



# **KWAP'S CORPORATE GOVERNANCE: PRINCIPLES AND VOTING GUIDELINES**

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## **KWAP'S CORPORATE GOVERNANCE : PRINCIPLES AND VOTING GUIDELINES**

### **1.0 IMPORTANCE OF CORPORATE GOVERNANCE**

KWAP's Board, Investment Panel and its management recognize the importance of the principle of corporate governance in conducting the affairs of KWAP and its investee companies.

*“Corporate governance is the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value, whilst taking into account the interest of other stakeholders”.*  
*-Finance Committee on Corporate Governance (Report On Corporate Governance, Malaysia, February 1999)*

Based on the belief that investments in companies that are well managed from the corporate governance perspective will provide higher returns and lower risks in the long term, KWAP has chosen to be proactive on shareholder activism. In this context, proactive shareholder activism refers to corporate governance and issues related to the company's responsibility for socially and environmentally related aspects of their operations.

The importance is further amplified in the present volatile economic environment where shareholder activism, vis-à-vis its impact on corporate governance will ensure only well managed investments both in terms of efficiency and adherence to strict ethical values are retained.

KWAP strongly advocates the notion that shareholder activism is not a task to be borne solely by the regulators (eg: Bursa Malaysia or Securities Commission). With the policies and regulations put into effect by the regulators, in turn, it is the shareholders who are in the best position to enforce their rights.

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## **2.0 SCOPE AND PURPOSE**

This corporate governance principles and voting guidelines apply to KWAP's equity investments in listed companies. To ensure coherence with regulations, it is guided by the regulators' recommendations and takes cognizance of Bursa Malaysia's Corporate Governance Guide and Securities Commission's Malaysian Code on Corporate Governance.

The purpose of this document is to serve as a guideline for KWAP in monitoring the conduct of its investee companies and the manner KWAP will vote for resolutions raised in AGMs/EGMs.

## **3.0 CORPORATE GOVERNANCE GUIDELINES**

### **3.1 PROACTIVE INVESTMENT MONITORING**

KWAP constantly look into companies with good shareholders' orientation which are characterized by:

- i. Consistency and alignment with the respective management strategies and policies;
- ii. Reputable and proactive Board members with the ability to fulfill their roles in monitoring and governing the management of the company;
- iii. Prompt and sufficient disclosures and announcements; and
- iv. Ensure shareholders' voting rights are respected at all times.

KWAP is committed to further improve corporate governance practices by engaging in proactive and constructive discussions with management of its investee companies.

This shall be undertaken via voting for/against or abstaining from voting on Board proposals and may include influence over decisions pertaining to:

- i. Policies (such as disclosure policies);
- ii. Corporate transactions (including mergers and acquisitions);
- iii. Restructuring exercises;
- iv. Engagement and remuneration of directors; and
- v. Voting policies.

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### **3.1.1 Approach to Investment Monitoring**

KWAP shall monitor its investments via the following:

- i. Meetings with management of the company; and
- ii. Active participation in the company's AGMs and EGMs.

## **3.2 BOARD OF DIRECTORS**

The Board's responsibility is to ensure the company's success over the long term is consistent with their statutory duties and necessitate their fiduciary duty to the shareholders.

### **3.2.1 Board Composition**

The Board should have a balance of independent and non-independent non-executive directors in that no individual or small group would dominate the Board's decision making. KWAP recommends that its investee companies abide by Bursa Malaysia's requirement that at least one-third of the number of directors on the Board should be independent directors.

### **3.2.2 Board Size**

The company should observe its Board size according to the structure and circumstances of the company. The Board should be adequate in size to ensure effective decision making process as well as capture the diversity of skills and expertise necessary for the best interests of shareholders and active participation of every director.

KWAP recommends a Board size of at least seven Board members and the size may be increased depending on the diversity of the company's business.

### **3.2.3 Separation of Power between Chairman and Chief Executive Officer**

KWAP recommends a clear division of responsibilities at the top of the company i.e the working of the Board and the executive responsibility of the company's business which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

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### **3.2.4 Board Meetings**

The Board should meet regularly as warranted by particular issues, size and the complexity of the company. KWAP requires each director to attend at least 50% of the Board meetings. Attendance of directors and the frequency of the meeting held in the year should be disclosed in the company's annual report.

### **3.2.5 Re-election of Directors**

All directors shall submit themselves for re-election at least once every three years as provided in the Companies Act 1965.

### **3.2.6 Board Committees**

The company is recommended to have at least four (4) key committees mainly comprised of independent non-executive directors namely Audit Committee, Remuneration Committee, Risk Management Committee and Nomination Committee.

### **3.2.7 Election of Directors**

It is in the best interest of KWAP as a shareholder that the investee company continues to be dynamic and deliver sustainable returns for the shareholders.

KWAP prefers investee companies:

- i. To be transparent with the details including the tenure, remuneration and criteria for the appointment of its directors; and
- ii. To impose term limit for independent director(s).

