



MINORITY SHAREHOLDER WATCHDOG GROUP
Shareholder Activism and Protection of Minority Interest
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia • Company No : 524989-M)

SPEECH & PRESENTATION OF FINDINGS

BY

PUAN RITA BENOY BUSHON
Malaysian Corporate Governance Index 2010
Renaissance Hotel, Kuala Lumpur
on
14 December 2010 (Tuesday)

Yang Berhormat Senator Datuk Dr Awang Adek Husein
Deputy Finance Minister

Yang Berbahagia Tan Sri Abdul Halim Ali
Chairman
Minority Shareholder Watchdog Group

Distinguished guests,

Members of the media,

Ladies and gentlemen.

Good evening and Salam 1 Malaysia.

1. On behalf of MSWG, I would like to once again welcome all of you to the MCG Index 2010 event tonight. I am indeed privileged to have among us the industry captains of corporate Malaysia, directors, market regulators, institutional investors, foreign guests from the ASEAN region and ICGN, the media, as well as those who share the same commitment towards raising the standards of CG in Malaysia.

Ladies and Gentlemen,

2. We have only 2 weeks to go before we say farewell to year 2010. There was certainly a hive of activities in the corporate arena this year and happenings in the Boardrooms. And perhaps the strangest one was when an MD became uncontactable after the spectacular collapse of the PLC's share price!
3. A few board tussles also happened this year, and more often than not, was detrimental to the interest of the minority shareholders. MSWG had stepped in **3** of such cases, to ensure that the Board as a whole would be acting in the best interest of the company.
4. Year 2010 has also hit the ground running on merger and acquisitions activities from the word go, many, via the acquisition of assets and liabilities route.
5. MSWG urged our regulators to consider whether amendments need to be made, from a simple majority, to 75 percent of shareholder approval to be more in line with the Takeover Code, which governs takeover activities and whose spirit is for minority shareholder protection.
6. This year we have also seen a record number of companies being taken private. In our monitoring list we have **12** companies which had been de-listed or pending imminent de-listing due to privatisation, as well as **3** which are still in various stages of completion and expected to be de-listed next year. To balance this, there were **23** IPOs during the year (up to 1 December 2010).

Ladies and Gentlemen,

7. The MCG Index is now in its second year. The project is being led by MSWG, with funding support from the Capital Market Development Fund or CMDF.
8. This project continues to be industry driven with the support of the various industry players at the Main Committee level, as the advisors to MSWG on the methodology, providing input, and adjudicating the top 100 companies, and the winners. In this regard, I would like to thank them.
9. They are, from:
 - Nottingham University Business School (Malaysia campus) - **Associate Professor Salleh Hassan**
 - Corporate Governance and Financial Reporting Centre of the National University of Singapore - **Associate Professor Mak Yuen Teen**
 - ASLI- **YBhg Dato' Dr Michael Yeoh**
 - Association of Stockbroking Malaysia – **Dato' Saiful Bahri Zainuddin**
 - ICR Malaysia – **Mr. John Zinkin**
 - Malaysian Association of Asset Managers – **Mr. Gerald Ambrose**
 - The Institute of Internal Auditors Malaysia – **En. Hashim Mohammed**
 - MICG – **Mr. David Berry**
 - MAICSA – **Mr. Jeremie Ting Keng Fui**; and
 - Mr Suresh Menon.
10. Thank you to the Research team, comprising MSWG analysts and the team from Nottingham University Business School for their efforts in perusing and analyzing the data of hundreds of Annual Reports. My thanks also the MSWG team members for their tireless efforts in co-ordinating this event.

Ladies and Gentlemen,

11. Before I go the findings of the MCG Index 2010 itself, I would like to share some of the findings conducted by the World Bank and also a study on corporate governance in Asia.

World Bank Doing Business 2011

12. As you can see from the slide, Malaysia has improved its ranking from 23rd last year to 21st among 183 economies surveyed in the recent World Bank Doing Business 2011.
13. Malaysia came out tops in terms of getting credit and ranked a respectable 4th place in terms of investor protection, which bodes well in terms of attracting investors to invest in Malaysia.

ACGA-CLSA CG Watch 2010

14. Malaysia retained its 6th spot in the recent ACGA-CLSA CG Watch 2010, with marginal improvement in the overall score.
15. Two categories which the study noted marked improvements were the CG rules and practices, as well as political and regulatory environment.
16. The study also mentioned that Malaysia is lacking in the area of poll voting. This is an area that foreign investors would like to see more positive changes in the near future.

