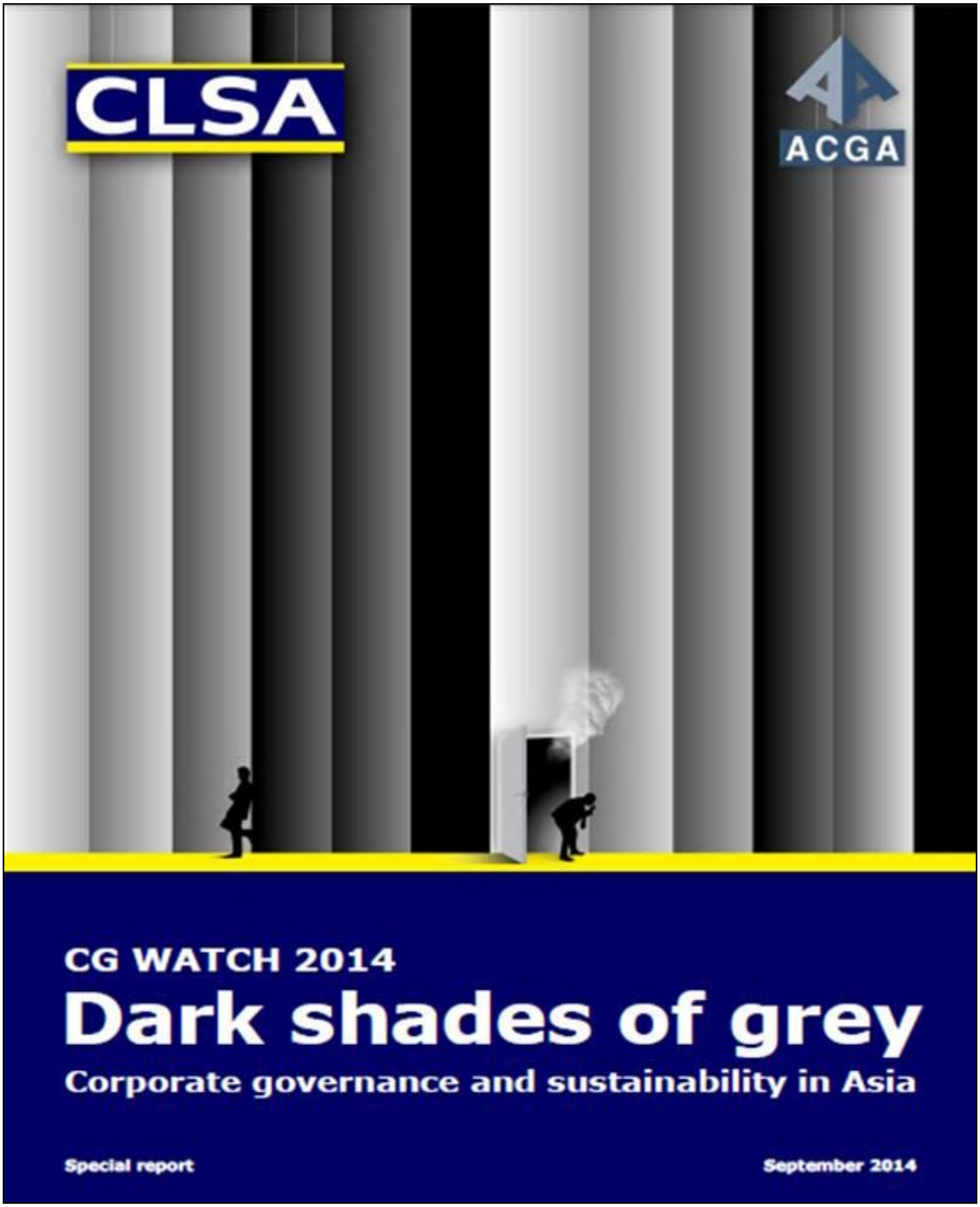
TOPLINE REPORT



TOPLINE REPORT OF THE CORPORATE GOVERNANCE (CG) WATCH 2014

BACKGROUND

The **Corporate Governance (CG) Watch 2014 Report** was released by the **Asian Corporate Governance Association (ACGA)** on 25th September 2014. "CG Watch" is a major regional survey undertaken by ACGA in collaboration with CLSA Asia-Pacific Markets. The report looks at the macro corporate governance quality in 11 Asian markets and provides aggregate data on more than 500 companies. ACGA provides the market analysis while CLSA is responsible for the data on individual companies in the 11 markets. CLSA is one of the founding corporate sponsors of ACGA and continues to support the association's work.

MALAYSIA'S PERFORMANCE

Malaysia achieved an overall score of **58 per cent** this year compared with 55 per cent in 2012, **maintaining its fourth rank** in the region (Figure 1). Malaysia is one of the few markets to show consistent improvements in CG score. Malaysia occupies an interesting and rather unique position in this survey. It is the only market that has consistently edged up in score in each of last four surveys: 49% in 2007, 52% in 2010, 55% in 2012 and 58% this year (Figure 2). Not a bad achievement, given that most markets find it hard to sustain reform for any length of time (three-to-four years being the norm before they lose momentum).

