MSWG

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

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FOREWORD

I am pleased to present the **Policy Statement on Corporate Governance and Shareholder Voting Guidelines** developed by the Minority Shareholder Watchdog Group (MSWG).

This document is a reflection of MSWG's core activity. The Voting Guidelines are based on some of the best practices in corporate governance globally; some of these principles have been adapted here to suit the Malaysian environment. MSWG has also looked at environmental, social and governance practices, and supports such practices by public listed companies (PLCs).

We hope that institutional investors in Malaysia will similarly adopt such principles into their own policy statements and voting guidelines, and make them transparent to promote accountability.

I would like to commend our Chief Executive Officer for her initiative in developing this Policy Statement on Corporate Governance and Shareholder Voting Guidelines. Feedback is encouraged, so that we can update this document from time to time.

Tan Sri Halim Ali
Chairman
Minority Shareholder Watchdog Group (MSWG)
December 2009

INTRODUCTION

Corporate governance has developed beyond that envisaged by Adrian Cadbury in his 1992 *Report On The Financial Aspects of Corporate Governance*. Corporate governance today encompasses not only the financial aspects of a company's existence but extends to how its existence impacts on the environment, the community it operates in and society at large. How a company behaves is dependent upon how its directors and key management personnel behave.

Good corporate governance creates the framework within which the board of directors leads and controls a company in the long term interests of its stakeholders. Its effectiveness can be enhanced if shareholders hold themselves accountable to monitor and evaluate board performance. Through shareholder participation, MSWG encourages the boards of Public Listed Companies (PLCs) to:

- Adhere to the principle of long term sustainability of the company based on transparency, accountability and integrity.
- Promote and demonstrate values and standards of good governance in business transactions throughout the organization.
- Maintain a documented system of internal control and risk management.

- Design fair remuneration structures in line with industry norms, yet rewarding performance based on achievement of business objectives and the creation of value for shareholders.
- Deal with conflicts of interest appropriately.
- Recognise and manage the impact on all stakeholders of decisions made.

For this purpose, MSWG is developing a set of Key Principles and Voting Guidelines. The Principles and Guidelines provide a framework which MSWG, as a shareholder, will adhere to while stimulating shareholder engagement and participation.

MSWG will endeavour to discuss any departure from best practices with the listed company prior to making a decision to exercise its voting policy. The Key Principles and Voting Guidelines are presented in three (3) sections, covering items included on an Annual General Meeting (AGM) agenda. They are intended to assist shareholders to identify matters which ought to be taken into consideration before deciding to vote for or against the respective resolutions.

MSWG welcomes comments and feedback from companies, shareholders and other interested parties on this first edition.

SECTION A – ORDINARY BUSINESS AGENDA

The following items mirror the format of an ordinary business agenda at a typical annual general meeting of a PLC:

A.1 ADOPTION OF DIRECTORS' REPORT, FINANCIAL STATEMENTS AND AUDITORS' REPORT

A.2 APPROVAL OF DECLARATION FINAL DIVIDEND

A.3 ELECTION OF DIRECTORS

A.4 APPROVAL OF DIRECTORS' FEES

A.5 APPOINTMENT OF AUDITORS

SECTION B – SPECIAL BUSINESS

This section deals with special business which may appear in an AGM Notice, or which may be dealt with specifically at an Extraordinary General Meeting (EGM). These are:

B.1 DIRECTORS' GENERAL MANDATE FOR ISSUANCE OF SHARES PURSUANT TO SECTION 132D OF THE COMPANIES ACT 1965

B.2 SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF REVENUE OR TRADING NATURE

B.3 SHARE BUY-BACK AUTHORITY

B.4 EMPLOYEES SHARE OPTION SCHEME, BONUS AND INCENTIVES

B.5 AMENDMENTS TO MEMORANDUM AND ARTICLES OF ASSOCIATION

SECTION C – OTHER GOOD CORPORATE GOVERNANCE PRACTICES

This section deals with other good corporate governance practices. MSWG recommends that they be incorporated in all PLC's Annual Report. These are:

C.1 REPORT ON CORPORATE SOCIAL RESPONSIBILITY (CSR)

C.2 POLICY ON WHISTLE BLOWING

C.3 SHAREHOLDER COMMUNICATION AND RELATIONS

C.4 TIMING OF THE AGM AND DISTRIBUTION OF THE ANNUAL REPORT

C.5 CORPORATE CODE OF ETHICS AND CONDUCT

KEY PRINCIPLES AND VOTING GUIDELINES FOR COMPANY MEETINGS

SECTION A – ORDINARY BUSINESS AGENDA

A.1 ADOPTION OF DIRECTORS' REPORT, FINANCIAL STATEMENTS & AUDITORS' REPORT

NB : The abovementioned Reports do not require shareholders approval and in some cases no resolution is required to be passed for this agenda item. They are presented for shareholders to comment on and to seek clarification from the Board and the Auditors on any of the statements and financial results given in the Reports. Shareholders are recommended to actively participate.

