Seventy companies reported the details of relevant training attended by each member of their AC. Whilst it was usually presumed, 34 companies took the initiative to explicitly confirm that all directors on the AC were financially literate. A total of 216 companies maintained that at least one member of their AC was a member of an accounting body/association, or someone who was approved by the Exchange. Finally, only one company, Malaysian Bulk Carriers Berhad, disclosed that external advice was sourced by its AC during the period under review.

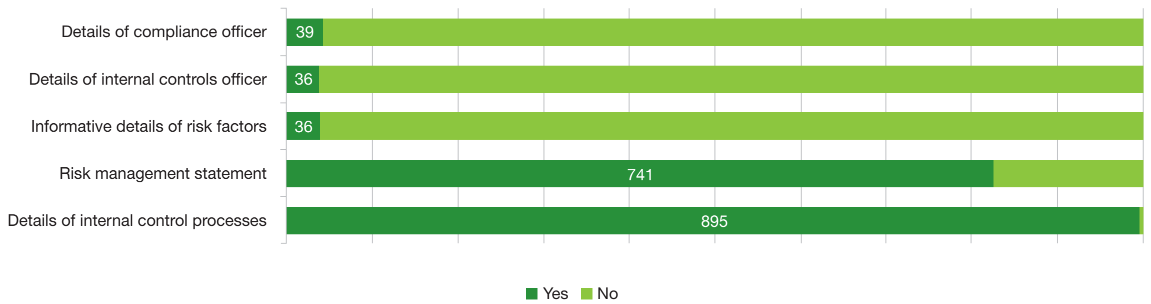
FIGURE 38: FURTHER PRACTICES OF AC



Internal control

Almost all of the 898 companies provided details of their internal control processes. Fewer companies disclosed a risk management statement; most that did provided it in the form of a risk management framework. It is important to note that only 36 companies were judged to have provided informative, straight-forward and updated explanations of risk factors related to different products. Such additional disclosure would certainly enhance the quality of the risk management statement. In other aspects, less than 40 companies disclosed the name, title and biographical details (e.g. age, qualifications and relevant experience) of the officer responsible for managing internal controls, and for legal and regulatory compliance, respectively.

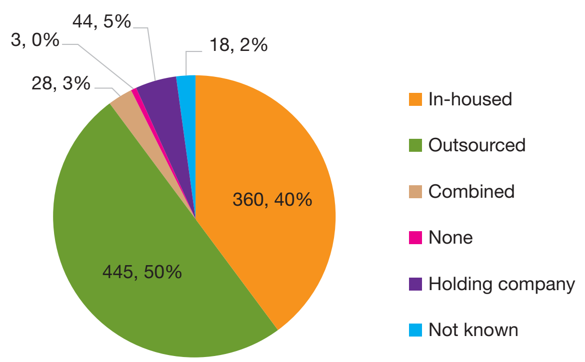
FIGURE 39: INTERNAL CONTROL AND RISK MANAGEMENT



Internal audit function

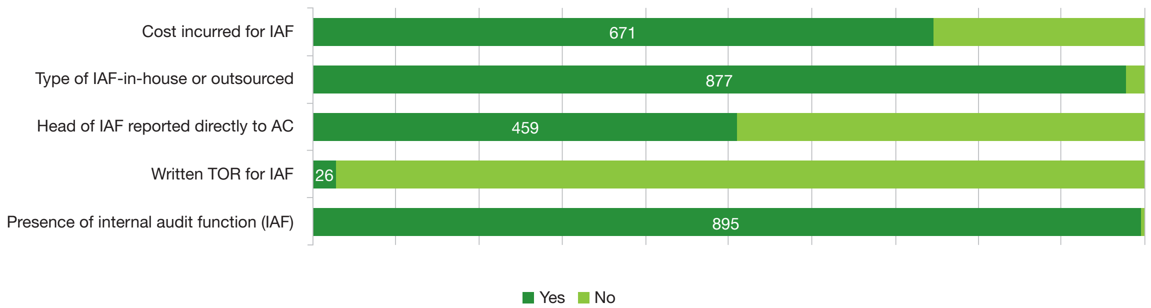
Only three companies in 2009 had not established an internal audit function (IAF). These were PWE Industries Berhad, Inix Technologies Berhad and Halex Holdings Berhad. In the case of PWE Industries Berhad, the company had been persistent in not having a dedicated IAF, though it was reported that the assumed IAF responsibilities. Inix Technologies Berhad offered a similar explanation for not having an IAF. Halex Holdings Berhad, however, maintained that their IAF would be outsourced. This intention needs to be verified from information in future annual reports. Despite the overwhelming number of companies with an IAF, only 26 companies revealed the Term of Reference of their IAF, and 459 companies disclosed that the head of the IAF reported directly to the AC. ***Figure 40*** shows that whilst 90.00 per cent of companies had either in-housed or outsourced IAF, there were still a number of companies (n = 18) that did not disclose whether their IAF was performed in-house, or was outsourced. One company, Kencana Petroleum Berhad, appeared to have given conflicting accounts of the company's IAF. Whilst it was mentioned that the "…Group has set up its own Internal Audit and Risk Management Department…" (Page 49), the IAF report clearly stated that "… [T]he internal audit functions were outsourced to an independent internal audit service provider…" (Page 49).

FIGURE 40: TYPE OF IAF SET-UP



Out of the 895 companies that had an IAF, 671 disclosed its cost. The average and median cost incurred for the IAF in 2009 was RM339,211 and RM41,674 respectively. Five companies reported incurring IAF costs in excess of RM10 million: Malayan Banking Berhad, Sime Darby Berhad, Public Bank Berhad, CIMB Group Holdings Berhad and Tenaga Nasional Berhad. The least cost incurred for an IAF (RM3,500) was reported by MLabs Systems Berhad, which had outsourced its IAF to an individual. Other than this company, there were 20 companies with IAF costs of less than RM10,000 in 2009.

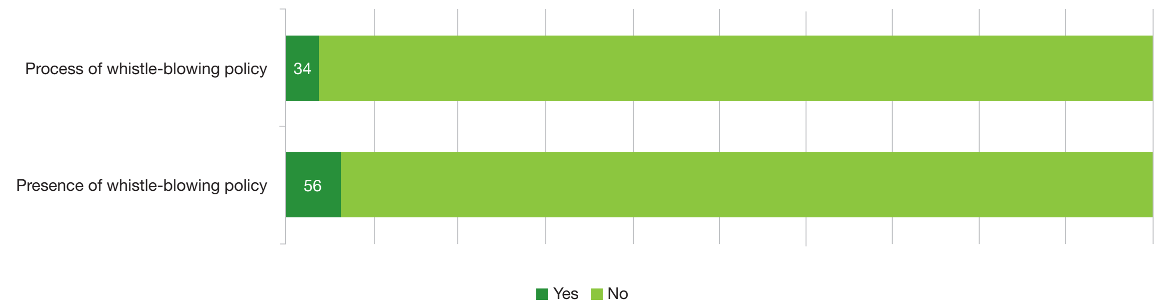
FIGURE 41: INTERNAL AUDIT FUNCTION



Whistle-blowing policy

Compared to the previous year, more companies had a whistle-blowing policy in 2009 (56 companies in 2009 compared to 23 companies in 2008). Fewer companies actually disclosed details of the whistle-blowing process. It remained unclear why so many companies were silent with regard to whistle-blowing.

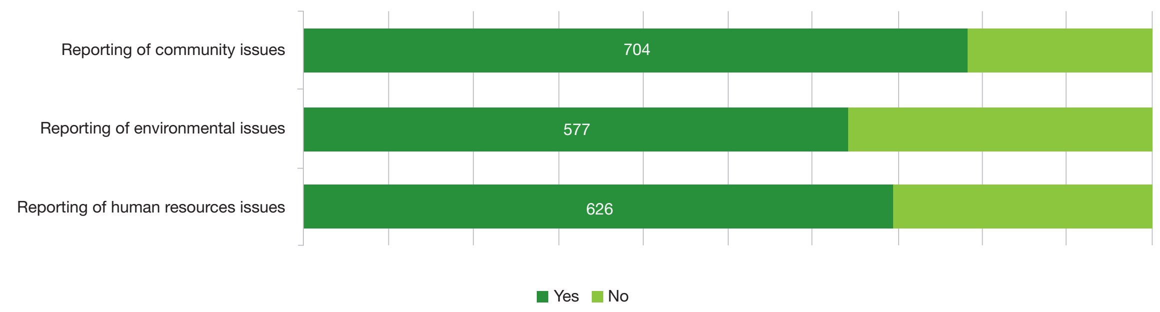
FIGURE 42: WHISTLE-BLOWING



Corporate social responsibility

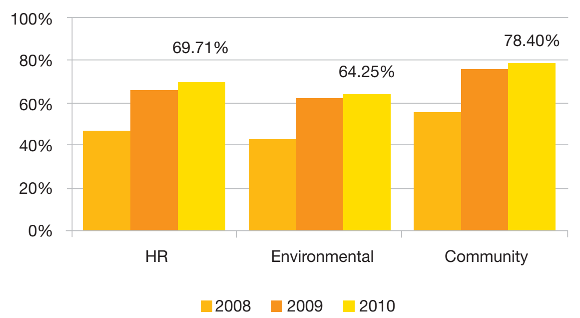
More than two-thirds of companies reported on all three major dimensions of corporate social responsibility (CSR) (***Figure 43***). This represented an increase compared to previous years as shown in ***Figure 44***. Could this increase be due to the imposition of the Listing Requirement? Despite the increase, the extent and quality of the disclosures varied from company to company. The need to improve the quality of these disclosures is imperative. Perhaps companies should enhance their disclosures by reporting on each of the four pillars of CSR, as well as the company's policies, activities, performance targets and KPIs. One company that had achieved such effective CSR reporting was CIMB Group Holdings Berhad via the company's CIMB Foundation Annual Report.

FIGURE 43: CORPORATE SOCIAL RESPONSIBILITY



Amongst others, details of the top 20 grants were clearly disclosed, with each project reported by issue, solutions and results. These enhanced disclosures, through stand-alone sustainability reports or integrated reports, would certainly allow stakeholders to assess the efficacy and effectiveness of the company's CSR commitments.

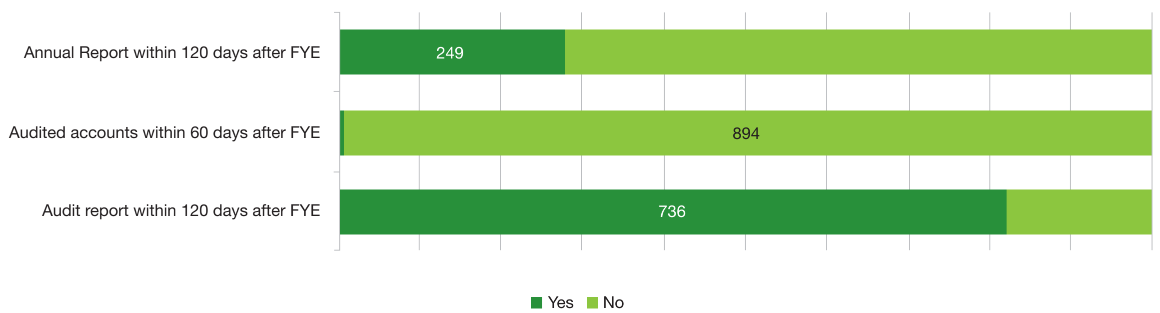
FIGURE 44: TREND OF CSR DISCLOSURE



Timely reporting

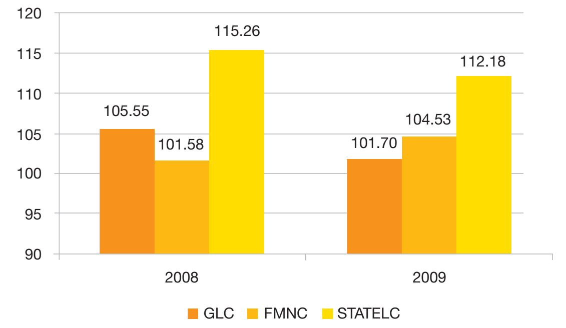
Timely release of credible financial information is always desirable. In this regard, it was found that 736 companies had filed with the Exchange their audit report (which accompanies either the annual audited accounts [AAA] or the annual report [AR], whichever is filed earlier) within 120 days from the financial year end. In 2009, 653 companies (2008: 673 companies) filed their AAA with the Exchange, with the remaining 245 (2008: 226 companies) filing their AR. The average time taken for companies to file the earliest submission to the Exchange was 116.99 days (2008: 118.48 days) for the AAA, and 108.28 days (2008: 107.25 days) for AR. Very few companies (n = 4) managed to file their audit report with the Exchange within 60 days from the financial year end. These commendable companies were Fibon Berhad (AAA in 29 days), Silk Holdings Berhad (AAA in 60 days), LPI Capital Berhad (AR in 20 days) and Public Bank Berhad (AR in 39 days).

FIGURE 45: TIMELY RELEASE OF CREDIBLE FINANCIAL INFORMATION



In terms of the timely release of the annual report, 249 companies released their report within 120 days after the financial year end. In fact, the average time taken for companies to release their annual report in 2009 was 135.05 days, marginally less than 136 days in 2008. Three companies were identified as exemplary for the timely release of their annual reports: LPI Capital Berhad (20 days), Fibon Berhad (33 days), and Public Bank Berhad (39 days). No company exceeded the six-month period allowed under the LR. When compared between GLCs, FMNCs and STATELCs, ***Figure 46*** reveals that, on average, FMNCs took slightly less time to release year-end audited financial results. However, GLCs and STATELCs had, on average, improved in this regard by taking less time in 2009 than in 2008 to release year-end audited financial results.

FIGURE 46: TIMELINESS OF FINANCIAL STATEMENTS BY TYPES OF COMPANIES



Related party transactions (RPTs), external auditors, and approval of corporate governance (CG) statements

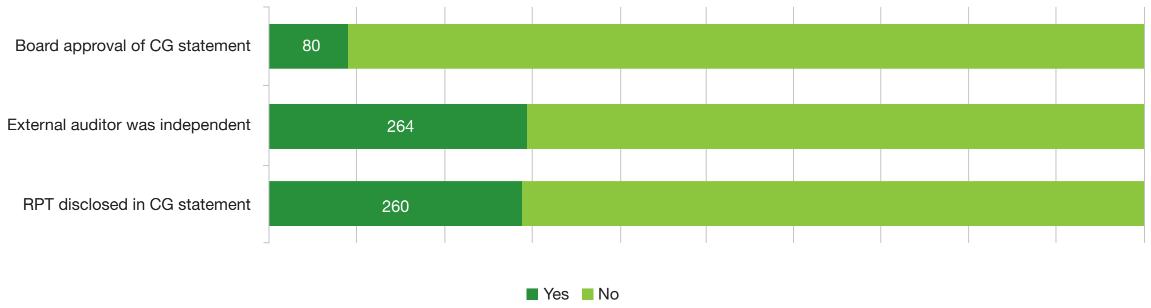
During the period under review, 638 companies did not report any RPTs in their statement on corporate governance. These companies either genuinely did not conduct any RPTs in 2009 or had placed the disclosures in other parts of the annual report.