Ladies and Gentlemen,

MCG Index 2010

17. The MCG Index methodology remains largely similar to last year to enable comparison with last year's results. Nevertheless, we have this year, given greater weightage on CSR.
18. There were a total of 959 companies listed on the Exchange as at end June 2010. However, 61 companies had to be excluded for various reasons such as being a PN17 company. Thus, we focused on the remaining 898 companies.

19. Briefly, the assessment involved a 4-stage process. The first stage examined compliance of all the PLCs, with 114 items on the CG scorecard. Only companies which attained a score of 50% and above could proceed to Stage 2. 473 companies or 53% of the companies which is higher than 41% last year, qualified to Stage 2, that is the Bonus & Penalty section. In this stage, companies were assessed against 44 bonus practices and 11 penalty practices.
20. The performance criteria as measured by the 5-year average ROE was assessed in Stage 3, as we believe that conformance to good CG practices must translate to performance. We have given greater weightage to performance from 5% to 10% this year.
21. Finally in Stage 4, the 200 top PLCs were assessed by MSWG analysts where the Analyst Input weightage was 20%, the same as last year's which includes quality of disclosures, practices and conduct in the market place. The Top 100 plcs after this 4-stage process will be revealed in the MCG Index 2010 tonight.
22. Let me clarify here that the companies have all been assessed largely based on information available in the public domain, primarily from the disclosures in the Annual Report and company website.
23. This Index is by no means a guarantee that the companies do not or will not engage into transactions or practices that can bring CG into question in the future.

Ladies & Gentlemen,

Overall MCG Score

- The MCG Index level for 2010 is **66.00** compared to 64.4 in 2009. Though marginal improvement, this is nevertheless an encouraging result.
- The **overall MCG Score** is as follows:-

Ratings	MCG Score	No. of companies
A+	≥ 80	11
A	≥ 70	13
B	≥ 60	37
C	≥ 50	39
Total		100

- There are 24 new companies in the Index this year. Those that have been replaced may be due to other plcs attaining higher scores, thus leapfrogging them this year .
- 67% of the top 100 plcs are those with market cap of over RM1 billion, 25% are mid cap companies and the remaining 8% have market cap below RM350 million as at December 2010.
- A post mortem of last year's Index results was carried out and many companies took the additional effort to improve the gaps which were identified by MSWG.
- We encouraged Boards to improve these gaps or weaknesses through our monitoring of PLCs, engagement with Boards as well as attendance at AGMs. The focus areas were:
 - Separation of roles between Chairman and CEO
 - Independent Chairman on Board
 - Boards with $\geq 50\%$ INEDs
 - Tenure of independent directors
 - Disclosure of directors remuneration by individual directors; and
 - Establishment of whistle-blowing and dividend policy
- According to the results of the 2010 MCG Index, all these areas saw varying degrees of improvements except for tenure of INEDs.
- Meanwhile, there were still gaps that need to be improved in the areas of:
 - Board Assessment
 - Nomination of INEDs from independent source
 - Board diversity
 - Disclosure of remuneration by individual directors
 - Poll and proxy voting

Ladies & Gentlemen,

A. Base CG Scorecard

- As you can see from the slide, the average Corporate Governance base score on compliance to best practices for all the 898 PLCs has increased to 55.6% in 2010 compared to 52% in 2009, an increase of 6.9%.

Main Findings 1 – Board of Directors

Board size

- Moving on to the Board of Directors, the average board size is 7 directors, the smallest being 3 and largest Board comprised of 17 directors.
- In the UK FTSE 100 companies, the average size is 10 directors; Singapore – 10 directors; US – 11 directors.
- While the optimal size of the Board really depends on the nature and scope of the business, the effectiveness of the Board may be questioned when the Board size is too small or too large.

Separation of roles of Chairman and CEO

- One of the desirable practices of an effective board structure is for the roles of the Chairman and CEO to be held by separate individuals for better check and balance.
- 82.5% or 741 companies separated the roles. This is a significant improvement compared to only 60% of companies doing so last year.
- A further 33.5% had independent directors as the Chairman, also a slight improvement from 30% in 2009.

Independent directors

- The presence of independent directors is a mechanism to ensure that Board plays its oversight role effectively.
- While the majority of the companies complied with the minimum one-third requirement, the Survey found 40.2% had Boards comprising half or more of independent directors.