Key Principles

- It is the board's responsibility to be transparent, and to present a balanced and understandable assessment of the company's position and prospects. This responsibility extends to interim reports and the annual financial statements filed with regulators, as well as to the information required to be disclosed by statutory requirements presented in the form of Annual Reports.

- The directors should explain in the Annual Report their responsibility for preparing the financial statements.

- The auditors should report their opinion as to whether the financial statements have been prepared in accordance with applicable financial reporting standards in Malaysia, and the provisions of the Company's Act, 1965, so as to give a true and fair view of the state of the financial affairs of the company or group.

- An abridged version of the Annual Report highlighting material items in the accounts should be made available. It is recommended that shareholders request for one.

- The non-statutory disclosures such as the Chairman's Statement, a review of the company's operational performance, 5-years financial highlights, corporate governance and corporate social responsibility statements, should also be included in the Annual Report.
- The disclosure should include what has been done during the year and practises that has been internalised to give the stakeholder a complete picture of the company every year.
- The board is encouraged to present an audio-visual presentation of the operations for the financial year under review, and on the company's future outlook and prospects.
- The Chairman is expected to allow shareholders reasonable time to ask questions, provide comment, and to seek clarification.

VOTING GUIDELINE

MSWG will support the adoption of the Audited Financial Statements for the financial year, together with the Directors' and Auditors' reports, unless:

1) there are grounds to suspect accounting irregularities, and/or,

2) answers given to shareholder queries are not satisfactory.

A.2 APPROVAL OF FINAL DIVIDEND

Key Principles

- Shareholders can approve payment of a final dividend up to the amount recommended by the board, but not beyond.
- It is at the discretion of the board to declare and pay any interim dividend.
- Companies are encouraged to publish a statement on Dividend Policy in their Annual Report.
- Payment of a dividend can be made in cash, retained earnings, shares, or a combination of such methods.
- While the declaration of a dividend is at the discretion of the board of directors, this authority should be exercised with utmost prudence.

VOTING GUIDELINE

MSWG will vote for a resolution for payment of a final dividend.

A.3 ELECTION OF DIRECTORS

Key Principles

- Directors who are standing for re-election are encouraged to be present at the AGM. The Chairman is expected to provide an explanation for the absence of any such director.

- The Chairman should confirm to the shareholders that a director proposed for re-election has passed a formal performance evaluation.

- MSWG supports the documenting of a Code of Ethics and/or Code of Conduct for directors which provides a code which the Board abides by based upon a set of principles of best practices amongst themselves as a guide.

- The board is encouraged to have a policy on the tenure of independent directors, and it is recommended that the policy be disclosed in the Annual Report.

- The Companies Act, 1965 requires the appointment to the board of any person who is 70 years of age or above to be approved by at least 75% of members and proxies voting in person at the AGM. Such appointments require the approval of shareholders on an annual basis.

- **In addition to the above principles, shareholders should also give due consideration to the principles accompanying the following issues before voting for or against the election or re-election of a director:**

A.3.1 Board Composition

A.3.2 Directors' Independence

A.3.3 Separation of the Role of Chairman and Chief Executive Officer (CEO)

A.3.4 Board Balance and Diversity

A.3.5 Board Succession

A.3.6 Board Committees

A.3.6.1 Audit Committee
A.3.6.2 Remuneration Committee
A.3.6.3 Nomination Committee

A.3.7 Director's Performance and Evaluation

A.3.8 Board Development and Training

A.3.9 Board Meetings

A.3.1 Board Composition

Key Principles

- The company should be led by an effective board, which is collectively responsible for the success of the company.

- The board should be well balanced. Directors should have diverse skill sets that complement one another and it is recommended to have at least one non-executive director with relevant experience in the business of the company.

- It is recommended that the size of the board should depend upon the need of the company but in any event should be large enough to enable board committees to be efficiently constituted.

- It is recommended that the board be comprised of at least half of independent non-executive directors. This is especially relevant in the case of a company where more than 40% is controlled by a single party/entity.