The issue of the independence of external auditors remains topical. The issue of auditor independence is further compounded when the same external audit firm provides non-audit services to the client firm. Frankel et al (2002) argue that there is significant negative impact as non-audit fees increased: investors relate non-audit fees to lower quality audits, and by implication, lower quality earnings. Hence, it is important that companies maintain auditor independence in both fact and appearance to maintain investor confidence (Sutton, 1997).

In 2009, only 264 companies were judged to have independent external auditors by virtue of the fact that these auditors were not contracted for or paid for services other than the statutory financial statement audit. This was a major improvement compared to the situation in 2008. Could the slowdown in the local and international economy have generally reduced the need to engage professional firms for other services? Regardless, the average of non-audit (other services) fees paid out in 2009 was RM98,165. Amongst the 634 companies that had external auditors performing non-audit work, 135 of them reported non-audit fees to be more than 50 per cent of statutory financial statement audit fees. In terms of the statutory financial statement audit fees, the average of such fees in 2009 was RM264,231. Sime Darby Berhad had the highest amount of statutory audit fees (RM18.1 million) in 2009. Companies could do well to emulate the practice of KLCC Property Holdings Berhad, where a brief explanation was provided as to why the company had engaged the same external audit firm for non-audit services.

During the period under review, the boards of 80 companies explicitly approved their CG statements, thus enhancing the credibility of disclosures contained in the statements. This level of explicit board approval of CG statements has basically remained unchanged over recent years. One wonders why more companies and/or boards were not willing to put their stamp of approval on this statement.

FIGURE 47: OTHER MATTERS



Stage 2: Bonus and penalty points for desirable and undesirable practices

Out of the 898 companies evaluated in **Stage 1**, only 473 companies were selected for **Stage 2** of evaluation. In this stage, actual company practices were evaluated against a set of 44 desirable and 11 undesirable corporate governance practices, with varying bonus and penalty points awarded or deducted for the relevant desirable and undesirable practices.

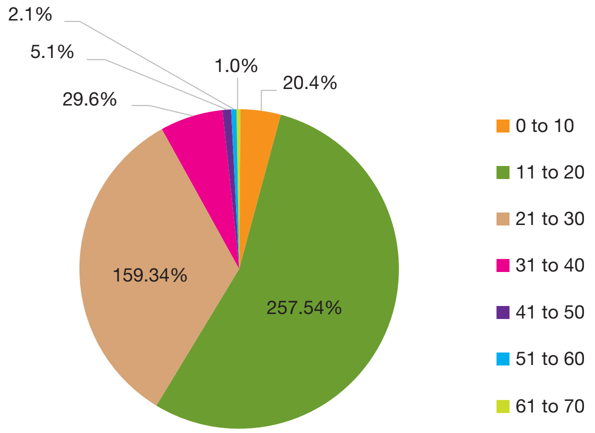
Bonus-point items

There were 44 desirable corporate governance practices providing a maximum possible 88 bonus points. ***Table 9*** and ***Figure 48*** report the distribution and descriptive parameters of the bonus point items. Clearly, all of the short-listed companies had practiced at least one of the 44 desirable corporate governance practices. Three companies recorded a total of more than 50 bonus points: Bursa Malaysia Berhad (66 points), British American Tobacco (Malaysia) Berhad (52 points) and Telekom Malaysia Berhad (51 points). The company that achieved the least bonus points was Greenyield Berhad with 5 points.

Table 9: Distribution of Bonus Scores

Scores	n	%
0 to 10	20	4.23
11 to 20	257	65.40
21 to 30	159	33.62
31 to 40	29	6.13
41 to 50	5	1.06
51 to 60	2	0.42
61 to 70	1	0.21
	473	100.00
Min/Max	**Average**	**Median**
5 / 66	20.44	19

FIGURE 48: DISTRIBUTION OF BONUS SCORES

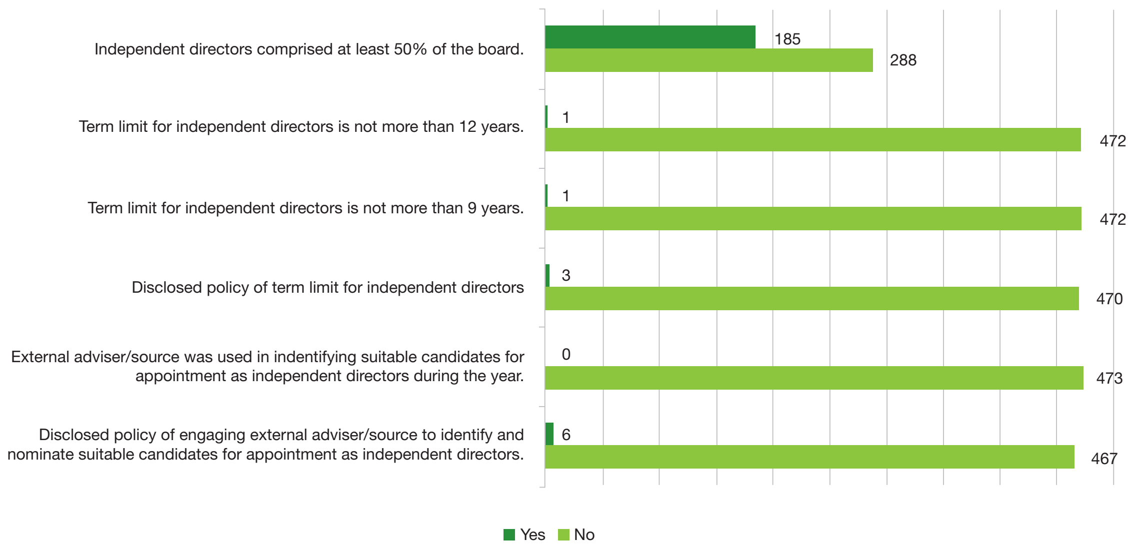


Independent directors

Only six out of the 473 short-listed companies disclosed a policy of engaging external advisers/sources to identify and nominate suitable candidates for appointment to the board. These six companies, GD Express Carrier Berhad, Glenealy Plantations (M) Berhad, Lingkaran Transkota Holdings Berhad, Lingui Development Berhad, Telekom Malaysia Berhad and Titan Chemical Corporation Berhad, were recognized for their initiative. Three companies were observed to have disclosed a policy of term limits for independent directors: Bursa Malaysia Berhad (9 years), Malayan Banking Berhad (12 years) and RHB Capital Berhad (limit not specified).

Less than 40 per cent of short-listed companies had INEDs comprising at least 50 per cent of the board. These 185 companies were exemplary for attempting to push the standard of corporate governance practices.

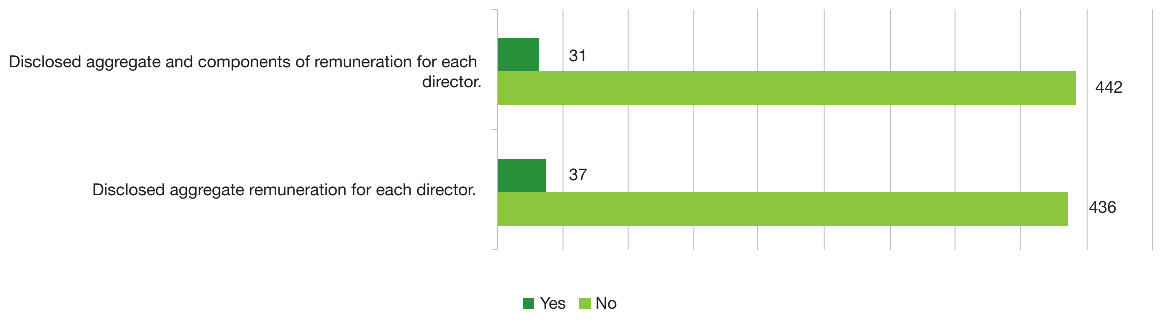
FIGURE 49: INDEPENDENT DIRECTORS



Directors' remuneration

Of the 473 short-listed companies, 37 were transparent in terms of disclosing the aggregate remuneration for each director. Within this group, 31 companies went further by disclosing the components of remuneration for each director. For these practices, companies were awarded three and two bonus points respectively.

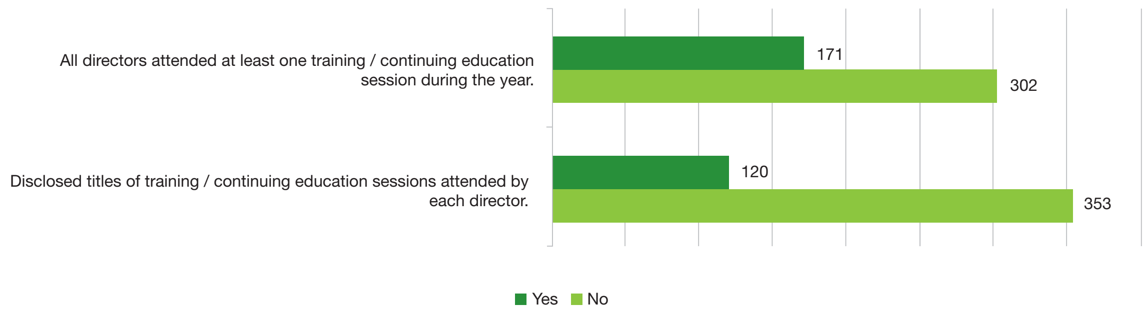
FIGURE 50: DIRECTORS' REMUNERATION



Directors' training/continuing education

It is encouraging to observe that a good number of companies disclosed details, especially the titles, of the training/continuing education sessions attended by each of their directors. This information allows stakeholders to assess the relevance of the training attended by directors. During the period under review, 171 companies had all of their directors attend at least one training/continuing education session. The remaining companies could emulate this desirable practice.

FIGURE 51: DIRECTORS' TRAINING/CONTINUING EDUCATION



Board diversity

Diversity in the boards of directors can be in the form of diversity in gender, ethnicity and nationality. With regard to gender, 208 of the 473 short-listed companies had at least one female board member. Most of these directors were executive directors. Only 79 companies had at least one female independent director.

Further examination of gender diversity among the boards of all 898 companies in **Stage 1** revealed the following:

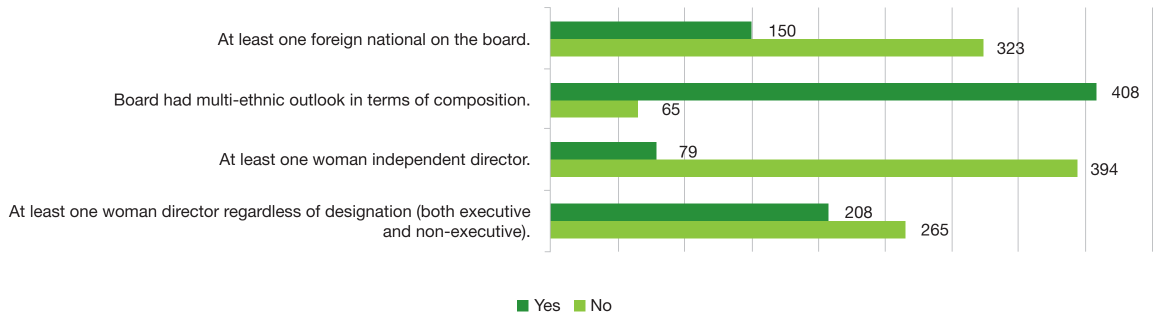
(i) In 2009, a total of 391 companies (43.97 per cent) had at least one female director. As a matter of perspective, 75 per cent of FTSE 100 companies in the UK (Sealy et al, 2009) and 66.67 per cent of the 42 companies on the Hong Kong's Hang Seng Index (Mahtani et al, 2009) had at least one female director in 2009. In the Philippines, 64 per cent of the Top 100 companies had at least one female director (AIM, 2010). In Australia, nearly 30 per cent of the S&P/ASX 100 companies had no female directors in 2009 (ISS Governance & ACSI, 2010). These comparative figures suggest that corporate Malaysia lags in embracing the recommended practice of gender diversity on boards.

The average number of women on boards of all companies was 0.59. This is an improvement from the preceding year when the average number of women on boards was 0.55. The average number of women on boards that had female directors was 1.36. Four companies had the highest number of female directors, at four each: TA Global Berhad, Tomei Consolidated Berhad, Poh Kong Holdings Berhad and BCB Berhad. For each of these companies, only one of the four women was an independent director. One company, Protasco Berhad, had three female INEDs, the highest number among the listed companies.

(ii) Closer examination of the 391 boards revealed that only 144 of them had female INEDs: the women on the remaining 247 boards were either EDs or NEDs that were related to, or appointed by, the controlling shareholders. Two companies in particular, KAF-Seagroatt & Campbell Berhad and BHS Industries Berhad had boards comprised of at least 50% women. When the matter of female INEDs was examined further, it was found that six of the 33 GLCs (18.18 per cent) and 11 of the 22 STATELCs (50 per cent) had at least one female INED. With regard to FMNCs, only one – Nestle (Malaysia) Berhad – had at least one female INED. This last finding has certainly been contrary to expectations.

In terms of ethnic diversity, almost 90 per cent of the boards of the short-listed companies had a multi-ethnic outlook, though only about one-third of the short-listed companies had at least one foreign national on the board. Perhaps more can be done to convince corporate Malaysia of the positive impacts of gender and nationality diversity.

