

MINORITY SHAREHOLDER WATCHDOG GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia - Company No. 524989-M)

Focus Malaysia - 27 June - 3 July, 2015 (C) Part 1

Most transparent

LISTED companies owe their shareholders a high level of transparency. Good corporate governance warrants that they disclose as much information as possible and don't hide anything from their shareholders and the public.



by Dinesh Immanuel

A positive financial performance alone is not enough. Access to timely information is important to shareholders and will surely influence investment decisions. "Good

corporate governance and transparency are very important to shareholders," a local research head tells **FocusM**.

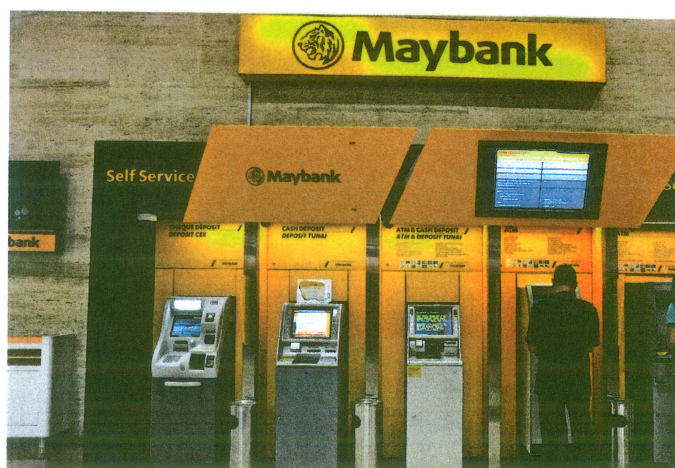
"If a company is not accountable and does not treat all its shareholders equally and fairly, then the best thing to do is to avoid investing in that company. Shareholders should avoid being short-changed," he adds.

While Bursa Malaysia listed companies generally comply with its listing regulations, most only do the minimum required for disclosure and transparency. They should instead, on their own accord, lead the way in transparency by going over and beyond what is required.

For example, Bursa requires all companies to disclose directors' remuneration in bands of RM50,000. Most

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companies comply with this by listing directors' salaries in the stipulated bands and stating the number of executive and non-executive directors who are paid within the respective bands. This leaves shareholders guessing how much each director is paid.

Also, in today's "selfie" generation, some companies do not even bother to publish their directors' photographs in their annual reports. Some chairman statements are bland and leave much to be desired.

Minority Shareholder Watchdog Group (MSWG) CEO Rita Benoy Bushon argues that mere compliance with regulations is not enough. What shareholders want to see are companies that go above and beyond what is required with clear and concise disclosures. This, she says, is true transparency.

In this Focus List, we once again assess the 30 FBM KLCI constituent companies. Our objective is to benchmark

and rank them for their corporate governance practices and general attitude towards transparency and disclosure of information to stakeholders. This year we have two new KLCI entrants - KLCC Property Holdings Bhd and Westports Holdings Bhd. Felda Global Ventures Holdings Bhd and IOI Properties Group Bhd, which were on our list last year, are no longer KLCI constituents.

The top half of our list is dominated by government-linked corporations (GLCs). It is interesting to note most companies in the bottom half of the list - meaning less transparent - are entrepreneur-owned and driven companies. Does this mean GLCs have less to hide?

According to Rita, corporates - especially larger companies - are making strides in improving their disclosure standards and are progressively becoming more transparent. "In general, transparency by Malaysian corporates has improved over the past year driven