- Former partners of audit firms should not be appointed as directors of companies that are being audited by their former firm, within a period of two (2) years.

- It is highly recommended that the office of Chairman and CEO be occupied by different individuals. The appointment of an independent director as the Chairman is also highly encouraged.

- If the Chairperson is a non independent director representing a major shareholder, especially an institutional one, then a senior independent non-executive director must be identified.

- It is recommended that the Chairman of the board be knowledgeable in the company's main area of business.
- The Chairman is encouraged to spend more time with the company, yet maintain his position as a non-executive director.
- The appointment of a director as a joint company secretary is not encouraged.
- The appointment of an alternate director, for an independent non-executive director, is not encouraged.
- It is recommended that the Chairman be solely the Chairman of that specific company and not hold more than two (2) other directorships in other listed companies.

VOTING GUIDELINE

MSWG will request an explanation if any of the key principles mentioned above has not been adhered to.

A.3.2 Directors' Independence

Key Principles

"Independence is a state of mind, not a resume item" to quote Ram Charan in his book *Boards That Deliver*. In attempting to arrive at a semblance of this state of mind, MSWG will not view a director as independent if the director:

- Has been an employee of the company or group in the last five (5) years.
- Has been an independent director for a period of twelve (12) years or longer.
- Is related through blood or marriage to significant shareholders or directors in the company or group.
- Is involved in a directly reciprocal cross-directorship.
- Within five (5) years prior to his nomination:
  - ➢ Has been an employee or an executive director of an organisation which is acting in a professional capacity to the company.
  - ➢ Has received substantial consultancy payments from the company.
  - ➢ Has benefited from material related party transactions which exceed RM250,000.

- Has a significant holding (more than 2%) of the company's issued and paid-up share capital.

- Has been an employee or executive director of a significant customer or supplier of the company.

VOTING GUIDELINE

- **MSWG will request an explanation at the AGM of an individual seeking election as an independent director if he or she falls under any of the above criteria.**
- **MSWG will not support the election if not satisfied with the explanation given by the company.**

A.3.3 Separation of the Role of Chairman and Chief Executive Officer (CEO)

Key Principles

The Chair has the crucial role of creating a culture of openness which allows diversity of views to be expressed. Thus for effective functioning of this role, the chair should ideally be independent and neither a CEO nor a former one.

Sir Christopher Hogg, Chairman of the Financial Reporting Council (FRC) said

> "A good chairman would not be able to turn a bad company with a fundamentally flawed strategy work. But equally no company can achieve long-term out-performance without a great Chairman at the helm, one who has the right mix of skills to complement the executive team".
>
> Equally important is that a good Chairman must understand the critical differences between the role of Chairman and Chief Executive Officer (CEO).

The key principles that demarcate these roles are:

- The **Chairman** is expected to provide an oversight role to lead the board and monitor corporate governance and shareholder issues. In order to be effective, the Chairman must be knowledgeable in the company's main area of business and should ideally not accept the Chairmanship of any other PLC, as well as not hold more than two (2) other directorships in other companies. This is so that the Chairman can devote time to the company he is committed to Chair.

- The **CEO** manages and runs the day-to-day administration of the company and focuses on its profitability.
- The Chairman provides an effective channel of communication for the board to express views on the CEO and management.
- The board, on the recommendation of the Nomination Committee, selects the CEO.
- The Chairman should ensure the effectiveness of the board in all aspects of its role and agenda.
- MSWG will seek clarification from the board regarding any departure from best practices in terms of board balance and composition guided by the over-riding principle that no one individual should be allowed to wield undue influence on board decisions.

VOTING GUIDELINE

MSWG is in favour of, and supports, the separation of the roles of Chairman and CEO so that there is a clear division of responsibilities at the head of the company for check and balance purposes. MSWG is also in favour of the selection of an independent Chairman.

A.3.4 Board Balance & Diversity

Key Principles

- A board should be balanced to ensure a diversity of expertise and opinion.
- Boards are encouraged to have some form of gender diversity, with the required relevant experience.
- A board should have a sufficient number of independent directors to ensure there is a check and balance in the decision making process.