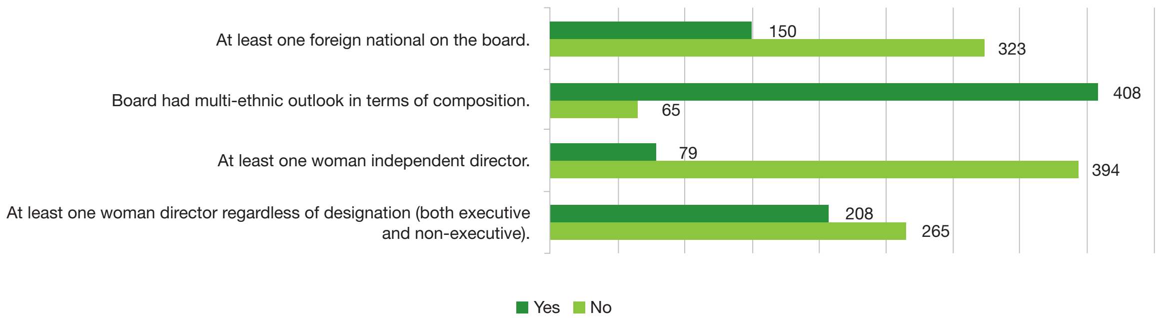
Figure 52: Board diversity



Whistle-blowing policy

During the period under review, only 44 companies disclosed the presence of a whistle-blowing policy. Even fewer companies had disclosed the mechanism put in place to protect employees contemplating "blowing the whistle". Nevertheless, the companies ought to be recognized for their desirable initiatives. Whilst there were many companies that had appointed a senior independent director to handle complaints, very few of the companies disclosed the contact details of these individuals.

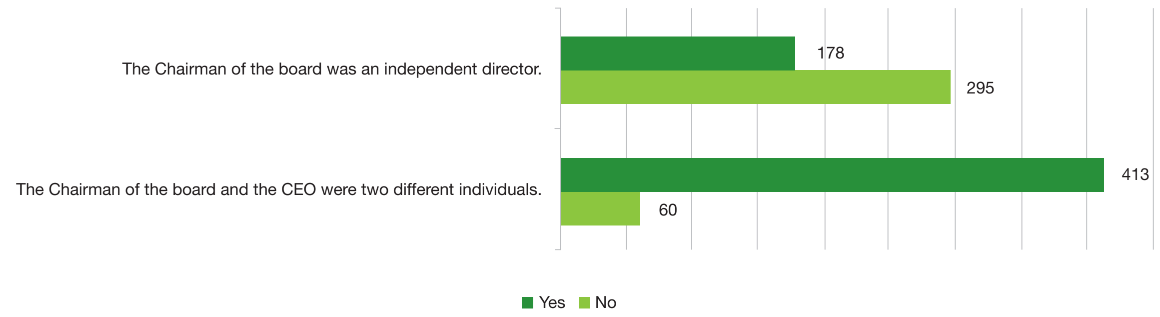
FIGURE 53: WHISTLE-BLOWING POLICY



Chairman and CEO

The separation of the roles of the chairman of the board and chief executive is one of the pillars of sound and desirable corporate governance practices. Nearly 90 per cent of the short-listed companies had two different individuals serving in the roles of chairman of the board and CEO. In addition, 178 of the chairmen were also independent directors.

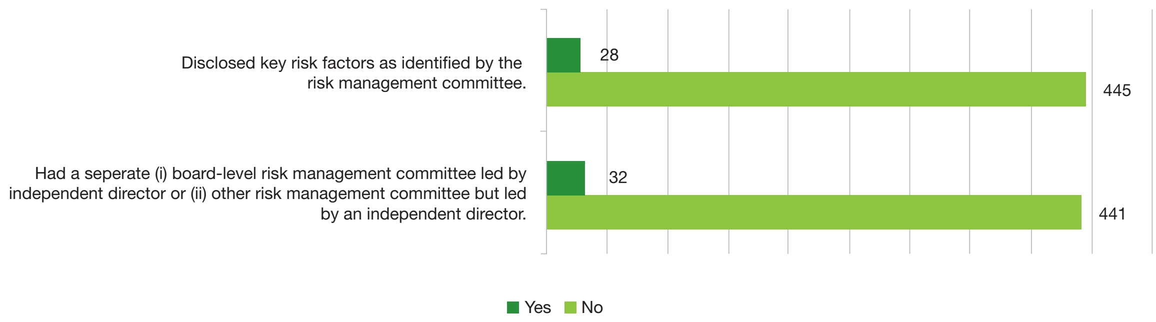
FIGURE 54: CHAIRMAN AND CEO



Risk management

Despite the ongoing emphasis on risk management at the highest levels of management, very few companies had institutionalised such an arrangement overseen by independent directors. Amongst those that had developed the suggested arrangement, only 28 companies disclosed key risk factors identified by their risk management committees.

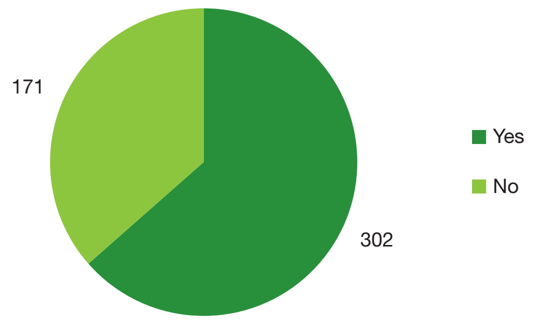
FIGURE 55: RISK MANAGEMENT



Public shareholding spread

Having a sufficiently high level of public shareholding spread mitigates undue risk associated with companies structuring related party transactions that benefit controlling shareholders at the expense of minority shareholders. The other potential benefits arising from a sufficiently high public shareholding spread include: enhanced liquidity resulting in a cheaper cost of entry and exit for shareholders, and mitigation of the risk of non-compliance with the mandatory minimum 25 per cent requirement imposed by the LR. In this respect, almost two-thirds of the short-listed companies (n = 302) had the suggested level of public shareholding spread of at least 35 per cent and hence were awarded three bonus points.

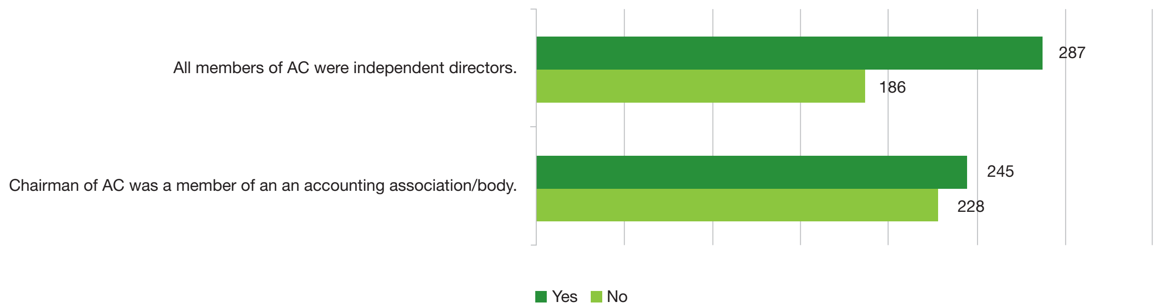
FIGURE 56: PUBLIC SHAREHOLDING SPREAD ABOVE 35%



Audit committee

Sixty-five per cent of the 473 short-listed companies had only independent directors as members of their ACs. Slightly more than one-half of the ACs at the short-listed companies had directors who were members of accounting associations/bodies, serving as chairman of the committee. These companies, whose ACs possessed such desirable characteristics, were awarded two and three bonus points respectively.

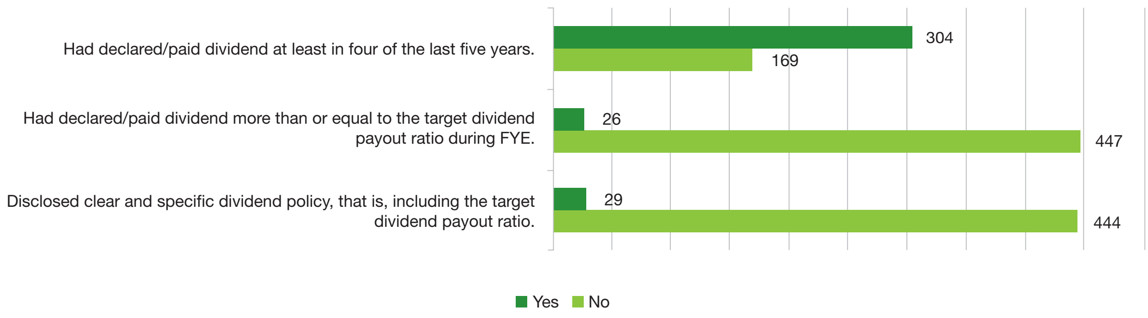
FIGURE 57: AUDIT COMMITTEE



Dividend policy

Even though nearly two-thirds of the short-listed companies had declared/paid dividends in at least four of the last five years, very few disclosed a clear and specific dividend policy, one that included the target dividend payout ratio. It was heartening to observe that 26 companies declared/paid dividends that equaled or exceeded the target payout ratio during the period under review.

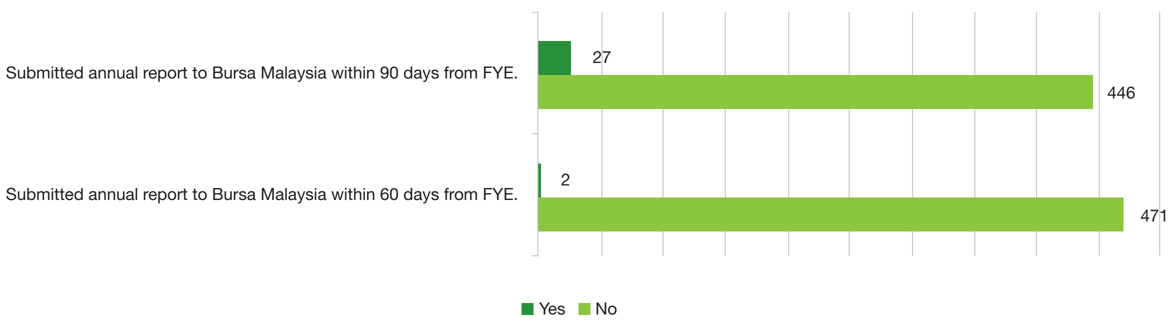
FIGURE 58: DIVIDEND POLICY



Timeliness of the annual report

Without doubt, stakeholders prefer more timely and relevant information. In this regard, 27 companies were awarded three bonus points for releasing their annual reports within 90 days from the financial year end. Within this group, two companies were recognized and given five bonus points for releasing their annual reports within 60 days from the financial year end. The two companies were LPI Capital Berhad and Public Bank Berhad.

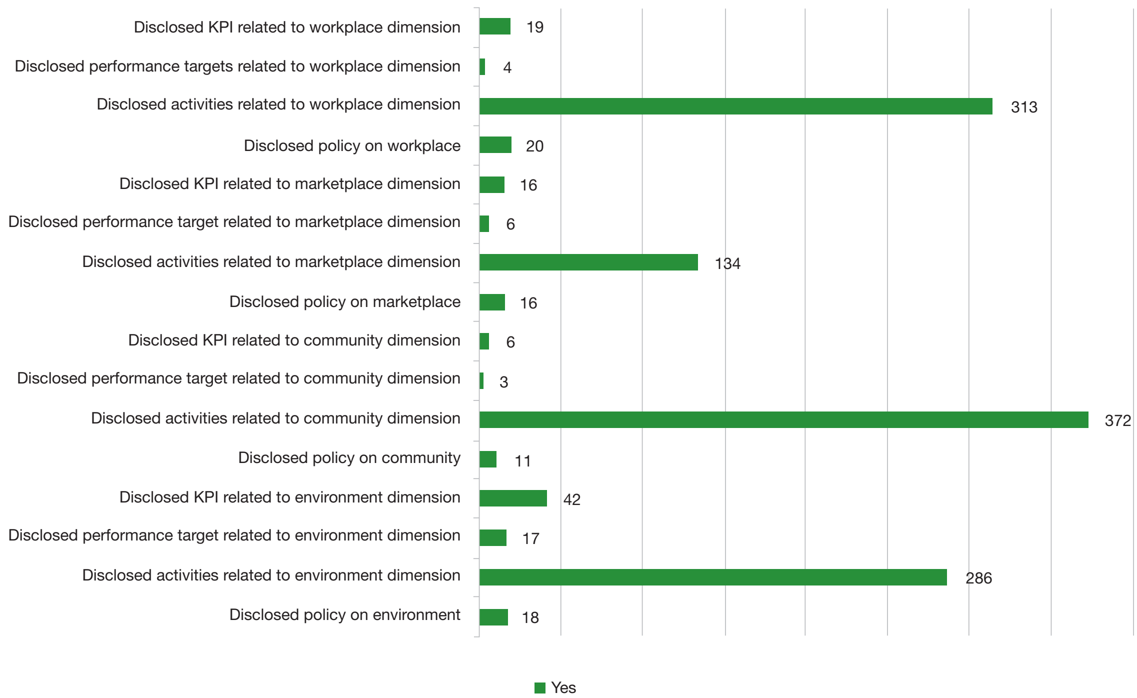
FIGURE 59: TIMELINESS OF THE ANNUAL REPORT



CSR practices: Environment, Community, Marketplace and Workplace

Amongst the four recognised pillars of CSR, at least 60 per cent or more of the short-listed companies disclosed activities related to environment, workplace and community dimensions. Less than one-third of companies disclosed activities related to the marketplace dimension. Given that very few companies disclosed their policies on these dimensions, it would be reasonable to deduce that most companies had undertaken CSR-related activities without the aid of clear policy statements. Whilst very few companies disclosed KPI related to these CSR dimensions, even fewer disclosed associated performance targets.

FIGURE 60: TIMELINESS OF THE ANNUAL REPORT



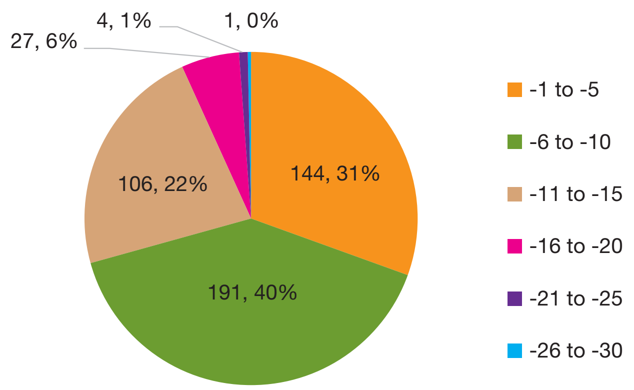
Penalty-point items

There were 11 practices deemed undesirable, providing a maximum possible 49 penalty points. ***Table 10*** and ***Figure 61*** report the distribution and descriptive parameters of the bonus point items. The company with the most undesirable practices had 29 penalty points. All of the 473 short-listed companies had at least one undesirable practice during the period under review. The two most common undesirable practices pertained to the short notice period for the AGM and the delayed convening of the AGM.