Tenure

- Our survey considered independent directors with tenure of more than 12 years as non-independent. In this regard, 25.5% had independent directors serving on the board for more than 12 years.
- While tenure for independent directors is neither legislated nor stated as a recommendation under the Code, we in MSWG believe this is something that Boards overall is encouraged to consider to remain effective and dynamic.
- Tenureship for INEDs is also being looked into by other jurisdictions. For example, The Monetary Authority of Singapore has proposed that for banks and insurers, a director will be considered non-independent after serving for a continuous period of 9 years.

Board Assessment

- The yearly board assessment process is very important mechanism to assess the effectiveness of independent directors and also other board members.
- In this regard, it is disappointing to note that only 213 companies or 23.7% disclosed that an annual board review was conducted and even fewer companies disclosed the criteria used in appraising board and individual director!
- Very few companies disclosed use of independent external facilitators.

Main Findings 2 – Board Diversity

- One of the criteria in the Bonus items is Board diversity, including gender diversity.
- Improving gender diversity on Boards is also in line with recent global trends in CG. The UK Code now explicitly provides that the benefits of greater diversity (including gender diversity) should be taken into consideration in Board appointments. However it stops short of setting any specific quotas.
- In Australia, changes introduced by the Australian Securities Exchange to take effect in 2011 require a company to adopt and disclose a diversity policy which should include requirements for the board to establish measurable objectives for achieving gender diversity.
- The percentage of women directors on Board has improved, albeit, marginally, from 7.5% last year to 8.2% this year. Therefore, more needs to be done by companies to make a conscious effort to include gender diversity in board agendas.
- Tonight we will also be giving the Most Diverse Board award to one company which MSWG has deemed to have the diversity elements in terms of skill set, experience, gender, nationality and ethnicity in its Board and has also met the CG and the performance criteria.

Main Findings 4 – Directors’ Remuneration

- On disclosure of directors’ remuneration by individual directors, only 5.6% or 50 companies did so. Many are not prepared to disclose the details, despite it being a best practice recommended under the Malaysian Code on Corporate Governance.
- Only 9 companies were transparent in disclosing remuneration received by individual directors both at company and subsidiaries level.
- As a matter of interest, we have also collated the average directors’ remuneration per sector.
- We encourage companies to remunerate their directors appropriately - where Executive Directors are concerned, the remuneration is encouraged to be performance based. While the Non Executive Directors, being in a governance role be remunerated according to the level of duties and responsibilities undertaken, also taking into consideration industry and geographical norms.
- Particularly for independent directors, the level of director fees should commensurate with the complexities of the company and industry. It should not be too low where it will compromise integrity but at the same time, should not be too high where it can mar the level of independence.
- For Executive Directors, the highest-paying sector is the Finance sector with an average of RM1.7 million per annum per ED. This translates to about RM140k per month. **The overall average for EDs is approximately RM710k per annum.**
- For Non Executive Directors, **the overall average remuneration per director is approximately RM70k per annum.** Again, the highest average NED remuneration per director was in the Finance at around RM280k per annum.

Main Findings 5 – Timely Reporting

- Transparency also include timeliness of reporting.
- Timely release of annual audited accounts and the Annual Report would be of immense benefit to shareholders and investors.

- The number of companies which released their Annual Report within 120 days after their financial year end increased from 219 PLCs in 2009 to 249 PLCs this year.
- Companies on average took 135 days or 4½ months to release their Annual Report.
- We would like to encourage companies to release their year-end audited financial results and annual report in a more timely manner for the benefit of shareholders, otherwise the information is dated.
- Similarly, this will expedite the holding of the annual general meeting, being the primary platform for shareholders to engage with the Board of Directors.
- The most timely release of Annual Report was 20 days after the close of FYE. The said company also held its AGM 42 days after its FYE. This had certainly set a high benchmark for other companies to emulate.