VOTING GUIDELINE

- **MSWG will support a board that has sufficient number of independent directors with the requisite skill sets and gender diversity.**
- **MSWG will not support the election of any director if the balance of independent directors is jeopardized.**

A.3.5 Board Succession

Key Principles

- The board should satisfy itself that plans are in place for an orderly succession of appointments as the terms of directors expire.
- Succession planning is vital to ensuring the effective functioning of the board in the long-term.
- Policies on succession planning should be formulated and disclosed in the company's Annual Report.
- A Nomination Committee should be in place to lead the process and make recommendations for appointments to the board.
- It is MSWG's opinion that at least one new independent, non-executive director should retire or join the board once every three (3) years.
- In addition, MSWG recommends that independent, non-executive directors serve a term of twelve (12) years.
- MSWG will support the appointment of directors above the age of 70 years, if they can demonstrate that they are able to contribute effectively to the company. Therefore, MSWG will seek clarification and get assurance from such directors where necessary.

VOTING GUIDELINE

MSWG will request an explanation if the principles have not been adhered to.

A.3.6 Board Committees

Key Principles

- It is important that the Chairman of board committees be led by an independent non-executive director.

- Best practices should be used in setting up board committees and determining their composition and powers. The committees' terms of reference should be formally documented.

- In line with best practices in the Malaysian Code of Corporate Governance, each board ideally ought to have three (3) key committees composed of a majority of independent non-executive directors:

  - An Audit Committee
    (*this is mandatory under the Bursa Malaysia Listing Requirements).

  - A Remuneration Committee.

  - A Nomination Committee.

VOTING GUIDELINE

MSWG is in favour of board committees where the Chairman of such a committee is an independent, non-executive director.

A.3.6.1 Audit Committee

Key Principles

It is a Bursa Malaysia Listing Requirement that a PLC must appoint an Audit Committee. The Audit Committee plays a key role in assisting the board of directors with its responsibilities regarding financial management and reporting, and ensuring the independence of the company's auditor.

The committee should:

- Be comprised entirely of independent directors.
- Be wholly comprised of members who are financially literate. At least one should be a member of the Malaysian Institute of Accountants.
- Ensure that shareholders are assured that it is completely independent of management.
- Ensure that the board maintains a sound system of internal controls to safeguard shareholder investments and the company's assets, and at the least to annually conduct a review of the effectiveness of the company's system of internal controls.
- Assist the board in developing an internal control statement which communicates in a meaningful way with shareholders on how the company manages risk and internal control.
- Assist the board to effectively discharge its responsibilities relating to the financial management, financial performance and financial reporting of the company.
- Assist the board in risk management assessment and ensuring that the system of internal controls is effectively implemented.
- Meet formally at least four (4) times a year, prior to the announcement of the company's quarterly results.

- Have written terms of reference clearly stating the need for quorum and frequency of meetings during the year under review. This should be disclosed in the Annual Report.
- Have at least twice a year a separate session with external auditors without the presence of executive directors and management.
- Ensure that the appointment of the external auditors is transparent, and that appropriate fees are paid to the auditors commensurate with the work performed, the size of the company, and the nature of its business.
- Disclose any non-audit work conducted by the auditors and the fees paid for such work.
- Review the nature and extent of non-audit work (if any) and, if necessary, put the non-audit work out for tender.
- Review strictly all related-party transactions.
- Oversee the effectiveness of internal audit functions.
- Disclose the total cost incurred for running the internal audit function annually.

VOTING GUIDELINE

- **MSWG will raise concerns at the AGM during the re-election of auditors, if the non-audit fee is substantially higher than the audit fee.**
- **MSWG will support a well-composed and effective Audit Committee.**
- **MSWG will raise questions and seek explanation if the reason for a change of auditor is only on account of the fees charged.**
- **MSWG will raise questions and will request explanations if the Audit Committee does not abide by its terms of reference.**

A.3.6.2 Remuneration Committee

Key Principles

The Remuneration Committee should:

- Recommend that the Annual Report discloses the remuneration of individual directors and key management personnel.
- Be chaired by an independent, non-executive director.
- Be comprised of at least three (3) directors, with a majority being independent, non-executive directors.
- Be responsible for reviewing the remuneration of executive directors and senior management and advising the full board on these issues.
- Advise the board whether the remuneration of senior management is aligned with the long-term growth of shareholder value, and is reasonable in comparison with industry benchmarks.
- Structure the remuneration policy so that shareholders understand, and are in a position to monitor, the link between performance and executive reward.
- Be responsible for determining the parameters and processes required to ensure appropriateness of the employee share option scheme.

- Be mindful if a separate committee is set up to administer an executive share option scheme.

- Have written terms of reference clearly defining the relevant matters to be dealt with by the committee, along with committee member rights.

- Ensure the frequency of meetings during the year under review is disclosed in the Annual Report.

