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MSWG

MINORITY SHAREHOLDER WATCHDOG GROUP

Badan Pengawas Pemegang Saham Minoriti Berhad

Incorporated in Malaysia * Company No. 524898-M

The Observer

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MESSAGE FROM THE CEO



These past two weeks have been extremely busy for us at MSWG, with the launch of our **Malaysian Corporate Governance Index 2011: Survey Findings and Awards Ceremony** on 7 December 2011 at the Sime Darby Convention Centre.

Following exhaustive research - ours is a five-step evaluation process involving conformance with corporate governance best practices, quality of disclosures, financial performance and sustainability and corporate responsibility efforts - our findings offered some cause for celebration.

In particular, we were quite encouraged by a higher overall MCG Index level of 66.9 among the 867 companies examined this year. This compares to 66.0 in 2010. Although the increase may not seem substantial, is an accomplishment given that the MCG Index criteria are reviewed and strengthened each year. Along with a higher overall MCG Index level, the average corporate governance base score - which measures compliance with national and international corporate governance best practices - increased to 57.19% in 2011 from 55.6% last year. Another highlight was that 82% of PLCs have separate individuals in the roles of chairman and CEO. This percentage is comparable to 2010 and is much higher than US-based S&P companies.

However, other issues warrant mention, though not for the right reasons. In particular, we would highlight the fact that not enough companies disclose details of individual directors' remuneration, despite it being a best practice recommended under the Malaysian Code on Corporate Governance. For 2011, we found individual director remuneration was disclosed by only 8.3% of companies. Although this figure is up 2.7% percent from 2010, the figure is discouraging.

The percentage of companies that have adopted and disclosed both whistle-blowing and dividend policies increased significantly over last year, but still remained below 10%.

Likewise, we are also concerned that the percentage of woman directors serving on the boards of Malaysia's PLCs has remained stagnant at 8%. This number, in fact dropped, to 7% among the Top 100 companies. The government's move to adopt a policy requiring at least 30% women on corporate boards by 2016 seems wise and justified given the lack of movement on the issue by corporate Malaysia.

We hope that PLCs will look at these corporate governance gaps, examine their own companies, and will take active steps to address them so we can report major improvements next year.

A full list of this year's MCG Index award winners, along with several photos can be found elsewhere in this newsletter. Additional information on this year's MCG Index results, including comparisons to those of previous years can be found on [MSWG's website](http://www.mswg.org.my/web/page.php?pid=47&menu=sub) (URL <http://www.mswg.org.my/web/page.php?pid=47&menu=sub>). Our full report on Index findings will be published and available by the end of February 2012.

As we enter the last fortnight of the year, it is important to bring the positive momentum of the last twelve months to bear into 2012.

In recent developments, SC is one of the main players behind a new ASEAN Corporate Governance Scorecard (funded by the Asian Development Bank) that will measure corporate governance among the top 30 PLCs in several ASEAN countries. These countries include Malaysia, Singapore, Indonesia, Thailand, the Philippines, and Vietnam. The goal of the Scorecard is to raise corporate governance standards and practices in the participating countries and to enhance the investment profile of ASEAN's public-listed companies internationally. The Scorecard criteria are in the process of being developed and will be published when available so companies can incorporate them into their governance regime and operations. Malaysia's PLCs, which have had three years of experience with our MCG Index, will be well-prepared to do this.

In reference to the Corporate Governance Blueprint released this past July, absolute focus must centre on the six connected themes of the corporate governance ecosystem: shareholder rights, the roles of institutional investors, boards, gatekeepers and influencers, disclosure and transparency as well as public and private enforcement. All of these elements play a critical role in the protection of our capital markets, without which more ground will be lost to our ever-more competitive neighbours. Implementation of some of the Blueprint's recommendations begins in earnest in 2012, and our PLCs must be prepared to play their role.

Being the Yuletide season, I would like to notify our subscribers that there will be no newsletter for the last fortnight of the year.

On these notes I would like to wish everyone a Merry Christmas and a Happy New Year.

See you in 2012!

Cheers!

Rita Benoy Bushon

Rita In The News

MSWG CEO Keen on Closed-end fund

(Refer to The Edge Weekly, Monday Dec. 12 edition)

[Self regulation stressed for healthy corporate governance](http://www.thehindubusinessline.com/industry-and-economy/economy/article2668837.ece)

<http://www.thehindubusinessline.com/industry-and-economy/economy/article2668837.ece>

[Companies unwilling to disclose directors' remuneration](http://www.thesundaily.my/news/233570)

<http://www.thesundaily.my/news/233570>

[Directors unwilling to reveal remuneration](http://www.theedgemaalaysia.com/highlights/197487-directors-unwilling-to-reveal-remuneration.html)

<http://www.theedgemaalaysia.com/highlights/197487-directors-unwilling-to-reveal-remuneration.html>

MSWG's Quick Take on Ongoing Corporate

Transactions

PROTON HOLDINGS / DRB-HICOM: Media reports say Khazanah Nasional Bhd will decide by this month on whether it will sell its 43% stake in national car maker Proton. Khazanah had stressed that one of the core conditions for a bid to be accepted was that a party must buy the entire block. Buying the whole block from the state investment firm will trigger a general offer. The latest reports say DRB-HICOM could be paying RM5.90 per share for Khazanah's stake in Proton. Another report in StarBiz also said that Shanghai Automotive Industry Corp could be keen on acquiring Proton's stake in Lotus Group.