Table 10: Distribution of Penalty Scores

Scores	n	%
-1 to -5	144	30.44
-6 to -10	191	40.38
-11 to -15	106	22.41
-16 to -20	27	5.71
-21 to -25	4	0.85
-26 to -30	1	0.21
	473	100.00
Min/Max	**Average**	**Median**
-3 / -29	-10.62	-11

FIGURE 61: DISTRIBUTION OF PENALTY SCORES



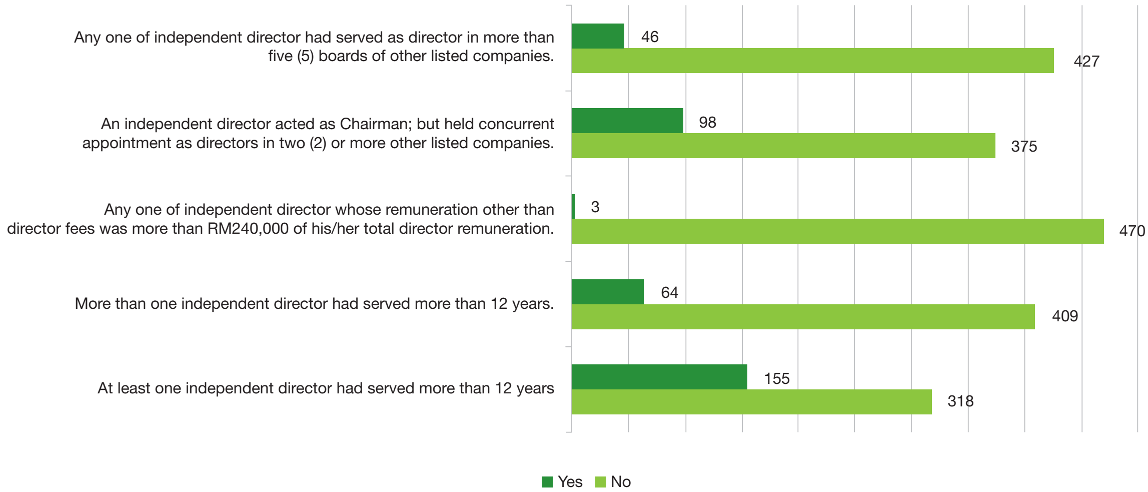
Independent directors

Companies with INEDs that had served more than 12 years were subject to penalty points. During the period under review, 155 companies had at least one independent director who had served more than 12 years on the board. There were 64 companies with more than one independent director who had served more than 12 years in the same capacity in the same company. Three and two penalty points were imposed on the relevant companies for the respective undesirable practices.

Apart from the duration of service/appointment, another factor that could result in negative perception of the independence of INED is the remuneration paid/payable to such directors. Three companies, CIMB Group Holdings Berhad, Bursa Malaysia Berhad and Public Bank Berhad had one or more independent directors whose remuneration (other than director fees) was more than RM240,000.

It is also believed that concurrent directorship appointments could impact the effectiveness of independent directors. It was found that 98 companies had independent directors who not only served as chairman of the board of the company but also held concurrent appointments as directors in two or more other listed companies. A total of 46 companies had one or more independent directors serving as directors on the boards of more than five other listed companies.

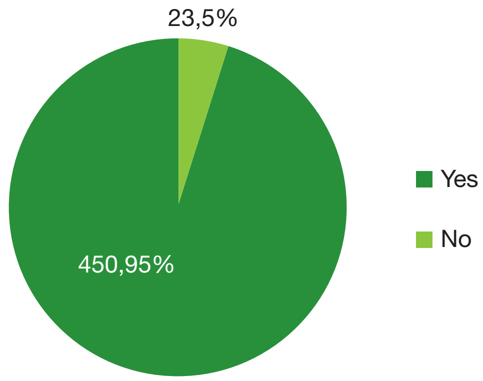
FIGURE 62: INDEPENDENT DIRECTORS



Independence of external auditors

During the period under review, 23 of the short-listed companies paid non-audit fees to the same auditor (or its affiliate) that had conducted the company's external audit (***Figure 63***). Fees for non-audit work were more than 50 per cent of the financial statement audit fees. These companies had 5 penalty points deducted for engaging in this undesirable practice.

FIGURE 63: OTHER SERVICES FEES MORE THAN 50% OF FINANCIAL STATEMENT AUDIT FEES



Public Reprimands

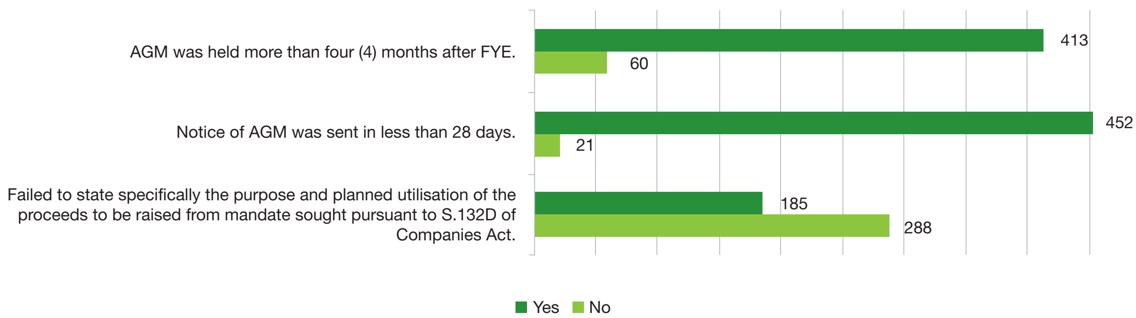
During the period under review, four companies (and/or their director or directors) had received public reprimands from the market regulator. The four companies were Jaycorp Berhad, Puncak Niaga Holdings Berhad, Syarikat Takaful Malaysia Berhad and WCT Berhad.

It was also determined that seven of the 473 short-listed companies had received one or more queries from Bursa Malaysia pertaining to unusual market activity (UMA) during the period under review. These seven companies were: Heveaboard Berhad, Kawan Food Berhad, Lityan Holdings Berhad, Metronic Global Berhad, SAAG Consolidated (M) Berhad, Three-A Resources Berhad and Unisem (M) Berhad.

Other matters

Nearly 90 per cent of the 473 short-listed companies convened their AGM more than four months after their financial year end. These companies had three penalty points deducted. Almost 95 per cent of the short-listed companies provided a notice period of less than 28 days for their AGM. In cases where companies sought shareholder approval for a mandate pursuant to a resolution under S.132D of the Companies Act, 185 companies failed to disclose the specific purpose and planned utilization of the proceeds to be raised. These companies were penalised with 5 penalty points.

FIGURE 64: PRACTICES THAT NEED IMPROVEMENT

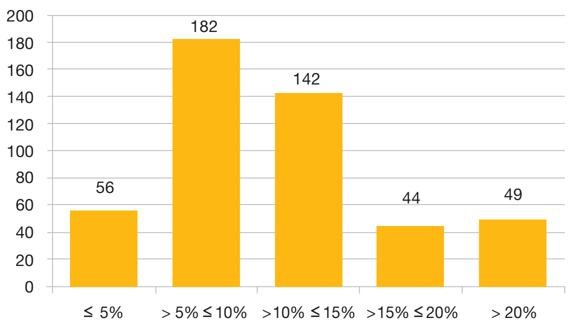


Stage 3: Assessment of financial performance

It has been strongly advocated that effective corporate governance goes further than compliance and conformance with recommended principles and best practices. It also includes actions and practices to ensure sustainability of the business enterprise. In this regard, the historical financial performance of all the 473 short-listed companies was assessed and rated. Companies were awarded up to 10 points based on their 5-year average return on equity (ROE) and up to 5 points based on their market capitalisation.

The 5-year average ROE of the 473 companies ranged from 2.49 per cent (minimum) to 161.49 per cent (maximum). The average of all companies was 12.21 per cent. Due to the wide variation (there was a standard deviation of 11.92 per cent), the raw 5-year average ROE was converted into an index number ranging from zero to ten to reflect the weight attached to the overall MCG Index score. Following the conversion, the average adjusted ROE was 4.51 points.

FIGURE 65: MARKET CAPITALISATION



Market capitalisation data as at 30 June 2010 was used as a financial performance criterion. Each company was scored based on the following guide:

Table 11: Guide for market capitalisation

MARKET CAPITALISATION	ALLOCATED POINTS
≤ RM 100,000,000	1
≤ RM 500,000,000	2
≤ RM 1,000,000,000	3
≤ RM 5,000,000,000	4
> RM 5,000,000,000	5

Stage 4: Assessment by MSWG's analysts

The top 220 companies, where significant external stakeholders had been present, were then assessed by MSWG's analysts in selected areas of interest. The following table shows the seven areas of interest, the maximum points available and the average points that were awarded. In addition, companies were also assessed on CSR reporting and activities.

Table 12: Summary of analyst input

<table>
<tr><th>NO.</th><th>AREAS OF INTEREST</th><th>MAXIMUM POINTS</th><th>AVERAGE POINTS</th><th>TOP 10 COMPANIES</th></tr>
<tr><td>1.</td><td>Quality of the chairman’s statement and/or CEO’s review, and/or operational review</td><td>20</td><td>14.29</td><td rowspan="9">• Public Bank Berhad
• Bursa Malaysia Berhad
• LPI Capital Berhad
• Telekom Malaysia Berhad
• British American Tobacco (Malaysia) Berhad
• PLUS Expressways Berhad
• CIMB Group Holdings Berhad
• Malayan Banking Berhad
• Guinness Anchor Berhad
• Digi.Com Berhad
• Nestle (Malaysia) Berhad</td></tr>
<tr><td>2.</td><td>Quality of corporate governance statement, internal control statement and risk management statement</td><td>15</td><td>9.80</td></tr>
<tr><td>3.</td><td>Shareholding structure</td><td>5</td><td>2.50</td></tr>
<tr><td>4.</td><td>Board structure</td><td>5</td><td>3.60</td></tr>
<tr><td>5.</td><td>Related party transactions</td><td>10</td><td>7.90</td></tr>
<tr><td>6.</td><td>Conduct of the AGM, company’s replies to queries, and restrictions on proxies</td><td>20</td><td>16.63</td></tr>
<tr><td>7.</td><td>Overall conduct in the marketplace</td><td>15</td><td>10.21</td></tr>
<tr><td colspan="2">Total score</td><td>90</td><td></td></tr>
<tr><td colspan="2">Weighted score</td><td>20</td><td></td></tr>
</table>

The key findings on the Top 100 companies were as follows:

Quality of the Chairman’s Statement, CEO’s Review and Operational Review

Generally, the financial performance, operations, industry trend and prospect of companies were well disclosed. Most companies also provided information on their management team and 5-year financial highlights. However, not many companies disclosed information on key performance indicators and dividend policy.

Quality of Disclosures in the Corporate Governance Statement and Internal Control Statement and Overall Conduct in the Market Place

27 companies scored above 75%; on average, there was good disclosure in the corporate governance statement and internal control statement. Areas requiring improvement include disclosure on individual directors’ remuneration and disclosure of assessment on the performance of the board as a whole.

Companies were penalized for any market practices, such as related party transactions, that could be detrimental to minority shareholders.

Shareholding and Board Structure

Companies with concentrated shareholding (e.g. that were family-owned, individually-owned, or owned by a single entity) were subject to penalty points, as this factor may be viewed as harmful to the interests of minority shareholders. These shareholders may use their controlling position in the company to make decisions which are detrimental to minority shareholders. Concentrated shareholding, as previously described, was present in 48 of the Top 100 companies.

Therefore, there is a need for a strong independent element on the Board. For such companies, points were awarded for boards with at least 50% independent directors. In this regard, 19 out of the 48 companies had at least 50% independent directors.

CSR reporting

In recent years, CSR has been gaining immense attention and has grown in importance. This has been reflected in more comprehensive and better quality reporting of CSR activities in company annual reports. There have also been an increasing number of forums, seminars and workshops on CSR, and surveys and competitions have been carried out to award companies with good CSR practices. In this respect, the quality of CSR reporting and the nature of CSR activities in the major pillars of workplace, environment, and community have been scored separately and given an overall weight of five (5) points.

Greater emphasis has now been placed on the subject of CSR in the context of sustainability - which is now the key theme. Hand in hand with sustainability is good governance and these have both been considered in varying degrees by companies in the formulation of their business strategies. In short, sustainability, governance and strategy are inseparable.

Traditionally, and in line with their business practices and the Listing Requirements, many companies have been observing CSR practices encompassing the four core areas of environment, community, workplace and marketplace. While in the past many would have merely complied with CSR requirements in form only, there is currently increasing conformance in substance.

There has also been a diminishing perception that CSR is merely donating. It has stretched beyond the realm of donation and philanthropic-like CSR activities and encompassed all the aforesaid four core areas. The areas of emphasis may vary among the companies depending, to a certain degree, on their respective industries and themes of adoption. These could range from conservation of environment, carbon emission reduction, health, safety, good manufacturing practices (GMP), education, sports, charitable work, human capital development and the setting up of foundations.

There were also companies, primarily in the service industry, which have considered the impact of the carbon footprint associated with their activities. They have, amongst other things, attempted to conserve the usage of electricity, water, paper and recycled resources to the extent feasible. Some banks have started to incorporate environmental impact analysis (EIA) in their lending policies and loan evaluations when providing financing. More, however, needs to be done to incorporate elements of CSR – including sustainability – into business practices.

A few companies established foundations for CSR purposes during the year; MSWG encourages transparency and accountability at these foundations. There were cases during the year where MSWG raised issues regarding the non-disclosure of CSR policies at company AGMs, particularly where contributions for CSR purposes were deemed exceptionally high and could have been detrimental to minority shareholders' interests.

Conduct of Annual General Meetings (AGMs)

In general, the registration process was well conducted with proper signage and sufficient registration counters. Companies set up separate counters for the registration of shareholders, proxies and guests. Counters were also set up according to alphabetical order, for ease of registration.

MSWG representatives attended a total of 250 AGMs in 2010. Approximately 69 per cent of the AGMs had full board attendance. At 13 per cent of the AGMs, one director seeking re-election to the board was not present; at 10% of the AGMs, more than one director was not present at the AGM.

In relation to shareholder participation, by and large the boards gave sufficient time for shareholders to raise questions and express their opinions during the AGM.

About 26 per cent of the companies addressed MSWG questions using Powerpoint presentations, while 67 per cent presented MSWG questions verbally. Sixty-one per cent of the companies presented information on their operations, financial results and future outlook.