VOTING GUIDELINE

MSWG will support a well-composed Remuneration Committee that carries out its work effectively.

A.3.6.3 Nomination Committee

Key Principles

It is encouraged that the Nomination Committee:

- Be set up separately from the Remuneration Committee.
- Be chaired by an independent, non-executive director.
- Be comprised of at least three (3) directors, with a majority being independent, non-executive directors.
- Identify the process by which suitably qualified candidates are identified and short listed for appointment to the board.
- Ensure that all newly appointed directors undertake an appropriate induction training programme in addition to the Mandatory Accreditation Programme.
- Continuously evaluate directors and key management personnel on their performance, and recommend counseling or training if necessary.
- Disclose the maximum period of service and retirement age proposed by the company for directors.
- Ensure that its terms of reference are clearly defined and the attendance and frequency of meetings during the year under review are disclosed in the Annual Report.

VOTING GUIDELINE

MSWG will support a well-composed Nomination Committee that carries out its work effectively.

A.3.7 Director's Performance And Evaluation

Key Principles

The board's processes for evaluating directors should be disclosed in the Annual Report so that shareholders are able to understand how the board maintains the balance necessary for effective governance and management oversight.

The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. It is encouraged that the result of such evaluation be disclosed in the corporate governance statement of the Annual Report.

MSWG recommends that the following criteria be used to evaluate director effectiveness:

- **Attendance** – Directors should be encouraged to attend all board and committee meetings. Directors should attend all AGMs and EGMs unless there are extenuating circumstances.

- **Shareholding** – It is allowable for independent directors to have a direct, personal investment in the ordinary shares of the company, but this should not exceed 2% of the company's issued and paid-up capital. It is encouraged that such holdings be long term. All transactions must be made in accordance with the requirements of the Companies Act, 1965 and Bursa Malaysia's Listing Requirements. Stock options as a form of compensation for independent directors are discouraged.

- **Number of directorships** – It is encouraged that the Board has a self imposed maximum number of Boards their members can serve. MSWG recommends that non-executive directors serve on no more than five (5) public company boards to ensure they can devote their time to the board they serve for effectiveness.

- **Term limits** – Stipulating a maximum length of service for independent directors is encouraged. MSWG recommends that the tenure be not more than twelve (12) years.

- **Directors Fees** – MSWG believes that policy issues relating to non-executive compensation are fundamentally different from that of executives. Whilst MSWG supports performance-based compensation for executive directors, it does not support the same method for non-executive directors. This is because the non-executive director's function is to provide independent view to the board and an oversight role to the executives. It is an important aspect of governance. Care must be taken to ensure that there is no appearance of conflict. Thus, MSWG does not encourage stock options nor retirement benefits to be given to non-executive directors.

- **Service Contract** – The Executive Director's service contract with the company should be reviewed periodically, taking into account industry changes. The service contract should not be for an excessively long period and contain onerous removal clauses.

VOTING GUIDELINE

- **It is the responsibility of the company Chairman, together with the Nomination Committee Chairman, to ensure the above key principles are met.**
- **MSWG will support the adherence to these key principles.**
- **MSWG will seek clarification if disclosures recommended under these key principles are not made.**

A.3.8 Board Development And Training

Key Principles

- It is encouraged that all directors receive an induction course upon joining the board especially on corporate governance matters and matters relating to the company they oversee.
- This is so that directors familiarise themselves with the company's operations in order to fulfill their roles both on the board and board committees.
- The Chairman to ensure that the directors continually update and refresh their skills in their area of expertise and knowledge on governance issues generally.
- The company should provide the necessary resources for developing and updating its directors' knowledge and capabilities, as well as ensure the continuing professional development of all directors.
- A report on Board Development and Training must be disclosed in the Annual Report.

VOTING GUIDELINE

- **It is the Chairman's responsibility to ensure the above key principles are met.**
- **MSWG will support the adherence to these key principles.**
- **MSWG will seek clarification if disclosures recommended under these key principles are not made.**

A.3.9 Board Meetings

Key Principles

- The Chairman of the board has the primary responsibility for ensuring that board meetings take place and the frequency depends upon the need of the company.
- It is encouraged that the directors engage in active discussions.
- Board decisions must be accurately recorded in meeting minutes, and the minutes must be distributed in a timely manner.
- The circulation of draft minutes of meetings to all board members within seven (7) market days of the meeting is encouraged so that immediate action can be taken where necessary.
- It is encouraged that the frequency of meetings and the attendance of board meetings including all board committees are fully disclosed in the Annual Report.