MSWG'S COMMENT: *If indeed true that DRB-Hicom is a front-runner to buy the shares in Proton, it will not solve the national carmaker's longer-term problem of needing a partnership with an established auto manufacturer with technological capabilities, and with global reach. From DRB's perspective, it could give it control of 54 percent of the Malaysian vehicle market and a move up the value chain from assembler to manufacturer. But at the speculated price of RM5.90 per share, Proton could cost DRB a total of RM3.24 billion, assuming a general offer is triggered. This would raise its gearing to 0.78x (from 0.14x currently), significantly increasing its business risk profile given the high acquisition cost. Besides, Proton would require significant funding to keep it competitive going forward. It is worth noting DRB's recent announcement that it had raised RM500 million from the Sukuk market to finance its working capital requirements, as well as current or future projects or investments and capital expenditure. It has an option to raise up to RM1.8 billion. The question remains whether DRB-Hicom would be able to improve the weakening financial position of Proton, and also provide R&D facilities to the company.*

SP SETIA: SP Setia has said it has received PNB's notice of the proposal to formalise the incentives and management rights relating to the management and general conduct of the company's business. The notice had also stated that three parties - PNB, CEO Tan Sri Liew Kee Sin, and S P Setia - would work out the incentives and management rights. This arrangement, however, would be subjected to approval by the Securities Commission. A source with knowledge of the proposed arrangement told StarBiz that this would involve the payout of hefty bonuses and attractive stock options aimed at ensuring that the management team stays put.

MSWG'S COMMENT: *Apart from our concerns about the increasing influence and shareholdings of GLCs and GLICs in the local stock market (with other investors being crowded out), the article makes little mention of the minority shareholders' opinion and stand on the matter. PNB owns around 14.4 percent of SP Setia, Skim Amanah Saham Bumiputera about 20 percent, EPF about 13 percent, and Tan Sri Liew around 12 percent of the company. The rest is still owned by minorities, hence their vote and approval would be required in any wholesale revision to management's remuneration structure.*

JOHOR CORP / QSR BRANDS / KFC HOLDINGS BHD: Johor Corp and private equity fund CVC Capital Partners Asia Pacific (CVC) are offering to buy all the assets and liabilities of QSR and KFC Holdings Bhd (KFC) in a deal valued at RM5.24 billion. The parties, via their special purpose vehicle Massive Equity Sdn Bhd, are offering RM4 a share for KFC, the country's biggest fast-food operator and RM6.80 per share for QSR.

MSWG'S COMMENT: *Johor Corp's offer to buy the rest of QSR Brands at RM6.80 a share seems reasonable, given that it was priced at a 13.3 percent premium over the last close. The offer for KFC also seems fair, as it prices the stock at a prospective 2012 PER of around 19.4x. However, with a threshold level of 75 percent for approval, the takeover might prove difficult to obtain among QSR's minority shareholders, especially given the potential upside of KFC's regional ambitions. But despite speculation to the contrary, the likelihood of any future bids*

seems unlikely, since it would require acceptance from Johor Corp. Note that this is the third and highest bid for QSR/KFC in the last year. Tan Sri Halim Saad (via Idaman Saga) initially offered RM1.64 billion or RM5.60 a share on 19 November 2010. This was subsequently bettered by Carlyle Investment's RM1.94 billion or RM6.70 a share on 26 November 2010. However, both the offers were rejected by Johor Corp/Kulim.

Local News and Developments

[Regional ranking of ASEAN PLCs underway to raise CG standards and practices](http://www.sc.com.my/main.asp?pageid=379&linkid=2988&yearno=2011&mod=paper)

<http://www.sc.com.my/main.asp?pageid=379&linkid=2988&yearno=2011&mod=paper>

[SC goes hard on insider trading](http://biz.thestar.com.my/news/story.asp?file=/2011/12/10/business/10064559&sec=business)

<http://biz.thestar.com.my/news/story.asp?file=/2011/12/10/business/10064559&sec=business>

[Cookie-cutter approach unrealistic](http://www.thesundaily.my/news/235591)

<http://www.thesundaily.my/news/235591>

Global News and Developments

[Corporate governance in the shadow of Olympus](http://www.japantimes.co.jp/text/fl20111213zg.html)