Most transparent KLCI constituents

#	Companies	Quality of Annual Report						Disclosure		Compliance				
		Detailed Chairman/CEO's statement	Quality of directors' profile	Precise disclosure of directors' pay	Disclosure of directors' relationship	Dividend policy (in annual report)	Whistleblowing policy (in annual report)	AGM minutes	Website/ Investor relations quality	Segmental performance provided	Transparency pledge	Filings of annual report	Thoroughness / quality in disclosure	Total score
1	Malayan Banking*	8%	3%	Yes	Yes	Yes	Yes	Yes	15%	5%	Yes	72 days	6%	87%
2	Telekom Malaysia*	8%	3%	Yes	Yes	Yes	Yes	Yes	14%	5%	Yes	96 days	6%	86%
3	Digi.com	8%	4%	Yes	Yes	Yes	Yes	Yes	20%	0%	No	103 days	6%	83%
4	CIMB Group Holdings*	8%	4%	Yes	Yes	Yes	Yes	Yes	11%	5%	No	86 days	6%	79%
5	RHB Capital*	8%	3%	Yes	Yes	Yes	Yes	Yes	14%	5%	No	98 days	3%	78%
6	Petronas Dagangan*	8%	3%	Yes	Yes	No	Yes	Yes	13%	3%	Yes	82 days	5%	77%
7	KLCC Prop & KLCC REITS*	8%	3%	Yes	Yes	Yes	Yes	Yes	11%	5%	No	58 days	3%	75%
8	Petronas Chemicals Group*	8%	3%	Yes	Yes	No	Yes	Yes	13%	5%	No	78 days	5%	74%
9	Petronas Gas*	8%	3%	Yes	Yes	No	Yes	Yes	13%	5%	No	97 days	5%	74%
10	Axiata Group*	8%	4%	No	Yes	Yes	Yes	Yes	14%	5%	No	118 days	6%	72%
11	Sime Darby*	8%	4%	Yes	Yes	Yes	Yes	No	14%	5%	Yes	113 days	5%	71%
12	Public Bank	10%	3%	Yes	Yes	Yes	Yes	No	12%	5%	No	64 days	6%	66%
13	Tenaga Nasional*	8%	4%	Yes	Yes	Yes	Yes	No	10%	5%	Yes	82 days	3%	65%
14	British American Tobacco (Malaysia)	10%	3%	Yes	Yes	Yes	Yes	No	10%	0%	Yes	92 days	6%	64%
15	MISC*	8%	4%	Yes	Yes	Yes	Yes	No	13%	5%	No	120 days	3%	63%
16	UMW Holdings*	8%	4%	No	Yes	Yes	Yes	Yes	12%	5%	No	126 days	3%	62%
17	Westports Holdings	4%	2%	No	Yes	Yes	Yes	Yes	12%	3%	No	97 days	2%	58%
18	IHH Healthcare*	6%	4%	No	Yes	Yes	Yes	No	15%	5%	No	143 days	5%	55%
19	AMMB Holdings	6%	3%	Yes	Yes	Yes	No	No	14%	5%	No	121 days	5%	53%
20	Maxis	6%	3%	Yes	Yes	Yes	Yes	No	9%	0%	No	89 days	3%	51%
21	Astro Malaysia Holdings	6%	3%	Yes	Yes	Yes	Yes	No	7%	5%	No	107 days	3%	49%
22	PPB Group	8%	3%	No	Yes	Yes	No	No	11%	5%	No	112 days	3%	45%
23	IOI Corporation	6%	3%	No	Yes	No	Yes	No	9%	5%	No	95 days	2%	40%
24	Hong Leong Bank	8%	2%	No	Yes	No	No	No	10%	5%	No	94 days	2%	37%
25	Kuala Lumpur Kepong	6%	3%	No	Yes	No	No	No	10%	5%	No	91 days	2%	36%
26	Genting Malaysia	6%	3%	No	Yes	No	No	No	8%	5%	No	139 days	2%	34%
27	Genting	6%	3%	No	Yes	No	No	No	8%	5%	No	140 days	2%	34%
28	SapuraKencana Petroleum	6%	3%	No	Yes	No	No	No	7%	5%	No	114 days	2%	33%
29	Hong Leong Financial Group	6%	2%	No	Yes	No	No	No	8%	5%	No	100 days	2%	33%
30	YTL Corporation	6%	2%	No	Yes	No	No	No	7%	5%	No	126 days	2%	27%
	Bursa Malaysia	9%	4%	Yes	Yes	Yes	Yes	Yes	24%	5%	No	67 days	6%	93%

Source: Bursa Malaysia, company websites *GLCs

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GLCs still lead in transparency, governance

by more active shareholders as well as by the companies' own effort and willingness to disclose information to their shareholders. Overall we see that the corporates are showing initiative to meet these higher corporate governance standards," she tells **FocusM**.