Yet Malaysia has done this largely through a mix of government-driven reform (see its CG Blueprint 2011 report), gradually improving enforcement, a state-grandfathered push to require domestic institutional investors to take CG seriously and the creation of one of the region's better independent audit regulators.

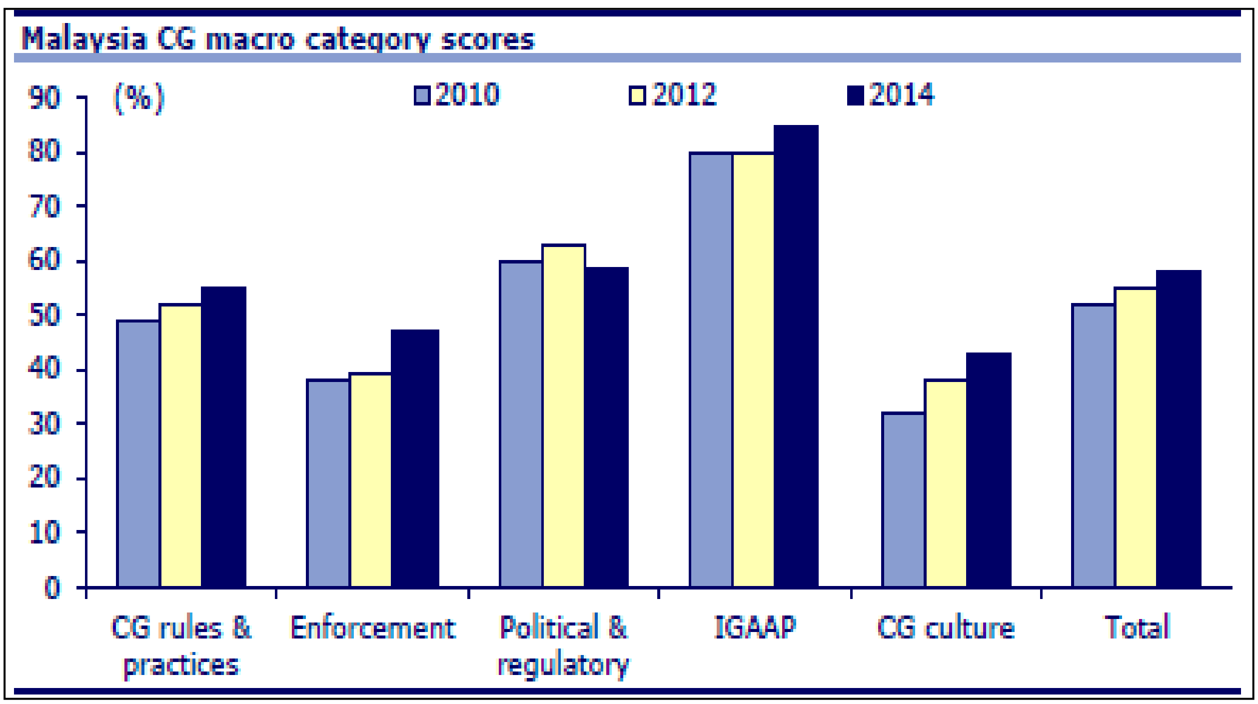
Figure 1: CG Watch Market Rankings and Scores, 2014

Market scores: 2010 to 2014

(%)	2010	2012	2014	Chg 2012 to 2014 (ppts)	CG reform trend
1 = Hong Kong	65	66	65	(1)	Weak leadership, tough enforcement
1 = Singapore	67	69	64	(5)	International versus local contrast continues
3 Japan	57	55	60	5	Landmark changes, can they be sustained?
4 = Thailand	55	58	58	-	Improving, but new legislation needed
4 = Malaysia	52	55	58	3	Improving, but still too top-down
6 Taiwan	55	53	56	3	Bold policy moves, can they be sustained?
7 India	48	51	54	3	Bouncing back, Delhi more supportive
8 Korea	45	49	49	-	Indifferent leader, more active regulators
9 China	49	45	45	-	Focus on SOE reform, enforcement
10 = Philippines	37	41	40	(1)	Slow reform, improved company reporting
10 = Indonesia	40	37	39	2	Big ambitions, can they be achieved?

Note: Hong Kong and Singapore are ranked equal first because the actual difference in their scores is minimal. The 1ppt difference is purely due to rounding. The Philippines and Indonesia are ranked equal 10th for the same reason.
Source: ACGA

Figure 2: Malaysia's Performance in Category Scores, 2010 – 2014



Source: ACGA, CLSA

Malaysia's overall performance in the five categories is as shown in Figure 3.