Approximately six per cent of the companies had restrictions on proxies, and allowed only certain approved persons to attend the AGM. Such a practice does not encourage active shareholder participation at general meetings. MSWG is of the view that the restriction should be removed.

The Bursa Malaysia Listing Requirements state that the purpose for seeking authority to issue shares pursuant to Section 132D of the Companies Act, 1965 must be explained. Only 2% of the companies explained the specific purposes for which they were seeking the authority to issue shares. In addition, 26 per cent of companies did not have a resolution pursuant to Section 132D.

Most resolutions voted at the AGMs were carried out by a show of hands. However, some of the resolutions carried out by poll vote among the 250 companies are as follows:

VOTING BY POLL	
AGM	**Company**
1	**Petra Perdana Berhad** - All resolutions at the AGM including declaration of dividends, payment of director fees, reappointment of directors, authority to issue shares under Section 132D of the Companies Act, 1965, change of company name and re-election of directors.
2	**Integrax Berhad** – Appointment of directors and auditors.
3	**Tanjong PLC** – Proposed adoption of new Articles of Association.
4	**EON Capital Berhad** – Resolutions in relation to re-election of directors in accordance with Article 102 of the company and re-appointment of a director over the age of 70.
EGM	**Company**
1	**Petra Perdana Berhad** - Proposed rights issue, removal and appointment of directors.
2	**MBf Holdings Berhad** – privatization of MBf Holdings Berhad.
3	**Sunway City Berhad** – All resolutions in relation to proposed REIT listing.
4	**EON Capital Berhad** – All resolutions in relation to the appointment of seven individuals as directors of the company.
5	**EON Capital Berhad** – All resolutions in relation to the Proposed Disposal exercise: (i) Proposed disposal of the entire assets and liabilities of EON Capital Berhad to Hong Leong Bank Berhad for a cash consideration of RM5.06 billion (Proposed Disposal). (ii) Proposed special dividend. (iii) Proposed increase in authorised share capital. (iv) Proposed capital repayment and proposed share issue.

When voting is carried out by a show of hands, some may be of the view that shareholders who own a small percentage of shares in the company can affect the results since each shareholder is entitled to one vote. On the other hand, voting by poll could be viewed as more equitable as one share represents one vote. Nevertheless, because of the concentrated shareholding structure of Malaysian companies, retail shareholders might feel disenfranchised by poll voting.

Engagement with PLCs

MSWG met and engaged with the boards of 10 PLCs in 2010, compared to 50 in 2009. Engagements were undertaken to gain a better understanding of, and a better comfort with, the practices of the companies on certain issues.

Engagements typically covered the following areas:

- The Board's role in ensuring that the interests of shareholders (and minority shareholders in particular) are protected.
- Corporate Social Responsibility practices and ensuring the disclosure of CSR policies.
- Communication with shareholders.
- Process for the appointment of independent directors.
- Existence of a whistleblowing policy, and a code of ethics for directors.
- Quality of information in the Annual Report.

Generally, the directors and top management actively participated in the engagement sessions. As a whole, the board was mindful of their responsibilities to shareholders.

It should be noted that MSWG's engagements with companies were not part of MCG Index scoring.

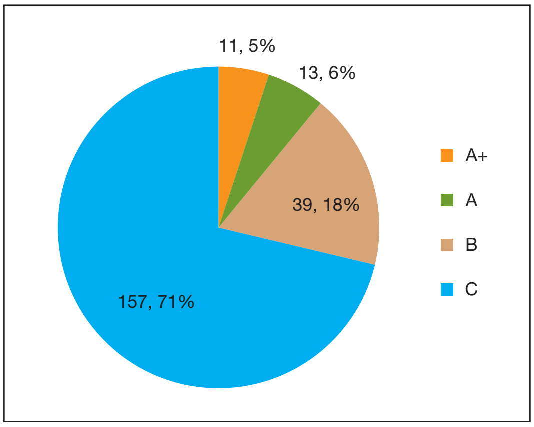
As stated earlier in this report, only 41 companies had a code of ethics in place for directors. Most companies had a code of ethics for employees only. Perhaps, this is an area that should be improved.

At the conclusion of the **Stage 4**, the final 220 companies were grouped according to the following criteria:

GROUP A+	GROUP A	GROUP B	GROUP C
• MCG score ≥ 80 pts • Analyst score ≥ 15 pts • CSR score ≥ 2.5 pts	• MCG score ≥ 70 pts • Analyst score ≥ 14 pts • CSR score ≥ 2.5 pts	• MCG score ≥ 60 pts • Analyst score ≥ 13.5 pts • CSR score ≥ 2.5 pts	• MCG score ≥ 50 pts • Analyst score ≥ 13 pts • CSR score ≥ 2.0 pts

Based on the stated criteria, the final results in terms of company groupings are as follows:

RATINGS	NO. OF PLCS
A+	11
A	13
B	39
C	157
Total	220



The deserving companies in the A+ and A groups certainly should be congratulated and recognised. These are role models not only for other companies but also for the country. The findings also clearly show that more needs to be done to encourage and incentivise companies - those in the B and C groups - to move up into the A+ and A groups. Companies that did not make the grade into **Stage 2** should be given due attention so they can move up the ladder. Apart from attempting to incentivise and recognize deserving and exemplary companies, penalising recalcitrant companies needs due consideration and action.

The Malaysian Corporate Governance (MCG) Index 2010

As in the previous year, the MCG Index comprises the top 100 companies (in terms of their overall MCG score). Twenty-five companies that were in the MCG Index 2009 had been replaced in the MCG Index 2010. The total market capitalisation (as at 30 June 2010) of the component stocks in MCG Index 2010 (as summarised in ***Figure 66***) was RM589 billion. This is RM19 billion more than the total market capitalization of component stocks in the MCG Index 2009. Nearly two-thirds (n = 62) of the Top 100 companies had market capitalization of more than RM 1 billion, an increase of 11 companies compared to MCG Index 2009. The evidence presented in ***Figure 66*** lends credence to the argument that high level of corporate governance is within reach of smaller – particularly mid-size – companies: eighteen per cent of companies in the MCG Index 2010 were companies with a market capitalisation of less than RM500 million but they were able to match the level of corporate governance of their larger counterparts. In terms of sector representation, all sectors save for mining, hotel and technology, were represented in the MCG Index 2010. One-third of the companies were in the trading/services sector (***Figure 67***).

FIGURE 66: TOP 100 COMPANIES BY MARKET CAPITALISATION

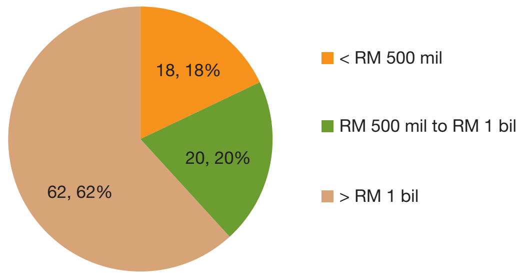
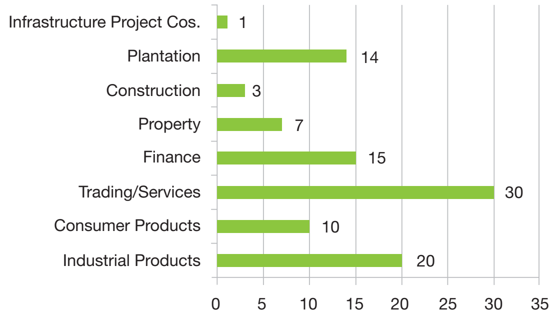
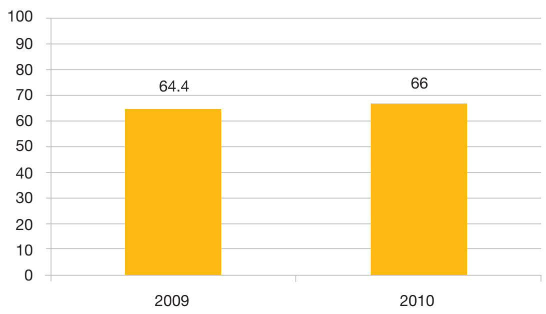


FIGURE 67: TOP 100 COMPANIES BY SECTOR



The overall MCG Index 2010 score for the top 100 companies is 66 points. This is a 2.48 per cent improvement from the 64.4 points achieved in the MCG Index 2009 (***Figure 68***). The increase is marginal but, more importantly, is a positive development overall. In terms of the distribution of companies by rank, nearly one-quarter of the component companies are in the A+ and A groups. In the preceding year, there were 11 and eight companies in A+ and A groups respectively. ***Table 13*** shows that whilst the number of companies in group A+ remained unchanged, the number of companies in the A group increased to 13. All of these companies are exemplary companies that need to be showcased, and whose experiences should be shared with others. As for the remaining companies, including those not in the Index, perhaps more research needs to be conducted to enable development and offer guidance to companies interested in improving their results.

FIGURE 68: MCG INDEX



RATINGS	NO. OF PLCS IN MCG INDEX 2010
A+	11
A	13
B	37
C	39
Total	100

MCG Index 2010 is 66 points

Table 13: List of companies in A+ and A groups

A+ GRADE			A GRADE		
NO.	NAME OF COMPANY	MARKET CAPITALIZATION (RM) @ 30 JUN 2010	NO.	NAME OF COMPANY	MARKET CAPITALIZATION (RM) @ 30 JUN 2010
1	PUBLIC BANK BERHAD	42,072,300,535	1	MEDIA PRIMA BERHAD	2,062,798,118
2	BURSA MALAYSIA BERHAD	3,741,051,072	2	MALAYSIA AIRPORTS HOLDINGS BERHAD	5,500,000,000
3	LPI CAPITAL BERHAD	2,122,461,900	3	AXIATA GROUP BERHAD	33,105,005,464
4	TELEKOM MALAYSIA BERHAD	11,984,296,633	4	TH PLANTATIONS BERHAD	707,302,895
5	BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD	12,529,056,400	5	SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD	3,180,000,000
6	PLUS EXPRESSWAYS BERHAD	17,050,000,000	6	UMW HOLDINGS BERGAD	7,199,045,270
7	CIMB GROUP HOLDINGS BERHAD	49,444,708,740	7	TENAGA NASIONAL BERHAD	36,566,249,156
8	MALAYAN BANKING BERHAD	53,509,549,726	8	SYMPHONY HOUSE BERHAD	145,200,000
9	GUINNESS ANCHOR BERHAD	2,326,154,600	9	IJM CORPORATION BERHAD	6,570,165,428
10	DiGi.COM BERHAD	17,882,500,000	10	BOUSTEAD HOLDINGS BERHAD	3,713,641,871
11	NESTLE (MALAYSIA) BERHAD	8,207,500,000	11	KULIM (MALAYSIA) BERHAD	2,374,089,548
			12	RHB CAPITAL BERHAD	12,662,431,207
			13	UNITED PLANTATIONS BERHAD	2,951,343,892

Conclusion

The second series of the MCG Index project has yielded a number of positive results. Amongst others, both the average corporate governance scores (CGS) across the 898 eligible companies and the MCG Index scores have increased over the one year period. In addition, more companies moved beyond **Stage 1** of the project. These positive developments, whilst laudable, should not allow companies and interested stakeholders to be complacent. On the contrary, these results show that efforts by companies and stakeholders thus far have brought about desired outcomes and that there have been commitments and willingness on the part of companies to enhance their corporate governance practices.

Pertinent items that were identified in the MCG Index 2010 as requiring further improvement remain relevant for the coming years. These include the need to:

(i) Enhance the role of Independent Non-Executive Directors (INEDs), especially in the context of being critical towards related-party transactions (RPTs).

(ii) Ensure a transparent nomination process for independent directors and encourage the sourcing of independent directors from pools of qualified individuals.

(iii) Ensure adequate separation of roles and powers between the Chairman and CEO.

(iv) Increase the timeliness of financial information.
(v) Adopt and disclose a transparent directors' remuneration policy.
(vi) Conduct a periodic (annual) appraisal of board and individual director performance.
(vii) Develop sound risk management and whistle-blowing policies and implement them.
(viii) Facilitate poll and proxy voting.
(ix) Be transparent in corporate exercises, including disclosing the purpose and utilisation of proceeds raised via a mandate sought pursuant to Section 132D of the Companies Act, 1965.
(x) Pursue the agenda of board diversity and of corporate sustainability.

Companies should be motivated by the evidence suggesting indicative benefits from improved corporate governance performance. The current project observes, based on the results of correlation analysis of all 898 companies, that higher levels of corporate governance are associated with positive financial performance and more timely release of financial information through the annual report. (***Table 14***).

Table 14: Correlation between corporate governance and indicators of performance

PERFORMANCE INDICATORS	BCS	IBP	CGS
5-year average ROE (2009 – 2005)	0.1680	0.2217	0.1506
Market capitalisation	0.2418	0.3714	0.2813
Earnings per share (EPS)	0.1614	0.2109	0.1701
Timeliness of annual report	-0.2525	-0.3455	-0.2708

Notwithstanding the aforementioned findings, the continuing efforts to improve corporate governance practices ought to proceed even in the likely absence of compelling and indisputable empirical evidence supporting the business case for corporate governance. After all, shareholders do not own the corporations – a corporation is an autonomous legal person which means that directors are to a great extent autonomous. This view is based on the fact that "when directors go against shareholder wishes – even when a loss in value is documented – courts side with directors the vast majority of the time" (Heracleous and Lun, 2010). In any case, "Asian corporations will change and compete, not because they are told to do so by the state or the market, but because they themselves want to change in order to remain in business."(Sheng, 2001, page 21) Among the changes that companies can make, one pertains to improvement in their corporate governance practices.