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### **3.3 OTHER MATTERS**

#### **3.3.1 Adoption of Director's Report, Financial Statements & Auditors' Report**

KWAP shall take into account the Director's Report, Financial Statements and Auditors' Report. In addition, the company should make available their latest Annual Report highlighting material items in the accounts.

#### **3.3.2 Appointment of Auditors**

The company should have external audit that ensures the integrity, scope and quality of the audit. The company should provide explanations in the event of any change in its auditors (to be made either via Annual Report or AGM).

#### **3.3.3 Director's General Mandate to Issue Shares Pursuant to Section 132D of the Companies Act, 1965**

Where a general mandate is sought by the company, KWAP prefers the proposed resolution to be accompanied with the following information:

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

#### **3.3.4 Shareholders' Mandate for Related Party Transactions of Revenue or Trading Nature**

KWAP prefers its investee companies to enforce a transparent process for identifying and managing conflicts of interests.

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KWAP recommends the company to disclose all material information related to all Related Party Transactions (RPTs) to shareholders accurately, comprehensively and promptly above and beyond the minimum disclosure requirement under Bursa Listing Requirement.

The company's Recurrent Related Party Transactions (RRPTs) should preferably be conducted on sound commercial terms and undertaken only in the interest of the company and not individuals' interest.

The company is encouraged to 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 investee companies' Board should preferably disclose the identity of the related party and the value in monetary terms of the transaction.

The Board should preferably disclose details of any dissension to these RPTs/RRPTs.

#### **4.0 KWAP's VOTING GUIDELINES**

**4.1** Based on the Corporate Governance Guidelines as stated in Clause 3.0 above, KWAP has adopted the following voting guidelines:

##### **Directors' Attendance at Board Meeting**

KWAP will vote **AGAINST** the re-election of a director who has failed to attend at least 50% of the Board and Audit Committee meeting.

##### **Re-election of Directors**

KWAP will vote in **FAVOUR** of the re-election of a director if:

- i. The director possesses the qualification, experience and sound reputation which could contribute positively to the company's business; or
- ii. The director is the founder of the company.

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KWAP will vote **AGAINST** the re-election of a director, if based on our on-going observation, that:

- i. The director has a poor reputation and conduct;
- ii. The director does not act in the best interest of shareholders; or
- iii. The director has a poor record in any other company.

KWAP will vote **AGAINST** voting in any resolution concerning re-appointment of directors exceeding 70 years old (with exception given to founder of the company).

KWAP will vote **AGAINST** the re-election of Independent, Non-Executive Director who has served on the Board for more than 12 years.

#### **Directors' Fee**

KWAP will vote **AGAINST** resolution on approving the directors' fee if KWAP observes that past decisions from the Board has brought the company into a financially distressed position.

#### **Authority to Allot and issue Shares Pursuant to Section 132D of the Companies Act, 1965**

KWAP will vote in **FAVOUR** of the resolution if the proposed utilisation of proceeds is deemed to benefit both the company and ultimately its shareholders.

KWAP will vote in **FAVOUR** of such resolution tabled by financial institutions in Malaysia, on the basis that these financial institutions are required to comply with more stringent capital requirement imposed by Bank Negara Malaysia.

KWAP will vote **AGAINST** the resolution if the company fails to state specifically the purpose and planned utilization of the proceeds to be raised from such mandate.

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### **Authority for Purchase of Own Shares by the Company**

The company has to ensure that the share buy-back scheme is conducted in the best interest of the shareholders.

KWAP will vote in **FAVOUR** of such resolution if:

- i. The company has a strong balance sheet and cash flow; and
- ii. The company has a good dividend payment record.

### **Employees Share Options Scheme (“ESOS”)**

KWAP will vote in **FAVOUR** of the proposed ESOS if:

- i. It is offered to Executive Directors and other employees of the Company; and
- ii. The criteria and basis of ESOS offering are performance driven.

KWAP will vote **AGAINST** the proposed ESOS if:

- i. The total ESOS issued exceeds 10% of the company’s paid-up capital;
- ii. 100% of the ESOS could be vested or divested immediately; or
- iii. The company intends to award the ESOS to Non-Executive Directors of the company.

### **Transactions**

KWAP will vote **AGAINST** transactions which do not disclose adequate material information relating to the transactions to all shareholders.

- 4.2 Notwithstanding Clause 4.1 above, KWAP may deviate from the above mentioned voting guidelines and use its discretion to vote in a way it deems appropriate or abstain from voting, on a case-to-case basis.

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## **5.0 OTHER INVESTMENT MONITORING PRACTICES**

### **5.1 CORPORATE SOCIAL RESPONSIBILITY (CSR)**

Aside from being a return focused organisation, KWAP's commitment to environmentally and socially responsible companies is not neglected.

KWAP prefers its investee companies to adopt good CSR practices including:

- i. Environmental policies which exceeds statutory requirements and promote usage of resources in more productive, efficient and sustainable manner; and
- ii. Community development policies that take into account the welfare, health and safety within the company's area of operation.