VOTING GUIDELINE

MSWG will vote against the re-election of a Director who fails to attend 50% or more of board meetings including the board committees without any valid reason.

A.4 APPROVAL OF DIRECTORS' FEES

A.4.1 Non-Executive Directors' Fees

Key Principles

- Given the importance of the role of non-executive directors in providing an oversight function to the board, it is vital that compensation policies affecting them should not only be transparent but also addresses shareholder expectations and that those setting the policies should be made accountable.

- MSWG will not support performance-based compensation policies for non-executive directors. Therefore, their compensation policies should be governance-based reflective of industry norms and the role they play on the board.

- MSWG discourages non-executive directors to be eligible to receive any retirement benefits plans or stock awards as they are elected representatives of shareholder and not company executives.

- Any increase in directors' fees in the current financial year, compared to the previous financial year, should be justified.

- MSWG encourages the disclosure of directors' fees individually.
- MSWG discourages the seeking and approval of payment of future fees in whatever manner.

VOTING GUIDELINE

MSWG will vote for a resolution relating to directors' fees, as long as the fees are within industry norms.

A.4.2 Executive Directors' Remuneration

Key Principles

- MSWG is a strong advocate of performance-based compensation for executive directors.
- The level and make up of performance-related remuneration is the principal means by which the CEO and executive directors are motivated to maximise shareholder value and are rewarded for doing so.
- There should be a formal and transparent procedure for developing policies on executive remuneration and for fixing the remuneration packages of individual executive directors.
- The remuneration scheme in place should reduce incentives toward excessive risk taking by executive directors.
- Remuneration paid to each individual director is encouraged to be disclosed in the Annual Report for reasons of transparency.
- Shareholders should expect a full explanation of any disparity between the trend in executive director remuneration and the company's performance.

- MSWG encourages companies to allow shareholders to discuss executive directors remuneration through a non-binding vote, especially the CEO remuneration.

VOTING GUIDELINE

There is no requirement for executive directors' remuneration to be voted on by resolution. However, MSWG will raise queries to the board at the AGM if the remuneration scheme in place is excessive and not justified nor commensurate with the performance of the company.

A.5 APPOINTMENT OF AUDITORS

Key Principles

- It is the Audit Committee's responsibility to recommend the appointment of external auditors, fix their remuneration, and deal with issues on their resignation or dismissal.
- The Audit Committee reviews the adequacy of existing external audit arrangements, with emphasis on the scope and quality of the audit.
- Any change in auditors should be explained to shareholders in the Annual Report and at the AGM.
- It is encouraged that Statutory Audit fee are not unnecessarily cut but must be commensurate with the level of operation of the company. MSWG will raise concerns if the auditors are changed just because of fees.
- Non-audit work is encouraged to be carried out by other than company's external auditors.
- The Chairman of the Audit Committee should be available to answer questions at the Annual General Meeting.
- MSWG will ask for explanation if the non-audit fee is higher than the statutory audit fee.

VOTING GUIDELINE

MSWG will vote for the appointment of auditors if the key principles are adhered to.

SECTION B – SPECIAL BUSINESS

B.1 DIRECTORS' GENERAL MANDATE TO ISSUE SHARES PURSUANT TO SECTION 132D OF THE COMPANIES ACT, 1965

Key Principles

The right to issue shares is vested in the shareholders. However, Section 132D allows the shareholders to "delegate" this right to the directors via a resolution at an AGM. Bursa Malaysia's Listing Rules limit the issuance of such shares to ten percent (10%) of the nominal value of the company's issued and paid up share capital, excluding treasury shares. The Listing Rules also require that the precise terms and conditions of the issue be disclosed for shareholders consideration.

Shareholders should take note that, where a general mandate is sought, the proposed resolution must be accompanied with the following information:

- Whether the mandate sought is new or a renewal.
- If a renewal, to specify the proceeds raised previously (if any), and to give the details and the status of the utilisation of the proceeds.
- If new, to specify the purpose and utilisation of proceeds resulting from the issuance.

VOTING GUIDELINE

MSWG is of the opinion that the Chairman or his representative should explain to shareholders the reason and plan of action for the general mandate. MSWG will vote against this resolution, unless shareholders are provided with a reasonable explanation of the reasons for the proposal.

B.2 SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF REVENUE OR TRADING NATURE

Key Principles

Companies should have a transparent process for identifying and managing conflicts of interests.