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Appendices

APPENDICES

APPENDIX 1: LIST OF EXCLUDED COMPANIES (UP TO OCTOBER 2010)		
NO.	NAME OF COMPANY	REASON
1	ASTRO ALL ASIA NETWORKS PLC	DELISTED IN 2010
2	DIS TECHNOLOGY HOLDINGS BERHAD	DELISTED IN 2010
3	EKRAN BERHAD	DELISTED IN 2010
4	ENGLOTECHS HOLDING BERHAD	DELISTED IN 2010
5	EVERMASTER GROUP BERHAD	DELISTED IN 2010
6	NIKKO ELECTRONICS BERHAD	DELISTED IN 2010
7	PILECON ENGINEERING BERHAD	DELISTED IN 2010
8	POLY TOWER VENTURES BERHAD	DELISTED IN 2010
9	PRIME UTILITIES BERHAD	DELISTED IN 2010
10	RHYTHM CONSOLIDATED BERHAD	DELISTED IN 2010
11	SARAWAK ENERGY BERHAD	DELISTED IN 2010
12	TENGGARA OIL BERHAD	DELISTED IN 2010
13	TANJONG PUBLIC LIMITED COMPANY	DELISTED IN 2010
14	WONDERFUL WIRE & CABLE BERHAD	DELISTED IN 2010
15	ARK RESOURCES BERHAD	PN17 COMPANY
16	AKN TECHNOLOGY BERHAD	PN17 COMPANY
17	AXIS INCORPORATED BERHAD	PN17 COMPANY
18	BASWELL RESOURCES BERHAD	PN17 COMPANY
19	FOUNTAIN VIEW DEVELOPMENT BERHAD	PN17 COMPANY
20	GULA PERAK BERHAD	PN17 COMPANY
21	HAISAN RESOURCES BERHAD	PN17 COMPANY
22	HO HUP CONSTRUCTION BERHAD	PN17 COMPANY
23	HOCK SIN LEONG GROUP BERHAD	PN17 COMPANY
24	IBRACO BERHAD	PN17 COMPANY
25	JPK HOLDINGS BERHAD	PN17 COMPANY
26	KENMARK INDUSTRIAL CO. (M) BERHAD	PN17 COMPANY
27	LCL CORPORATION BERHAD	PN17 COMPANY
28	LIMAHSOON BERHAD	PN17 COMPANY
29	LINEAR CORPORATION BERHAD	PN17 COMPANY
30	LUSTER INDUSTRIES BERHAD	PN17 COMPANY
31	MALAYSIAN MERCHANT MARINE BERHAD	PN17 COMPANY
32	NAM FATT CORPORATION BERHAD	PN17 COMPANY
33	NGIU KEE CORPORATION (M) BERHAD	PN17 COMPANY
34	OCI BERHAD	PN17 COMPANY
35	OILCORP BERHAD	PN17 COMPANY

APPENDIX 2: LIST OF GLCS, STATELCS AND FMNCS		
LIST OF GLCS		
1.	MALAYSIA BUILDING SOCIETY BERHAD	EPF
2.	MALAYSIAN RESOURCES CORPORATION BERHAD	EPF
3.	AXIATA GROUP BERHAD	KHAZANAH
4.	CIMB GROUP HOLDINGS BERHAD	KHAZANAH
5.	MALAYSIA AIRPORTS HOLDINGS BERHAD	KHAZANAH
6.	MALAYSIAN AIRLINE SYSTEM BERHAD	KHAZANAH
7.	PHARMANIAGA BERHAD	KHAZANAH
8.	PLUS EXPRESSWAYS BERHAD	KHAZANAH
9.	TELEKOM MALAYSIA BERHAD	KHAZANAH
10.	FABER GROUP BERHAD	KHAZANAH
11.	POS MALAYSIA BERHAD	KHAZANAH
12.	PROTON HOLDINGS BERHAD	KHAZANAH
13.	TENAGA NASIONAL BERHAD	KHAZANAH
14.	TIME DOTCOM BERHAD	KHAZANAH
15.	TIME ENGINEERING BERHAD	KHAZANAH
16.	UEM LAND HOLDINGS BERHAD	KHAZANAH
17.	AFFIN HOLDINGS BERHAD	LTAT
18.	BOUSTEAD HOLDINGS BERHAD	LTAT
19.	UAC BERHAD	LTAT
20.	BIMB HOLDINGS BERHAD	LTH
21.	LITYAN HOLDINGS BERHAD	LTH
22.	SYARIKAT TAKAFUL MALAYSIA BERHAD	LTH
23.	TH PLANTATIONS BERHAD	LTH
24.	MISC BERHAD	PETRONAS
25.	PETRONAS DAGANGAN BERHAD	PETRONAS
26.	PETRONAS GAS BERHAD	PETRONAS
27.	MALAYAN BANKING BERHAD	PNB
28.	CCM DUOPHARMA BIOTECH BERHAD	PNB
29.	CHEMICAL COMPANY OF MALAYSIA BERHAD	PNB
30.	MNRB HOLDINGS BERHAD	PNB
31.	NCB HOLDINGS BERHAD	PNB
32.	SIME DARBY BERHAD	PNB
33.	UMW HOLDINGS BERHAD	PNB

APPENDIX 2: LIST OF GLCS, STATELCS AND FMNCS (cont'd)		
LIST OF STATELCS		
1.	KULIM (MALAYSIA) BERHAD	Johor
2.	DAMANSARA REALTY BERHAD	Johor
3.	KFC HOLDINGS (MALAYSIA) BERHAD	Johor
4.	KPJ HEALTHCARE BERHAD	Johor
5.	QSR BRANDS BERHAD	Johor
6.	SINDORA BERHAD	Johor
7.	TEBRAU TEGUH BERHAD	Johor
8.	BINA DARULAMAN BERHAD	Kedah
9.	FAR EAST HOLDINGS BERHAD	Pahang
10.	KURNIA SETIA BERHAD	Pahang
11.	MENTIGA CORPORATION BERHAD	Pahang
12.	PASDEC HOLDINGS BERHAD	Pahang
13.	PBA HOLDINGS BERHAD	Penang
14.	MAJUPERAK HOLDINGS BERHAD	Perak
15.	PERAK CORPORATION BERHAD	Perak
16.	SURIA CAPITAL HOLDINGS BERHAD	Sabah
17.	KUMPULAN HARTANAH SELANGOR BERHAD	Selangor
18.	KUMPULAN PERANGSANG SELANGOR BERHAD	Selangor
19.	TALIWORKS CORPORATION BERHAD	Selangor
20.	EASTERN PACIFIC INDUSTRIAL CORPORATION BERHAD	Terengganu
21.	GOLDEN PHAROS BERHAD	Terengganu
22.	TDM BERHAD	Terengganu

APPENDIX 2: LIST OF GLCS, STATELCS AND FMNCS (cont'd)	
LIST OF FMNCS	
1.	AJINOMOTO (MALAYSIA) BERHAD
2.	ALLIANZ MALAYSIA BERHAD
3.	ALUMINIUM COMPANY OF MALAYSIA BERHAD
4.	AMWAY (MALAYSIA) HOLDINGS BERHAD
5.	BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD
6.	CARLSBERG BREWERY MALAYSIA BERHAD
7.	DIGI.COM BERHAD
8.	DKSH HOLDINGS (MALAYSIA) BERHAD
9.	DUTCH LADY MILK INDUSTRIES BERHAD
10.	ESSO MALAYSIA BERHAD
11.	GUINNESS ANCHOR BERHAD
12.	JT INTERNATIONAL BERHAD
13.	LAFARGE MALAYAN CEMENT BERHAD
14.	MANULIFE HOLDINGS BERHAD
15.	NESTLE (MALAYSIA) BERHAD
16.	PANASONIC MANUFACTURING MALAYSIA BERHAD
17.	SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD

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Appendix 4: MCG Index Scorecards (samples)

Stage 1: Compliance with Local and International Best Practices

Corporate Governance Scorecard (First Tier Assessment) 2010		Stock Code	
Name of Company:		Reviewer	
No.	Local Best Practices + International Best Practices	Yes	No.
		(Page No.)	
A	THE BOARD OF DIRECTORS		
1	**Principal responsibilities of the Board**		
1.1	Disclosed the statement on the issue of lead and control in the company.		
1.2	Disclosed the existence of a Code of Conduct / Ethics for directors.		
1.3	Disclosed details about the implementation of Code of Conduct / Ethics for directors.		
2	**Chairman & CEO**		
2.1	Clear division of responsibility between the Chairman and the CEO (that is, a separation of these two roles).		
2.2	The Chairman of the Board was an independent director.		
2.3	Disclosed statement stating current Chairman was not a previous CEO.		
2.4	Disclosed the key duties and responsibilities of the Chairman of the Board.		
2.5	Disclosed the key duties and responsibilities of the CEO.		
3	**Board balance**		
3.1	1/3 of the Board members were independent non-executive directors.		
3.2	1/2 of the Board members were independent non-executive directors.		
3.3	More than 1/2 of the Board members were independent non-executive directors.		
3.4	Disclosed non-executive director's calibre, credibility, skill and experience.		
4	**Significant shareholder**		
4.1	Board had minority shareholder representation.		
4.2	Identified a senior independent director to whom concerns may be conveyed.		
5	**Appointment to the Board**		
	(Ensuring Board's Continuous Effectiveness)		
5.1	Had nominating committee (NC)		
5.2	Disclosed the terms of reference for NC.		
5.2.1	Disclosed details of the duties and responsibilities of NC.		
5.2.2	Disclosed details of the activities of NC during the year.		
5.2.3	Disclosed details of the number of NC meetings held during the year.		
5.2.4	Disclosed details of attendance of each individual director in respect of NC meetings.		
5.3	NC composed exclusively of non-executive directors		
5.4	Non-executive directors were all independent		
5.5	NC propose new nominees for the Board consideration and approval		

Appendix 4: MCG Index Scorecards (samples) (cont'd)

Stage 1: Compliance with Local and International Best Practices (cont'd)

5.6	Disclosed the annual review on the Board in respect of the skills and experience and other mix (i.e., Board appraisal had been conducted).		
5.7	Disclosed assessment on individual director, including the CEO (i.e., Individual director appraisal had been conducted)		
5.8	Disclosed the criteria used in appraising the performance of the Board, individual director and/or the CEO.		
5.9	Outside advisor (e.g., human resource consultant) was used during the year.		
6	**Size of Board**		
6.1	Disclosed that the company had reviewed the size of the Board and felt that it was appropriate.		
7	**Directors' training**		
7.1	Disclosed that the company had orientation and education programme for new recruits to the Board (or a policy for such, if relevant).		
7.2	Disclosed identifiable continuing education and training for directors.		
8	**Board structures and procedures**		
8.1	Disclosed the number of Board meetings held during the year.		
8.2	Disclosed details of attendance of each individual director in respect of meetings held.		
8.3	Disclosed the types of transactions that required Board's approval (i.e., there was a formal		
	schedule of matters specifically reserved for the Board).		
8.4	Disclosed that the Board records its deliberations, in terms of the issues discussed, and the conclusions in discharging its duties and responsibilities.		
9	**Relationship of the Board to management**		
9.1	The Board defined the limits of management's responsibilities.		
10	**Quality of Information**		
10.1	Management was obliged to supply to the Board with all necessary information including customer satisfaction and services quality, market share, market reaction and so on.		
11	**Access to information**		
11.1	Directors had separate & independent access to company secretary services.		
12	**Access to advise**		
12.1	Had agreed procedure for directors to take independent professional advice.		
13	**Use of Board Committee**		
13.1	Had defined authority of any committee formed.		
	Total BCS: Part A (24 items)		
	Total IBP: Part A (15 items)		
	Total MCG: Part A = (BCS + IBP) / 39 x 40%		

Appendix 4: MCG Index Scorecards (samples) (cont'd)

Stage 1: Compliance with Local and International Best Practices (cont'd)

B	**DIRECTORS' REMUNERATION**		
14	**Remuneration committee**		
	(Determination of Directors' Remuneration)		
14.1	Had a remuneration committee (RC).		
14.2	Disclosed the terms of reference for RC.		
14.2.1	Disclosed details of the duties and responsibilities of RC.		
14.2.2	Disclosed details of the activities of RC during the year.		
14.2.3	Disclosed details of the number of RC meetings held during the year.		
14.2.4	Disclosed details of attendance of each individual director in respect of RC meetings.		
14.3	RC consisted wholly of non-executive directors.		
14.4	RC recommended to the Board the remuneration of the executive directors in all its form.		
14.5	Disclosed details of membership of the RC in the directors' report.		
14.6	Outside advisor (e.g., compensation consultant) was used during the year.		
15	**The level and make-up of remuneration**		
15.1	Directors' remuneration had taken into account of pay & employment conditions within the industry.		
15.2	The company maintained that executive directors' remuneration package was linked to corporate & individual performance.		
15.3	Disclosed details of its remuneration policy regarding **HOW** senior executives and director pay was determined. (Company must disclose key performance benchmarks in the process of determining individual pay.)		
15.4	Non-Executive Directors' remuneration was related to contribution & responsibilities.		
15.5	More than 50% (i.e., significant) of remuneration of executive directors was performance based.		
15.6	Long-term incentives (i.e., share options scheme) were used for rewarding executive directors.		
16	**Disclosure of Remuneration**		
16.1	Disclosed details of the remuneration of each director.		
16.2	Disclosed details of the remuneration of each director received from company & from subsidiaries.		
16.3	Disclosed separate fees for additional contributions (e.g., attendance fees) by non-executive directors.		
	Total BCS: Part B (8 items)		
	Total IBP: Part B (11 items)		
	Total MCG: Part B = (BCS + IBP) / 19 x 10%		

Appendix 4: MCG Index Scorecards (samples) (cont'd)

Stage 1: Compliance with Local and International Best Practices (cont'd)

C	SHAREHOLDERS		
17	**Dialogue between Companies and Investors**		
	(Maintain regular, effective & fair communication with shareholders.)		
17.1	The company had a website.		
17.1.1	The company had a reconigsable website address (reflected the company's name and/or brand).		
17.1.2	The website had been updated regularly and/or recently (within 3 mths).		
17.2	The company's website had a section on Investor Relations.		
17.3	The company's website provides information as to how investors can direct queries to the company.		
17.4	Disclosed name, title and biographical details (e.g. age, qualifications, relevant experience) of the officer responsible for managing investors' relations for the company.		
17.4.1	Does the Company disclose his/her registered address, telephone number and email		
17.5	Disclosed details of the investor relations policy and disclosure process towards investors (e.g. does the company has regular investor relations meetings, were they using electronic communication and the media to carry their message to shareholders, etc)		
17.6	The Company identified and discussed corporate and/or growth strategies that it used.		
17.6.1	The discussion on corporate and/or growth strategies is straightforward and easy to understand.		
17.6.2	The Company explained the possible implications and effects of those strategies.		
17.7	Disclosed comparison of company's key performance indicators (KPI) to industry benchmarks.		
17.7.1	The Company explains the reasons for the differences between its KPI and industry benchmarks.		
17.8	Disclosed identified specific and measurable performance targets for the next year(s).		
17.8.1	The Company cautioned investors/shareholders that those targets were management aspirations which may or may not be realised.		
17.9	Disclosed the company's dividend policy.		
17.9.1	The Company's dividend policy specified clearly the percentage from profit to be paid as dividend.		
18	**AGM**		
18.1	Special business items included in the AGM notice were accompanied by a full explanation of the effects of a proposed resolution.		
18.2	Notice of meetings stated which directors were standing for election with a brief description of them.		
	Total BCS: Part C (2 items)		
	Total IBP: Part C (17 items)		
	Total MCG: Part C = (BCS + IBP) / 19 x 20%		