Figure 3: Market Category Scores, 2014

Market category scores (2014)

(%)	Total	CG rules & practices	Enforcement	Political & regulatory	IGAAP	CG culture
1 = Hong Kong	65	61	71	69	72	51
1 = Singapore	64	63	56	64	85	54
3 Japan	60	48	62	61	72	55
4 = Thailand	58	62	51	48	80	50
4 = Malaysia	58	55	47	59	85	43
6 Taiwan	56	48	47	63	75	47
7 India	54	57	46	58	57	51
8 Korea	49	46	46	45	72	34
9 China	45	42	40	44	67	34
10 = Philippines	40	40	18	42	65	33
10 = Indonesia	39	34	24	44	62	32

Source: ACGA

According to Table 1, Malaysia shows the best performance in the **IGAAP (accounting and auditing)** category with rises from 80% in 2012 to 85% in 2014. An improved score for the effectiveness of the Audit Oversight Board (AOB), the independent audit regulatory body under the Securities Commission and full marks for two new questions, were the main reasons for the positive outcome in this section.

CG rules and practices (Rises from 52% in 2012 to 55% in 2014)

Scores went up slightly in this section as a result of improved financial reporting and because Malaysia performed quite well on our three new CSR/ESG reporting questions. Despite a four-month deadline for producing audited annual accounts, we found that a number of larger issuers were reporting in just less than 60 days, the regional best practice benchmark. Of the 25 large caps that we reviewed this year, 14 reported within 60 days and another three in about 61-66 days. Three of 10 midcaps did so as well.

Enforcement (Rises from 39% in 2012 to 47% in 2014)

This is the section of survey where Malaysia performed best. We did not change our score as to whether the regulators have a reputation for vigorously enforcing their own rules, since there are mixed views on the effectiveness of Bursa and the SC in pursuing and enforcing in cases that matter. Nor did we change our score on whether the SC has effective powers of investigation and sanction, since achieving a successful criminal prosecution requires the participation of other parts of government, notably the judiciary. Court cases can still take years in Malaysia and at lower levels, judges do not all have sufficient knowledge of company and securities law. However, scores did go up for the degree of effort made by regulators, a slightly higher score on enforcement against insider trading and market manipulation and the quality of regulatory disclosure on enforcement activity.

Political and regulatory environment (Falls from 63% in 2012 to 59% in 2014)

Since publishing its CG Blueprint in 2011, Malaysia has been fairly consistent in its approach to corporate governance policy and the Blueprint has led to a series of reforms. In January 2012, listing rule amendments came into effect covering such things as multiple proxies, immediate announcement of poll results if a poll has been taken and stricter rules on the disposal of major assets, including a requirement for shareholder approval. In March of the same year, the revised Code of Corporate Governance was published. And then in November 2012 came further amendments to the listing rules to align with the revised CG Code, including mandatory polls for related-party transactions (RPTs) that require shareholder approval, limiting the number of directorships to five, mandating nomination committees and enhancing disclosure of director training.

CG culture (Rises from 38% in 2012 to 43% in 2014)

Although not a great deal has changed in Malaysia's CG culture over the past two years, the higher score in this section is the result of incremental improvements in the quality of corporate communication to shareholders, good disclosure of director remuneration among some companies (though not most), some voluntary voting by poll and recognition of the efforts made to launch the Malaysian Code for Institutional Investors.

MALAYSIA – STILL IMPROVING: KEY ISSUES AND TRENDS

- The government continues to implement CG Blueprint 2011;
- Reform remains largely top-down, state-led;
- Corporate financial reporting considerably better than non-financial;
- Launch of the Malaysian "stewardship code" will hopefully galvanise domestic funds;
- Audit Oversight Board (AOB) developing into an effective regulator, one of the most focused in the region; and
- Lack of effective enforcement action against senior officials and politicians remains a concern.

METHODOLOGY

ACGA endorses the methodology used in the CLSA company survey and undertook the market rankings, with input from CLSA. ACGA did not participate in the assessments of companies, however, for which CLSA retains responsibility. ACGA bears final responsibility for the market rankings.

Research on CG Watch 2014 was carried out over February to August 2014 by a team that included five senior research directors, one supporting analyst, two consultants and four research assistants.

The total number of questions has increased from 90 to 94, with three dropped, one moved to a different section, and seven new ones. In **CG rules and practices**, we added three new questions on sustainability reporting standards (as promulgated by regulators) and practices (actual reporting by large and midcaps). We also dropped a question on class-action lawsuits because we felt the underlying issue was better covered by a similar question in **Political and**

regulatory environment on the legal remedies available to minority shareholders.

In **Enforcement**, we moved a question on the existence and effectiveness of an independent commission against corruption to the **Political and regulatory environment** section, where we felt it fitted better. In **Political and regulatory environment**, we also added two new questions on whether the media was skilled at reporting on corporate governance, and whether the government was showing leadership in raising standards of public governance within the civil service. In **IGAAP (accounting and auditing)**, we dropped two questions that no longer provided much analytical distinction: on consolidated accounts and share-based payments. We added two on audit regulation: whether or not the audit regulator produced an annual report on audit industry capacity and its inspection activity; and whether there was an extensive programme of CPA education. We made no changes to the **CG culture** section.