- It is the responsibility of the board to ensure that recurrent related party transactions (RRPTs) are conducted on sound commercial terms and undertaken only in the interest of the company.
- As required by the Listing Requirements which spells out the details, MSWG will scrutinize such transactions. The board must make a statement in the circular to shareholders on whether or not the transactions are at arm's length and are conducted in the best interest of the company.
- The identity of the related party and the value in monetary terms of the transaction should be disclosed.
- The total amount with the same related party for the year, the proportion of revenue and any deviations to be disclosed.
- The board should disclose details of any dissension to these RRPTs.

VOTING GUIDELINE

MSWG will vote against this resolution unless shareholders are provided with information disclosing all material RRPTs and a statement confirming that these RRPTs were conducted at arm's length and in the best interest of the company.

B.3 SHARE BUY-BACK AUTHORITY

Key Principles

- The aggregate number of shares purchased should not exceed ten percent (10%) of the total issued and paid up share capital of the company.

- An amount not exceeding the company's audited retained profit and/or share premium account for the financial year will be allocated for the share buyback.

- MSWG believes that the buying and selling of shares is not the main business of the company. The company should concentrate its efforts on ensuring the business they are in is profitable.

- MSWG believes that money not needed for reinvestment in the company should be returned to shareholders as dividends.

- However if there are compelling reasons to buy back its shares, the company must be able to afford to buy-back its own shares without borrowing and must evaluate the situation very thoroughly.

VOTING GUIDELINE

MSWG will only vote for this resolution on case-by-case basis, if it considers that the share buy-back will be beneficial to, and in the interest of, the shareholders in the long term.

B.4 EMPLOYEES SHARE OPTION SCHEME, BONUS AND INCENTIVESS

Key Principles

- An Employees Share Option Scheme (ESOS) must inevitably be linked to a company's performance and should only be awarded to employees (including executive directors and managers) with responsibility for overall performance.

- Share options should be structured fairly based on proper criteria, to measure performance adequately and to make sure share options really link to outstanding performance. Unprofitable share options and incentive schemes should not be encouraged.

- Equally important, share options and incentive schemes should be priced realistically, at the true business value of the company. They should not reward employees (including executive directors and managers) for market rises on the company's shares over which they had no influence, and bore no risk.

- Non-executive directors especially independent directors should not participate in any form of share options or incentives. They should be paid a fee commensurate with the role and responsibilities and size of operation of the company.

- International Financial Reporting Standards require a company to reflect in its income statement the effects of operating share-based payment schemes, in terms of its costs in rewarding employees (including executive directors and managers).

VOTING GUIDELINE

It is in the best interest of a company to retain and motivate good employees (including executive directors and managers) and to pay them well, with share options, bonus and incentive schemes. Share options, bonus and incentive schemes should not be given for below average or even average performance.

1) **MSWG will vote, on a case-by-case basis, on resolutions of a company to implement share option and incentive schemes.**

2) **MSWG will vote against any resolutions that do not adhere to the key principles.**

B.5 AMENDMENTS TO MEMORANDUM & ARTICLES OF ASSOCIATION (M & A)

Key Principles

- Any changes proposed to the company's M & A should be clearly explained.
- The board should regularly review the M & A and should make it readily available to all shareholders.
- Non-routine changes to the M & A must not be bundled into a single resolution, but instead must be separately voted on.
- Any amendments to the M&A should be for the purpose of promoting good corporate governance as well as to further the interests of the company.

VOTING GUIDELINE

MSWG will support changes provided that the board clearly demonstrates that any changes will not detract from shareholder value or materially reduce shareholder rights.

SECTION C – OTHER GOOD CORPORATE GOVERNANCE PRACTICES

C.1 REPORT ON CORPORATE SOCIAL RESPONSIBILITY (CSR) AND SUSTAINABILITY

Key Principles

CSR is a fundamental part of the normal running of a business in a manner that accounts for the social and environmental impact created by the business. The driving force is not philanthropy, per se, but the commitment to integrate responsible practices into daily operations that will generate and sustain profits in the longer term.

Good CSR practices include the following policies:

- **Human resource** policies that are non-discriminating, that view employees as assets rather than costs, and that integrate the views of line employees into decision making processes.

- **Environmental** policies that exceed compliance with statutory requirements and that advance the use of resources in a more productive, efficient and sustainable manner.

- **Community** development policies that take account of the welfare, health and safety of the community within the company's area of operation, as well as further afield.

- CSR relates to the notion that the board has responsibility to society at large.