Appendix 4: MCG Index Scorecards (samples) (cont'd)

Stage 1: Compliance with Local and International Best Practices (cont'd)

D	ACCOUNTABILITY AND AUDIT		
19	**The audit committee (AC)**		
19.1	AC comprised at least three directors		
19.2	More than 50% of directors in AC were independent directors.		
19.3	All directors (i.e., 100% of them) in AC were independent directors.		
19.4	Had a written terms of reference		
19.5	The Chairman of AC:		
19.5.1	The chairman of AC is an independent non-executive director		
19.5.2	The Chairman of AC is qualified and/or experienced in accounting/finance.		
19.6	Disclosed details of the activities of audit committee		
19.7	Disclosed details of the number of AC meetings held in a year		
19.8	Disclosed details of attendance of each individual directors in respect of meetings.		
19.9	AC met with the external auditors without executive Board members present at least twice a year.		
19.10	The functions of the AC include the review of the adequacy of the competency of the internal audit function.		
19.11	The AC had the explicit right to convene meetings with external auditors, internal auditors or both, excluding the attendance of other directors and employees.		
19.12	Disclosed details of relevant training attended by each director member of AC.		
19.13	Disclosed whether all members of the AC were financially literate.		
19.14	Disclosed whether at least one member of the AC was a member of an accounting association body OR someone who was approved by the Exchange.		
19.15	Outside advisor (other than external auditor) was used during the year.		
20	**Internal Controls & Internal Audit**		
20.1	Disclosed details of the internal control process (e.g. what financial and non-financial measures were in place, when were they tested, when were reports on IC done and who were the reports submitted to?)		
20.2	Disclosed risk management statement		
20.3	Disclosed informative, straight-forward and updated explanation of risk factors related to the different products		
20.4	Disclosed name, title and biographical details (e.g. age, qualifications, relevant experience) of the officer responsible for managing internal controls at the company.		
20.5	Disclosed name, title and biographical details (e.g. age, qualifications, relevant experience) of the officer responsible for legal and regulatory compliance at the company.		
20.6	Had an internal audit function (IAF)		
20.7	Disclosed the terms of reference of IAF (including activities, responsibilities, reporting frequency, meeting frequency, individual attendance where applicable)		
20.8	The Head of IAF reported directly to the Audit Committee.		
20.9	Disclosed whether the IAF was performed in-house or outsourced.		
20.10	Disclosed the costs incurred for the IAF in respect of the financial year.		
20.11	Had a whistle blowing policy.		
20.12	Disclosed details of the processes of the whistle blowing policy.		

Appendix 4: MCG Index Scorecards (samples) (cont'd)

Stage 1: Compliance with Local and International Best Practices (cont'd)

21	**Related third party transactions**		
21.1	Disclosed related third party transactions in Corporate Governance statement		
22	**Corporate Social Responsibility**		
22.1	Any reporting statement on human resources		
22.2	Any reporting statement on environment issues		
22.3	Any reporting statement on community issues		
23	**Auditors**		
23.1	The External Auditor was independent (yes, if it provided only statutory audit services).		
24	**Timely reporting**		
24.1	The audit report (which accompanies the AAA or AR) was released to the public within 120 days (4 months) of the balance sheet date (Bursa Malaysia's LR - accounts had to be filed 4 months after the company's balance sheet date).		
24.2	The Company announced the audited accounts within 60 days after the FYE.		
24.3	The Company announced the complete set of the Annual Report instead of Audited Annual Accounts within 120 days after the FYE.		
25	**Board approval**		
25.1	Disclosed in the statement of Corporate Governance that the Board had explicitly approved the statement.		
	Total BCS: Part D (21 items)		
	Total IBP: Part D (17 items)		
	Total MCG: Part D = (BCS + IBP) / 38 x 30%		
	Grand Total BCS: Parts A, B, C & D (55 items)		
	Grand Total IBP: Parts A, B, C & D (60 items)		
	Grand Total MCG (BCS + IBP): Parts A, B, C & D		

Appendix 4: MCG Index Scorecards (samples) (cont'd)

Stage 2: Bonus and penalty points for desirable and undesirable practices

Name of Company:			
No.	**Items and description**		
B1	**Independent director**	**Yes**	**No**
B1.1	Disclosed policy of engaging external adviser/source to identify and nominate suitable candidates for appointment as independent directors.		
B1.2	External adviser/source was used in indentifying suitable candidates for appointment as independent directors during the year.		
B1.3	Disclosed policy of term limit for independent directors.		
B1.4	Term limit for independent directors is not more than 9 years.		
B1.5	Term limit for independent directors is not more than 12 years.		
B1.6	Independent directors comprised at least 50% of the board.		
B2	**Directors' remuneration**		
B2.1	Disclosed aggregate remuneration for each director.		
B2.2	Disclosed aggregate and components of remuneration for each director.		
B3	**Directors' training**		
B3.1	Disclosed titles of training / continuing education sessions attended by each director.		
B3.2	All directors attended at least one training / continuing education session during the year.		
B4	**Board diversity**		
B4.1	At least one woman director regardless of designation (both executive and non-executive).		
B4.2	At least one woman independent director.		
B4.3	Board had multi-ethnic outlook in terms of composition.		
B4.4	At least one foreign national on the board.		
B5	**Whistleblowing policy**		
B5.1	Disclosed policy on whistleblowing.		
B5.2	Disclosed mechanism to protect employees who contemplate to "blow the whistle".		
B5.3	Disclosed contact details (telephone and email) of the senior independent director.		
B6	**Chairman and CEO**		
B6.1	The Chairman of the board and the CEO were two different individuals.		
B6.2	The Chairman of the board was an independent director.		
B7	**Risk management**		
B7.1	Had a separate (i) board-level risk management committee led by independent director or (ii) other risk management committee but led by an independent director.		
B7.2	Disclosed key risk factors as identified by the risk management committee.		
B8	**Public shareholding spread**		
B8.1	Public shareholding spread at FYE was more than 35%.		
B9	**Audit Committee (AC)**		
B9.1	Chairman of AC was a member of an accounting association/body.		
B9.2	All members of AC were independent directors.		
B10	**Dividend policy**		
B10.1	Disclosed clear and specific dividend policy, that is, including the target dividend payout ratio.		
B10.2	Had declared/paid dividend more than or equal to the target dividend payout ratio during FYE.		
B10.3	Had declared/paid dividend at least in four of the last five years.		
B11	**Transparency (timeliness of annual report)**		
B11.1	Submitted annual report to Bursa Malaysia within 60 days from FYE.		
B11.2	Submitted annual report to Bursa Malaysia within 90 days from FYE.		

Appendix 4: MCG Index Scorecards (samples) (cont'd)

Stage 2: Bonus and penalty points for desirable and undesirable practices (cont'd)

B12	**Corporate social responsibility**		
	CSR practice - Environment		
B12.1	Disclosed policy on environment		
B12.2	Disclosed activities related to environment dimension		
B12.3	Disclosed performance targets related to environment dimension		
B12.4	Disclosed KPI related to environment dimension		
	CSR practice - Community		
B12.5	Disclosed policy on community		
B12.6	Disclosed activities related to community dimension		
B12.7	Disclosed performance targets related to community dimension		
B12.8	Disclosed KPI related to community dimension		
	CSR practice - Marketplace		
B12.9	Disclosed policy on marketplace		
B12.10	Disclosed activities related to marketplace dimension		
B12.11	Disclosed performance targets related to marketplace dimension		
B12.12	Disclosed KPI related to marketplace dimension		
	CSR practice - Workplace		
B12.13	Disclosed policy on workplace		
B12.14	Disclosed activities related to workplace dimension		
B12.15	Disclosed performance targets related to workplace dimension		
B12.16	Disclosed KPI related to workplace dimension		
P1	**Independent director**		
P1.1	At least one independent director had served more than 12 years.		
P1.2	More than one independent director had served more than 12 years.		
P1.3	Any one of independent director whose remuneration other than director fees was more than RM240,000 of his/her total director remuneration.		
P1.4	An independent director acted as Chairman; but held concurrent appointment as directors in two (2) or more other listed companies.		
P1.5	Any one of independent director had served as directors in more than five (5) boards of other listed companies.		
P2	**Independence of external auditor**		
P2.1	Non-audit fees paid to appointed external audit firm (or its affiliates) were more than 50% of financial statement audit fees.		
P3	**Directors / Board credibility**		
P3.1	Individual director and/or company received public reprimand(s) from the regulator(s).		
P4	**Stakeholder engagement**		
P4.1	Had received query or queries from Bursa Malaysia pertaining to unusual market activity (UMA) during FY.		
P5	**Other matters**		
P5.1	Failed to state specifically the purpose and planned utilisation of the proceeds to be raised from mandate sought pursuant to S.132D of Companies Act		
P5.2	Notice of AGM was sent in less than 28 days.		
P5.3	AGM was held more than four (4) months after FYE.		

Bonus Points
Penalty Points
NET BONUS & PENALTY POINTS

Appendix 4: MCG Index Scorecards (samples) (cont'd)

Stage 3: Assessment of Financial Performance

A formal scorecard was not used for the assessment of 5-year Average ROE and Market Capitalisation in **Stage 3**.

For ROE, the 5-year average ROE of the 473 companies ranged from 2.49 per cent (minimum) to 161.49 per cent (maximum). The average of all companies was 12.21 per cent. Due to the wide variation (there was a standard deviation of 11.92 per cent), the raw 5-year average ROE was converted into an index number ranging from zero to ten to reflect the weight attached to the overall MCG Index score. Following the conversion, the average adjusted ROE was 4.51 points.

For Market Capitalisation, see ***Table 11*** for an explanation of how points were allocated.

Appendix 4: MCG Index Scorecards (samples) (cont'd)

Stage 4: Assessment by MSWG's Analysts

The following scorecard was used to record and calculate input provided by MSWG analysts:

CORPORATE GOVERNANCE 2010 ANALYST INPUT SCORECARD			STOCK CODE		
NAME OF COMPANY:			REVIEWER		
NO.	CRITERIA	MARKS ALLOCATED	MARKS AWARDED	SOURCE OF INFORMATION	COMMENTS
1	(i) Quality of Chairman Statement and/or CEO's Review and/or Operational Review (15 marks) - should have but not limited to disclosure on industry trend, group performance, review of operations by division/sector and future prospect of the group and (ii) Quality disclosure of financial statements and other information (5 marks) such as 5-year financial highlights, profile on senior management, analysis on shareholding by type, etc	20		2009 AR	
2	Quality of Corporate Governance - (10 marks), Internal Control Statement and Risk Management Statements - (5 marks) (statement should be descriptive in nature and the statements should not merely be reproduced word for word from other sources such as the Malaysian Code of Corporate Governance, etc)	15		2009 AR	
3	Shareholding Structure - No shareholder or related parties should have 45% or more shareholding in the company (family owned or institutional shareholders as well as subsidiary companies) Note : Award either 0 or 5 marks for this criteria	5		2009 AR	
4	Board Structure - If the shareholding structure > 45% under one entity, at least 50% are Independent Directors	5		2009 AR	
	Note : Award either 0 or 5 marks for this criteria				
5	Related Party Transactions - well executed and not detrimental to minority shareholders	10		2009 AR	
	Note : If no RRPT or RPT, award 10 marks				
6	Conduct of AGM (5 marks) /PLC's Reply (5 marks) /Restriction on Proxy (10 marks)	20		2009 AR	
	Note : For Conduct of AGM, 2.5 marks should be awarded if MSWG did not attend the AGM				
7	Overall Conduct in Market Place	15		MSWG	
	TOTAL SCORE :	**100**		**0**	
	FULL OVERALL SCORE :	**20**		**0**	

Appendix 4: MCG Index Scorecards (samples) (cont'd)

Stage 4: Assessment by MSWG's Analysts on Corporate Social Responsibility

CORPORATE GOVERNANCE 2010 ANALYST INPUT SCORECARD			STOCK CODE		
NAME OF COMPANY:			REVIEWER		
NO.	CRITERIA	MARKS ALLOCATED	MARKS AWARDED	SOURCE OF INFORMATION	COMMENTS
1	Quality of CSR Reporting (Should have quality disclosure on initiatives on areas of workplace, environment and community for example :- Workplace - health & safety issues, human capital development (ie training), work-life balance (ie sports activities, flexible working arrangements), employee welfare (ii Environment - details on how the company addresses its environmental impact; disclosure on its initiatives during the year (iii) Community - disclosure on company's initiatives - education, disability, youth development, local heritage, etc))	10		2009 AR/ Website	

In addition to the formal assessment using the scorecard, engagements were undertaken to gain a better understanding of, and a better comfort with, the practices of the companies on certain issues. The engagements were not part of the MCG Index scoring. See the following page for the Engagement Template.