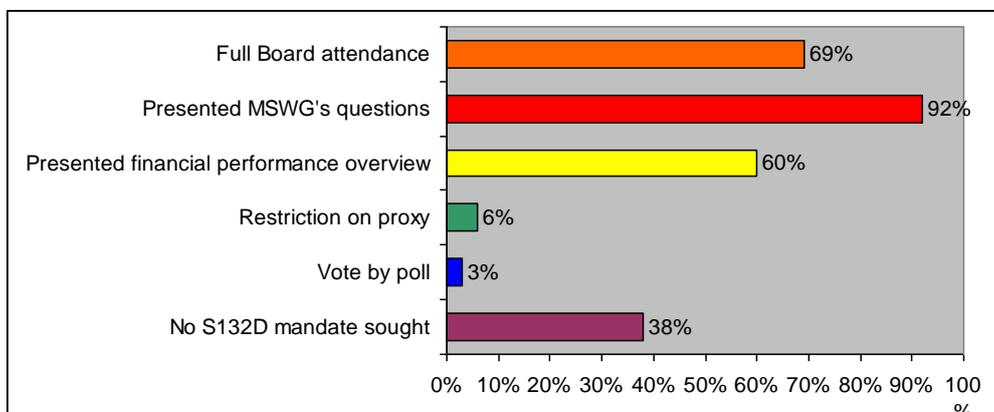
Main Findings 6 – Disclosures on Whistleblowing, Dividend Policies and CSR

Disclosure	2010	2009
Whistleblowing Policy	6.24%	2.56%
Dividend Policy	5.68%	5.34%
CSR	50.89%	49.39%

- Overall, there was marginal improvements in the disclosure of existence of whistle-blowing policy, dividend policy and CSR.
- Still a lot room for improvement in CSR, to be better structured and carried out in a holistic manner.
- There still needs to be a more transparent disclosure in the CSR Statement on funds allocated to CSR activities, and not hidden in the notes to accounts.
- A number of companies, albeit small, have begun producing stand-alone sustainability reports which is a very commendable effort by the PLCs for others to emulate.

B. CONDUCT OF AGM

- Companies which are under MSWG's monitoring portfolio were also accorded points based on their conduct of AGM where MSWG's representative was in attendance.
- MSWG had attended close to 200 AGMs in 2010 whereby the conduct of AGM was documented.
- The assessment criteria is as stated in the slide.
 - Timeliness of holding AGM
 - Accessibility of meeting venue
 - Efficiency of registration procedures
 - Board's attendance at AGM
 - Presentation of review of Financial Performance
 - Board's response to questions posed by shareholders
 - Shareholders' feedback on proceedings of AGM
- The findings as you can see from the chart is encouraging especially:
 - 69% had full board attendance at the meetings
 - 92% presented questions raised by MSWG
 - 60% presented the financial performance overview at the start of the meeting



- The area where improvements need to be made are on restriction for proxies and poll voting.
- On the issue of proxy appointment, certain companies still had restrictions in their Articles that a proxy should be a member of the Company, an Advocate, an approved Company Auditor or a person approved by the Companies Commission of Malaysia.
- MSWG had urged the Board of these companies to remove such impediments as we believe that it would facilitate greater shareholder participation for the greater good of the company. I must mention that indeed many companies had removed such restrictions from their Articles.
- Another area which needed to be improved was in respect to poll voting. In this regard, most resolutions voted at the AGMs attended by MSWG were carried out by show of hands. There were only 7 general meetings attended by MSWG had resolutions being voted by way of poll at the request of shareholders.
- The ACGA-CLSA CG Watch 2010 reported that voting by poll has been made mandatory in Hong Kong, and now is the norm for Thailand but non-existent for most of the Asian region.
- Moving forward, we need to facilitate voting by poll, by removing any restrictive clauses in the M&A and also facilitating electronic voting.

Ladies & Gentlemen,

24. The areas which have been highlighted are the more pertinent findings in the MCG Index 2010. The full findings will be made available in the MCG Index 2010 Report to be published by the end of the first quarter 2011. We will also make it available in our website for our subscribers who can then get access to the information. We hope to see more corporates joining as our subscribers.
25. We have published our Special Edition of our newsletter, The Observer, which has been given to everyone here tonight. You will also be given a Special News Straits Times Pullout on MCG Index 2010 at the end of this event.

26. Before I end, I wish to congratulate the top 100 PLCs as well as the award winners to be announced tonight. The top achievers are certainly the ones that others should emulate and in this regard I hope that the winners would be willing to share their experience in various platforms such as CG forums or discussions to enable other PLCs to learn from their experiences. This sharing of experience by the winners would be one of the criteria included in next year's Index.
27. Thank you all for your continuous support. I hope you will enjoy the rest of the evening.
28. Thank you.