Last year, the average transparency score on our list was 60%. This year, the average is 59%. This is despite Focus List tightening the scoring system and criteria as we look for quality disclosure and transparency. While all the 30 KLCI counters can be seen to be compliant and transparent, some go above and beyond the bare requirements and are benchmarks for disclosure, transparency and good corporate governance.

Malayan Banking Bhd (Maybank) tops our list with a score of 87 - climbing up four places from last year's ranking. Maybank's rise to the top is attributed to it publishing its AGM minutes for shareholders - something rated highly by us. Maybank also made improvements to its corporate website and investor relations portal.

Maybank chairman Tan Sri Megat Zaharuddin Megat Mohd Nor and group president and CEO Datuk Abdul Farid Alias must be commended for driving the company towards higher transparency and disclosure.

Last year's champion Telekom Malaysia was pushed to second place with 86 points. While TM still continues to publish impressive and detailed annual reports, it lost some points to Maybank for its website quality following our stricter and more stringent scoring system this year.

Last on our list is YTL Corporation Bhd which scored poorly in critical areas such as quality of directors' profile and website. Furthermore, it is one of 13 companies which did not disclose exact directors' salaries in their annual reports. The head of YTL's board is Tan Sri Yeoh Tiong Lay, its founder and executive chairman.

It's about quality disclosure

Once again, we used Bursa Malaysia Bhd as the benchmark for all companies although it is not a KLCI constituent. Bursa must be commended for scoring extremely well on most criteria. It certainly deserves to be praised for setting a good example for other listed companies. If we were to include Bursa, it would have surpassed Maybank and topped our list with an overall score of 93%.

The MSWG has long promoted transparency and good corporate governance in listed companies. Unfortunately,

GOVERNMENT-linked corporations (GLCs) dominate our list, many taking top spots. This is not surprising as almost half the FBMKLCI constituent counters are GLCs.

There are 14 GLCs on our list, nine sit in the top 10. Last year, too, GLCs performed very well, with eight making up the top 10.

While GLCs may sometimes be victims of stigma and negative perception, they have over the last few years been seen to be leading the way for corporations in terms of transparency.

this transparency does not appear to be standard practice for many listed corporations.

"The MSWG defines transparency as quality disclosures, meaning disclosures that are clear, understandable and timely. In essence, the disclosure is the 'form' whereas transparency or quality disclosure is the 'substance.' And the objective is to have substance over form," Rita notes.

Indeed, many listed companies go as far as to meet only the minimum Bursa required disclosures. A company may comply with the regulatory requirement of providing disclosures but what is the point if the information given is neither clear nor well explained. In such cases, the company is considered to be not transparent. Some companies also fill their websites and investor relations portals with so much information and so many links that key information is lost in the complex layout.

Last year we noticed that Petronas Dagangan Bhd's AGM minutes, though published on its website, were not easy to locate. The company took note of this and we find that this year the AGM minutes are easily located and have more details.

Most of the entrepreneur-owned and some entrepreneur-driven companies on our list could have fared better in terms of transparency.

Westports ranks the lowest in chairman and CEO statement quality. The reports of its chairman and CEO leave much to be desired. They are among the shortest of the 30 companies on our list and lack substance.