MALAYSIAN CORPORATE GOVERNANCE INDEX 2010 ENGAGEMENT WITH THE BOARD AND SENIOR MANAGEMENT OF PUBLIC LISTED COMPANIES

RATING: 1 – 10 (Please circle)

ISSUES	RATING	REMARKS
1. MINORITY INTERESTS		
(a) How do the Company, Board and/or Independent Directors ensure that the interests of the minority shareholders are always protected?	1 2 3 4 5 6 7 8 9 10	
(b) How do the Company, Board and/or Independent Directors deal with cases where there are apparent or perceived conflict of interest between the interest of minority shareholders and that of the majority shareholders.	1 2 3 4 5 6 7 8 9 10	
2. RELATED PARTY TRANSACTIONS (RPT)		
(a) What are the specific measures or mechanisms applied by the Company, Board and/or Independent directors when confronted with RPT so as to ensure the overarching interest of the Company is protected?	1 2 3 4 5 6 7 8 9 10	
(b) How do the Company and/or the Board deal with dissenting views expressed by members of the Board in applicable RPT?	1 2 3 4 5 6 7 8 9 10	
3. COMMUNICATION WITH SHAREHOLDERS		
Describe the current process employed by the Company and/or Board to communicate with shareholders; particularly the minority shareholders. What are the strengths and weaknesses of the said current process?	1 2 3 4 5 6 7 8 9 10	
4. APPOINTMENT OF INDEPENDENT DIRECTOR		
(a) To what extent the CEO and/or the controlling or the substantial shareholders are involved in the process of identifying and nominating an individual as a potential independent director?	1 2 3 4 5 6 7 8 9 10	
(b) Describe the current process employed by the Company and/or the Board to identify and nominate an independent director. What do you think are the pros and cons of the said current process?	1 2 3 4 5 6 7 8 9 10	

MALAYSIAN CORPORATE GOVERNANCE INDEX 2010 ENGAGEMENT WITH THE BOARD AND SENIOR MANAGEMENT OF PUBLIC LISTED COMPANIES (cont'd)

RATING: 1 – 10 (Please circle)

ISSUES	RATING	REMARKS
5. <u>NON-COMPLIANCE/ETHICAL ISSUES AND EMPLOYEE PARTICIPATION IN WHISTLEBLOWING</u> How would the Company and/or Board convince employees of all levels that their interest and well-being are protected if they were considering reporting the discovered irregularities to their superiors?	1 2 3 4 5 6 7 8 9 10	
6. <u>OWNERSHIP OF NON-STATUTORY DISCLOSURES IN ANNUAL REPORT</u> What have the Company and/or the Board done to ensure that the disclosures in the annual report, other than the statutory reports, are accurate and credible?	1 2 3 4 5 6 7 8 9 10	
7. <u>CORPORATE SOCIAL RESPONSIBILITY</u> Explain the role played by the Board in ensuring that current and proposed CSR activities are aligned with the company's overall business strategy. Please provide some examples.	1 2 3 4 5 6 7 8 9 10	

OTHER REMARKS:

ASSESSED BY:

____

Name:

Date:

Appendix 5: MCG Index 2010 Award Winners

Consistent with the aim to incentivise and recognise, awards were accorded to the following deserving and exemplary companies in various categories:

Award	Winners
Corporate Governance Hall of Fame	• Public Bank Berhad
Top Three (Overall) Award	• Public Bank Berhad • Bursa Malaysia Berhad • LPI Capital Berhad
Distinction Award	• Public Bank Berhad • Bursa Malaysia Berhad • LPI Capital Berhad • Telekom Malaysia Berhad • British American Tobacco (Malaysia) Berhad • PLUS Expressways Berhad • CIMB Group Holdings Berhad • Malayan Banking Berhad • Guinness Anchor Berhad • DiGi.Com Berhad • Nestle (Malaysia) Berhad

Appendix 5: MCG Index 2010 Award Winners (cont'd)

Industry Excellence Award	Name of Company
Finance	Public Bank Berhad
Telecommunication	Telekom Malaysia Berhad
Consumer Products	British American Tobacco (Malaysia) Bhd
Construction	IJM Corporation Berhad
Infrastructure	PLUS Expressways Berhad
Properties	Sunway City Berhad
Plantation	TH Plantations Berhad
Media	Media Prima Berhad

Top Small Cap Company Award	• Symphony House Berhad
Special Transparency Award	• Bursa Malaysia Berhad
Most Improved Company Award	• Guinness Anchor Berhad
Most Diverse Board Award	• CIMB Group Holdings Berhad
Most Prompt AGM Award	• LPI Capital Berhad

Best CSR Award

- CIMB Group Holdings Berhad
- Nestle (Malaysia) Berhad
- Shell Refining Company (Federation of Malaya) Berhad

Best Conduct of AGM Award

- Public Bank Berhad
- Telekom Malaysia Berhad
- PLUS Expressways Berhad

Appendix 6:

SPECIAL REPORT

on Corporate Governance Developments in Malaysia

Background

Corporate governance in Malaysia has come a long way since the Report on Corporate Governance, commissioned by the High Level Finance Committee, was launched a decade ago. The report was very much influenced by the events of the Asian financial crisis which hit the region back in 1997/1998. The Malaysian Code on Corporate Governance (Code), issued in March 2000, marked a significant milestone in Malaysian corporate governance reform.

Since then, Malaysia has made significant strides in improving corporate governance standards. The year 2007 saw significant enhancements to laws and regulations, and revisions of the Code to strengthen the regulatory framework of the capital market.

Enhancements to the CG Framework

Capital Markets and Services Act 2007 (CMSA)

The CMSA came into force on 28 September 2007, consolidating the Securities Industry Act 1983, the Futures Industry Act 1993, and Part IV of the Securities Commission Act 1993, which deals with fund-raising activities. The CMSA provided for better safeguarding of investor interests and further enhancement of corporate governance.

The CMSA introduced provisions which widened the enforcement powers of the Securities Commission (SC). These include the ability to take civil action, and to obtain compensation of up to three times the monetary gain made (or loss avoided) for a range of offences, including: false trading, stock market manipulation, and the use of manipulative and deceptive devices.

Companies (Amendment) Act 2007

The Companies (Amendment) Act 2007 introduced several amendments, including:

- Expansion of the duty of directors to disclose interests.
- Prohibiting interested directors from voting.
- Clarification of directors' functions and duties.
- Widening the scope of duty of care, skill, and diligence.
- Clarification of the functions, duties, and responsibilities of nominee directors.
- A prohibition on related party transactions

except where there is prior approval by disinterested shareholders.

- Allowing companies to conduct shareholders' meetings electronically.
- Requiring public companies to establish a system of internal control.
- Requiring auditors of public companies to report on serious offences involving fraud and dishonesty, and affording protection to auditors on genuine reports made in good faith.
- Requiring auditors to report to the Registrar, and to Bursa Malaysia (if auditing a public listed company), the grounds of their removal, resignation or declination of reappointment.
- Introducing the statutory derivative action to facilitate redress against oppression of the minority under Section 181 of the Companies Act, 1965.
- Introducing a whistle-blowing provision to afford protection to officers who report on contraventions or serious offences involving fraud and dishonesty.

The Companies Commission of Malaysia also established the Companies Commission of Malaysia Training Academy in 2007. The Academy is expected to promote a new breed of corporate directors and officers equipped with ample knowledge of the obligations imposed under the provisions of the Companies Act 1965.

Revisions to the Malaysian Code on Corporate Governance (Code)

The Code was revised in 2007 to improve the standards of corporate governance, especially in the area of board quality. The roles and responsibilities of the board of directors, particularly independent directors and the audit committee, were strengthened to ensure that they discharge their duties effectively. A majority of audit committee members must be independent, and all must be financially literate. In order to preserve the independence of the committee, Executive directors are no longer allowed to become members of the audit committee. The revised Code spells out the eligibility criteria for the appointment of directors, the composition of the board, and the role of the nominating committee. All public listed companies were also required to have their own internal audit functions.

Bursa Malaysia Listing Requirements

In line with amendments to the regulations and the Code, Bursa Malaysia Listing Requirements were also amended to raise governance standards amongst listed issuers and enhance investor confidence. The amendments included enhanced disclosure requirements in the annual report, expansion of the mandate of the audit committee to include reviewing the adequacy and competency of the internal audit function, setting out the functions and composition of the audit committee, and mandating the internal audit function.

Recent Reforms

More recently, in 2009 and 2010, efforts to enhance investor protection have been stepped up. These efforts include strengthening regulations, facilitating dispute resolution mechanisms, empowering investors through education, promoting shareholder activism, and encouraging swift and appropriate enforcement action by regulators.

Enhanced enforcement powers of the SC

Two new provisions of the CMSA, which accord better protection to investors, were passed by Malaysia's Parliament in December 2009. They enable the SC to take effective enforcement action against errant directors and officers of public listed companies and their related corporations. Section 317A enables the SC to take enforcement action against anyone who does anything (or causes anyone to do anything) with the intention of causing wrongful loss to the listed corporation or its related corporation. Section 320A makes it an offence for directors and officers of listed corporations to influence any person who prepares or audits the financial statement of a listed corporation to cause the financial statement to be false or misleading. Both provisions carry a maximum term of 10 years' imprisonment and a fine not exceeding RM10 million.

Amendments were also made to Section 368 and 371 of the CMSA to make it an offence for anyone to falsify or destroy any accounting records or books of a listed corporation or its related corporation(s).

Launch of the Unified Board and the ACE Market

In order to enhance the quality of listed companies on Bursa Malaysia, the new Unified Board and the ACE Market were launched on 3 August 2009. This marked an important milestone in the development of the equity fund-raising market in Malaysia. The new structure is designed to make Bursa Malaysia a more attractive listing venue and to enhance competitiveness and efficiency in the Malaysian capital market. It accomplishes this by streamlining rules and processes in order to provide greater certainty, shorter time-to-market, and lower regulatory costs. The enhanced framework also facilitates foreign listings by assimilating the requirements for domestic and foreign companies.

Bursa Malaysia is also expected to take on a more active role as the frontline regulator for secondary equity fund-raising and aims to increase efficiency of the market. The development of the equity market has also been accompanied by the transformation of the bond market, leading to the rapid development of the debt securities and sukuk markets.

Establishment of the Audit Oversight Board

In line with global trends, Malaysia has established the Audit Oversight Board (AOB) to strengthen the independent oversight of auditors. The AOB was established under Part IIIA of the Securities Commission Act 1993.

The AOB's mission is to assist the SC in overseeing the auditors of public interest entities and to protect the interest of investors by promoting confidence in the quality and reliability of audited financial statements of these entities. The AOB is tasked with registering auditors of public interest entities, and to inspect and monitor auditors to assess the extent of their compliance with recognised auditing and ethical standards. The AOB is also empowered to sanction any registered auditors for failure to comply with the provisions of Part IIIA of the Act. It is now in the first phase of promoting good governance of the auditing profession, and is in the midst of registering auditors engaged by public interest entities.

In September 2010, Malaysia was admitted as a member of the International Forum of Independent Audit Regulators. This was a formal recognition of Malaysia's AOB as a well-structured, independent audit regulator on par with agencies of other jurisdictions. Malaysia's AOB is only the second such body in ASEAN to be admitted.

Establishment of an Alternative Dispute Resolution mechanism

Work is also in progress on the establishment of an alternative dispute resolution body, to be called the Securities Industry Dispute Resolution Centre (SIDREC). The Centre will act as a mediation and dispute resolution forum to deal with small monetary claims filed by individuals with respect to their dealings in securities and capital market products through market intermediaries.

New investor protection initiatives in progress
The SC is also reviewing investor protection initiatives such as the sophisticated investor framework, sales practices, and enhancing the Malaysian Code on Takeovers and Mergers. The SC and Bursa Malaysia had, earlier in the year, proposed changes to the mergers and acquisitions rule using the assets and liabilities route. The proposed changes include raising the threshold to require the approval of shareholders holding at least 75% of target company shares for a deal to proceed. Currently, mergers and acquisitions using the assets and liabilities route only require the approval of shareholders holding a simple majority of target company shares.

Promoting Shareholder Activism
One of the important capital market institutions is the Minority Shareholder Watchdog Group (MSWG), a body set up in 2000 on the recommendation of the High Level Finance Committee. Currently, MSWG is substantially funded by the Capital Market Development Fund.

MSWG has been actively encouraging minority shareholders to play their role in ensuring that Boards and management are running the business in the best interest of the company, and to voice their concerns should it be otherwise. MSWG's primary approach is to proactively engage with the Boards and management of public listed companies on issues related to financial performance, corporate governance, and corporate responsibility. This is done through attendance at annual general meetings, where questions or concerns are raised to the Board for the benefit of minority shareholders.

MSWG's annual Malaysian Corporate Governance Index creates awareness of, and encourages, corporate governance best practices among PLCs in Malaysia. The inaugural MCG Index 2009 revealed that the corporate governance score of the listed companies in Malaysia had shown improvements over the previous few years. Nevertheless, the following areas were identified as those that could be further improved to raise the CG bar:

- The role of independent directors.
- The separation of powers between the Chairman & CEO.
- Directors' remuneration.
- Board performance appraisal.
- Risk management
- Poll and proxy voting.

Role of Institutional Investors
Institutional investors in Malaysia are also playing a more active role to enhance corporate governance. The single largest institutional investor in Malaysia, the Employees Provident Fund (EPF), is actively advocating CG best practices in its investee companies. The EPF recently launched its Corporate Governance Principles and Voting Guidelines to promote corporate governance, transparency, and integrity within its own organisation as well as in its investee companies.

Strengthening the Role of Directors
On the boardroom front, MSWG has launched its Independent Directors' Pool to increase and complement the existing pool of independent directors in Malaysia for the benefit of the capital market. The Malaysian Alliance of Corporate Directors (MACD) was also formed

to promote corporate strategic performance, best practices in corporate governance, and the development of corporate directors with a high level of entrepreneurship.

Directors' training on awareness of best practices, and the development of Bank Negara Malaysia's Financial Institutions Directors' Education (FIDE) programme for directors of banks and other financial institutions, have also been given greater emphasis.

New Initiatives Moving Forward

Moving forward, there is much more in store for corporate governance development in Malaysia. The publication "Statement on Internal Control: Guidance for Directors of Public Listed Companies", which was issued in year 2000, is currently under revision by The Institute of Internal Auditors Malaysia. Following the Prime Minister's 2011 Budget announcement regarding private pensions, a private pension framework is being developed by a task force led by the SC. The framework is expected to lead to greater transparency and accountability in the pension fund landscape, and create a more robust capital market as Malaysia moves towards its goal of becoming a developed, high income nation. A new five-year blueprint on corporate governance is expected to be unveiled in 2011. The International Corporate Governance Consultative Committee (ICGCC), has been formed to provide views on corporate governance developments and trends, and to advise on key focus areas and policy recommendations in the formulation of the blueprint. The Committee is chaired by the SC Chairman, and is comprised of 10 other senior industry participants and experienced professionals from Malaysia and abroad.

Work is currently in progress, led by a high-level working committee and various sub-committees. As one of the working committee members, MSWG will be providing input on improvements to corporate governance that should be incorporated into the framework.

Conclusion

Malaysia has a robust corporate governance framework which compares favourably to international standards. In addition, a lot of effort and resources have been deployed by both regulators and market players to strengthen and raise the bar on corporate governance.

Nevertheless, changes in the corporate landscape and new corporate governance issues in Malaysia and at the global level demand that regulators and market players look at improving the existing corporate governance framework and practices. This will ensure that they remain robust, current, and able to encourage high standards of corporate behaviour to protect the integrity of the capital market. Notwithstanding these efforts, the challenge to embrace corporate governance in substance, and not just in form, still remains.

Committees

Committees

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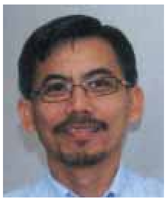

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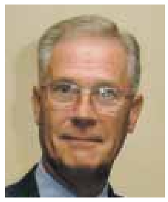

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