- Every company is encouraged to develop a CSR policy.

- Effective board action on CSR is essential to sustain shareholder value creation.

- MSWG will bring up environmental, social and governance matters when it engages with companies. It will seek more disclosure of these issues in corporate Annual Reports so that stakeholders will be aware of the practices of PLCs.

- MSWG will look at actual activities conducted during the year as reported in the Annual Report to determine the quality of CSR practices.

C.2 POLICY ON WHISTLE BLOWING

Key Principles

Whistle blowing is defined as a voluntary disclosure of any misconduct or wrongdoing within an organisation to regulators, or to persons or committees holding positions of authority within that organisation. Such disclosures encourage accountability and transparency, both important pillars of good corporate governance practices. Protection must, therefore, be given to the person making such disclosures. Nevertheless, there must be procedures in place to filter disclosures which are honestly made in the interests of the organisation against those made maliciously or for personal gain.

Currently, Sections 32 and 321 of the Capital Market Services Act, 2007 and Sections 174A(2A) and 368B of the Companies Act, 1965 cover protection for disclosures made by auditors and senior officers of a corporation. However, disclosures made under these provisions are not strictly voluntary in nature as they are made by the persons in the course of performing their respective duties.

It is hoped that the proposed Whistle Blower Act announced by the Prime Minister in his 2010 Budget Speech will cover a wider scope, to eventually create an anti-fraud culture within corporations.

Good whistle blowing policies should include the following:

- Procedures for reporting the wrongdoing.
- Procedures for the treatment of complaints or reports.
- Procedures for the conduct of investigations.
- Statements on protection.
- Statements on abuse.
- Statements on reward and punishment.

C.3 SHAREHOLDER COMMUNICATION AND RELATIONS

Key Principles

Maintaining investor confidence and the trust of shareholders is a challenge faced by PLCs. The boards of listed companies should use the Annual General Meeting as the forum for communicating with shareholders, and should strongly encourage their participation.

Good shareholder communication and relations exist if:

- The Chairman creates an atmosphere that is conducive for questions to be raised in a friendly and open manner at the AGM.
- Information contained in the Annual Report is accurate and transparent, and is disseminated in a timely manner (preferably 28 days before the date of the AGM).
- Regular dialogue or conferences with groups of investors, including retail shareholders, are held.
- There is more active engagement with institutional shareholders and fund managers.
- The voting records of institutional investors like the EPF, Khazanah Nasional, PNB, SOCSO and LTH are made available to shareholders upon request.
- Company websites are comprehensive and current.

C.4 TIMING OF ANNUAL GENERAL MEETING (AGM) & DISTRIBUTION OF ANNUAL REPORT

Key Principles

- Although the Companies Act, 1965 stipulates that a listed company must convene its AGM not later than six months after the date the financial year ended, MSWG recommends that AGMs should be held much earlier, preferably within four (4) months after the year end.

- MSWG regards as good practice for the Notice of General Meetings and Annual Reports to reach shareholders twenty eight (28) days before the date of the meeting, even though the law stipulates fourteen (14) days if no special resolution is to be passed, and twenty one (21) days if a special resolution is to be passed.

C.5 CORPORATE CODE OF ETHICS AND CONDUCT

Key Principles

- Companies should have a code of ethics and conduct for all employees. It should include the ethical values and guidelines in its interaction with internal as well as external stakeholders. This should be made available in the website for all stakeholders to view.

- The board should regularly review such codes so that it is relevant and current.

- The board should also adopt a set of code that can apply to them and be made transparent to shareholders.

APPENDIX – LIST OF REFERENCES

- Companies Act 1965 (+Act A1299/2007)
- Malaysian Code on Corporate Governance March 2000, and Revised 2007
- Listing Requirement of Bursa Malaysia Securities Berhad, including amendments made on 3 August 2009
- Capital Markets and Services Act 2007
- Securities Commission (Amendment) Act 1993
- Pensions Investment Research Consultants Ltd. (PIRC) Global Shareholder Voting Guideline 2009
- National Association of Pensions Fund Limited (NAPF) Corporate Governance Policy and Voting Guidelines – November 2007
- Aviva Investors Corporate Governance and Voting Policy 2009
- ICGN Institutional Voting Guidelines
- Walkers Review
- Canada Pension Plan (CPP) Investment Board Proxy Voting Principles & Guidelines – February 2009
- California Public Employees' Retirement System Global Proxy Voting Principles – March 2001

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ACKNOWLEDGEMENT

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