Genting Bhd and Genting Malaysia Bhd, part of the Genting Group founded and controlled by the Lim family, missed MSWG's recommended 120-day period by which company annual reports should be published. Bursa's regulation though stipulates that company annual reports

increasing transparency was part of the goal of the government's 10-year GLC transformation programme which started in 2004. Among the aims of the programme were to enhance GLC performance and for GLCs to be refocused in the larger national development roadmap.

Among GLC transformation mandates is the key performance index (KPI) or performance measurements they must accomplish each year. We take note of leading GLCs like Maybank and Telekom Malaysia, which have clearly stated their KPIs and how company performance measures up.

Other GLCs such as CIMB Group, RHB and even Petronas Dagangan unfortunately don't publish KPIs as standard practice. However, their impressive transparency and disclosure regarding other segments of the business still give them top spots on our table. RHB has one of the better content-filled and -designed websites of the GLCs on our list.

The worst-performing GLC in terms of transparency and disclosure is IHH Healthcare. Apart from offering bland chairman's and CEO's statements, IHH does nothing to disclose the exact salaries of its directors and does not publish AGM minutes. Axiata Group and UMW Holdings also do not publish the salaries of directors.

IHH is one of four GLCs that don't disclose AGM minutes. Tenaga Nasional, which has an impressive directors' profile, has the lowest website quality of the GLCs.

These GLCs are owned by government-linked investment corporations (GLICs), such as Khazanah Nasional Bhd, Permodalan Nasional Bhd and Petrolim Nasional Bhd. These relatively well-managed GLICs have been pushing their GLCs to lift their game and be corporate leaders.

This drive for better results can be seen in the GLCs topping our Focus List.

How we ranked them

TO measure the companies' transparency, we gauged the information in their annual reports and on their websites. We used a weighted point system, grading the companies on the quality of their annual reports and websites based on:

- ▶ comprehensiveness of chairman's and CEO's statements
- ▶ quality of directors' profiles
- ▶ disclosure of directors' pay
- ▶ disclosure of directors' relationships
- ▶ publishing dividend policy
- ▶ publishing whistle blowing policy
- ▶ quality of website and investor relations portal
- ▶ disclosing segmental performance
- ▶ signing transparency pledge
- ▶ timely filing of annual reports

be filed within five months from the end of the financial year. Four other companies on our list filed their annual reports after 120 days.

The company which filed its annual report the fastest was KLCC Property at 58 days. With 75 points and in seventh place, KLCC has fared well for a newcomer to the list. The company which took the longest to file its annual report is IHH Healthcare Bhd at 143 days.

This year, we added one more scoring criterion - thoroughness and quality in disclosure. This is premised to reward companies if they display a culture of good corporate governance and a high level of transparency.

Only 12 companies scored above five out of the maximum seven points for this criterion. Points were awarded for displaying quality transparency by going over and beyond the base disclosure required.

DiGi.Com Bhd made significant improvements to the quality of its website and investor relations portal. Despite falling to third place, it earned 20 points for its website quality, against 17 points last year.

Notable mentions

Apart from disclosure, timely release of information is also counted as a criterion for transparency.

Only Public Bank and British American Tobacco (Malaysia) Bhd (BAT) received full marks for the quality of their chairman and CEO statements. One of our measurement criteria was whether key risks were articulated and important information to shareholders was discussed in detail. Apart from Bursa, only BAT and Public Bank issued detailed and commendable chairman and CEO statements.

Better awareness

According to Rita, the rise in transparency and disclosure scores stem from a push by companies to practise better corporate governance. Apart from a regulatory and watchdog push, companies have higher drive to be transparent and to practise a healthier culture of good corporate governance.

"The reasons behind the rise in disclosure requirement stem from the higher level of awareness by the corporate directors constantly being pushed to raise the bar by the shareholder community," Rita says.

"The new regulatory requirements have also helped raise the level of disclosures. However, regulation is the baseline."

She explains that while there are areas where local companies need to improve, within Asean, they rank among the top in terms of providing quality disclosures.

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