<http://www.japantimes.co.jp/text/fl20111213zg.html>

[Analysis: Little appetite in Japan for major post-Olympus reform](http://www.reuters.com/article/2011/12/12/us-olympus-governance-idUSTRE7BB0HN20111212)

<http://www.reuters.com/article/2011/12/12/us-olympus-governance-idUSTRE7BB0HN20111212>

[Govt, not India Inc, is biggest failure on corporate governance](http://www.firstpost.com/business/govt-not-india-inc-is-biggest-failure-on-corporate-governance-front-154152.html)

<http://www.firstpost.com/business/govt-not-india-inc-is-biggest-failure-on-corporate-governance-front-154152.html>

[FTSE 350 companies fail to explain governance practice](http://www.accountancyage.com/aa/news/2131958/ftse-350-companies-fail-explain-governance-practice)

<http://www.accountancyage.com/aa/news/2131958/ftse-350-companies-fail-explain-governance-practice>

[Is David Cameron's City a champion of corporate standards?](http://www.guardian.co.uk/business/2011/dec/11/david-cameron-city-corporate-standards?newsfeed=true)

<http://www.guardian.co.uk/business/2011/dec/11/david-cameron-city-corporate-standards?newsfeed=true>

[Arab Spring stresses need for greater accountability](http://gulfnews.com/business/economy/arab-spring-stresses-need-for-greater-accountability-1.948328)

<http://gulfnews.com/business/economy/arab-spring-stresses-need-for-greater-accountability-1.948328>

[Turning the Page](http://online.wsj.com/article/SB10001424052970204630904577055672318818672.html?mod=googlenews_wsj)

[http://online.wsj.com/article](http://online.wsj.com/article/SB10001424052970204630904577055672318818672.html?mod=googlenews_wsj)

[/SB10001424052970204630904577055672318818672.html?mod=googlenews_wsj](http://online.wsj.com/article/SB10001424052970204630904577055672318818672.html?mod=googlenews_wsj)

[FTSE 100 Needs to Raise Its Standards](http://online.wsj.com/article/SB10001424052970204319004577086373724955102.html)

<http://online.wsj.com/article/SB10001424052970204319004577086373724955102.html>

[Too Big to Fail? Fighting for Reform at the World's Biggest Banks](http://www.forbes.com/sites/nathanielparishflannery/2011/12/09/the-battle-for-board-accountability-at-the-big-banks/)

<http://www.forbes.com/sites/nathanielparishflannery/2011/12/09/the-battle-for-board-accountability-at-the-big-banks/>

MCG Index 2011: Survey Findings & Awards

Ceremony Held 07 December 2011

Top Overall Award (company with the highest MCG Index score)

Public Bank Berhad



Distinction Awards (companies that achieved a ranking of A+)



Award winners in alphabetical order -

1. Axiata Group Berhad
2. British American Tobacco (Malaysia) Berhad
3. Bursa Malaysia Berhad
4. CIMB Group Holdings Berhad
5. DIGI.COM Berhad
6. Guinness Anchor Berhad
7. LPI Capital Berhad
8. Malayan Banking Berhad
9. Malaysia Airports Holdings Berhad
10. Media Prima Berhad
11. Nestle (Malaysia) Berhad
12. Public Bank Berhad
13. Shell Refining Company (FOM) Berhad
14. Telekom Malaysia Berhad

15. Tenaga Nasional Berhad
16. UMW Holdings Berhad

Subsidiary Awards

Most Prompt AGM:

LPI Capital Berhad

Best Conduct of AGM:

Award winners In alphabetical order -

1. Axiata Group Berhad
2. DRB-Hicom Berhad
3. Public Bank Berhad

Best Corporate Responsibility:

In alphabetical order -

1. CIMB Group Holdings Berhad
2. Nestle (Malaysia) Berhad
3. Telekom Malaysia Berhad

Special Transparency:

Bursa Malaysia Berhad

Top Mid-Cap Company:

Jobstreet Corporation Berhad

Industry Excellence - Finance:

Public Bank Berhad

Industry Excellence - Telecommunications/Media:

Telekom Malaysia Berhad

Industry Excellence - Consumer Products

British American Tobacco (Malaysia) Berhad

Industry Excellence - Construction:

IJM Corporation Berhad

Industry Excellence - Plantation:

Kulim (Malaysia) Berhad

Special Mentions

Companies that achieved a ranking of A:

In alphabetical order -

1. AirAsia Berhad
2. DRB-Hicom Berhad
3. IJM Construction Berhad
4. KLCC Property Holdings Berhad
5. KPJ Healthcare Berhad
6. Kulim (Malaysia) Berhad
7. Malaysia Building Society Berhad
8. RHB Capital Berhad
9. TH Plantations Berhad
10. Uchi Technologies Berhad

Most diverse board:

Malayan Banking Berhad

Companies that had at least 30% women on their boards:

In alphabetical order -

1. Malaysia Airports Holdings Berhad
2. TA Enterprise Berhad

Feedback

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