GLASS LEWIS

2019

PROXY PAPER™

GUIDELINES

AN OVERVIEW OF THE GLASS LEWIS APPROACH TO PROXY ADVICE

MALAYSIA

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Guidelines Introduction

CORPORATE GOVERNANCE REGULATORY FRAMEWORK

Malaysia corporate governance is centered primarily upon: (i) the Companies Act, 2016; (ii) the Capital Market Services Act;[1] (iii) the Bursa Malaysia Securities Berhad ("Bursa Malaysia") Listing Requirements (the "Listing Requirements"); and (iv) the 2017 Malaysian Code on Corporate Governance (the "2017 Code"), which is an "apply or explain an alternative" code established under the Securities Commission Malaysia.

The board structure of Malaysian companies, whether listed or otherwise, is best categorized as one-tier. Boards are typically comprised of executive, non-executive and independent directors. Pursuant to the Code and the Listing Requirements, at least one-half of the board of directors should consist of independent directors, while large cap companies should have majority independent boards.[2]

In accordance with the Listing Requirements, every listed company must have an audit committee.[3] Under the Listing Requirements and the Code, the audit committee must comprise a minimum of three directors, all of whom are non-executive directors and a majority of whom are independent, including the chair. In addition, the 2017 Code and the Listing Requirements provide that companies must establish remuneration and nomination committees.[4] Further, both committees should be comprised solely of independent non-executive directors, a majority of whom, including the committee chair, are independent.

Malaysian companies are required to publish their meeting notices and agenda at least 21 days prior to an annual meeting of shareholders or any meeting at which a special resolution is to be proposed.[5] For other meetings, the corporate document publishing deadline is 14 days. Companies may either mail the information directly to shareholders or publish the information in a major Malaysian publication. Additionally, companies are required to have their own websites and publish all announcements made on the Bursa Malaysia on their websites as well.

Malaysian companies have proven to be fairly transparent in their disclosures of company information compared to other Asian markets. Companies generally release information regarding substantial shareholders, director independence, related-party transactions and board committee roles. Under the Listing Requirements, Malaysian companies are not required to provide a breakdown of proposed directors' fees or individual fees. However, the Companies Act, 2016, and the 2017 Code are forcing companies to disclose how non-executives are remunerated, while companies are encouraged to disclose senior management remuneration, including the links between pay and performance.[6]

1 The Capital Market Services Act (CMSA), which consolidates part of the Securities Commission Act (SCA), the Securities Industry Act, and the Futures Industry Act, came into force in 2007.

2 The 2017 Code specifies companies being members fo the FTSE Malaysia Top 100 Index, or companies having a market capitalization of RM 2 billion or more as a "large company." Section 2.6, Malaysian Code on Corporate Governance.

3 Articles 3.05 and 15.09, Listing Requirements.

4 Section 6.2, Malaysian Code on Corporate Governance. Article 15.08A, Listing Requirements

5 Article 7.15, Listing Requirements.

6 Section 7, Malaysian Code on Corporate Governance and Section 230, Companies Act, 2016.

SUMMARY OF CHANGES FOR THE 2019 MALAYSIA POLICY GUIDELINES

Glass Lewis evaluates these guidelines on an ongoing basis and formally updates them on an annual basis. This year we've made noteworthy revisions in the following areas, which are summarized below but discussed in greater detail in the relevant sections of this document:

EXCESSIVE NON-AUDIT FEES

We will hold the audit committee chair accountable when the company paid excessive fees to its independent auditor for non-audit services for one fiscal year, and recommend voting against all members of an audit committee in office when the company paid excessive fees for two or more consecutive fiscal years.

ENVIRONMENTAL AND SOCIAL RISK OVERSIGHT

We have codified our approach to reviewing how boards are overseeing environmental and social issues. Where we identify material oversight issues, Glass Lewis will review a company's overall governance practices and identify which directors or board-level committees have been charged with oversight of environmental and/or social issues. Glass Lewis will also note instances where such oversight has not been clearly defined by companies in their governance documents.

Where it is clear that companies have not properly managed or mitigated environmental or social risks to the detriment of shareholder value, or when such mismanagement has threatened shareholder value, Glass Lewis may consider recommending that shareholders vote against members of the board who are responsible for oversight of environmental and social risks. In the absence of explicit board oversight of environmental and social issues, Glass Lewis may recommend that shareholders vote against members of the audit committee. In making these determinations, Glass Lewis will carefully review the situation, its effect on shareholder value, as well as any corrective action or other response made by the company.

BOARD GENDER DIVERSITY

We have updated our discussion of how Glass Lewis will consider gender diversity on boards of directors. From 2019, we will expect Malaysian companies that are not considered "large companies" to have at least one woman on their boards. As in 2018, we expect "large companies" to have a 30%-woman board. Where boards do not meet these standards, we will recommend voting against the nomination committee chair for the lack of a gender-diverse board.

DIRECTOR INDEPENDENCE

We have updated how the independence of a director will be evaluated when a director has transitioned from an executive director to an independent director without leaving the board at any time.

ATTENDANCE

Where companies fail to disclose the attendance records of the board and committees, we will recommend shareholders vote against the board chair.

A Board of Directors that Serves Shareholder Interest

BOARD OF DIRECTORS

Glass Lewis looks for talented boards with a record of protecting shareholders and delivering value over the medium- and long-term. We believe that boards working to protect and enhance the best interests of shareholders are independent, have a record of positive performance and have members with a breadth and depth of experience.

In an effort to facilitate shareholder voting in favor of governance structures that will create shareholder value and maintain highly functioning independent board, Glass Lewis looks into various aspects of the board and its committee structure and the qualification of the respective members.

INDEPENDENCE OF DIRECTORS

The independence of directors, or lack thereof, is ultimately demonstrated through the decisions they make. In assessing the independence of directors, we will take into consideration, when appropriate, whether a director has a track record indicative of making fair and objective decisions. Similarly, when a director sits on multiple boards and has a track record that indicates a lack of objective decision-making, that will also be considered when assessing his/her independence. Ultimately, the determination of a director's independence must take into consideration both compliance with applicable independence listing requirements, as well as past conduct.

We look at each director nominee to examine his/her relationships with the company, the company's executives and other directors. We do this research to evaluate whether personal, familial or financial relationships (not including director compensation) may inhibit the objectivity of the director's decision-making. We believe that the existence of such relationships makes it difficult for a director to put shareholders' interests above those of the director or a related-party. We also believe that a director who owns more than 5% of a company's voting stock may have interests that diverge from other shareholders and therefore, shareholders should closely scrutinize their independence on the board and, in particular, the audit committee.

Thus, we put directors into three categories based on an examination of the type of relationship they have with the company:

> **Independent Director** — An independent director has no material,[7] financial, familial[8] or other current relationships with the company,[9] its executives or other board members, except for board service and standard fees paid for that service. Employee relationships that have existed within the past five years and other relationships that have existed within the past three years are usually considered

7 A material relationship is one in which the value exceeds: (i) US$50,000 or no disclosure for personal direct transactions; (ii) US$100,000 for indirect transactions with an entity in which a director holds more than 50% interest; (iii) US$100,000 for indirect professional services transactions with a professional services firm in which a director works for; or (iv) 1% of a company's consolidated gross revenue for indirect transactions with an entity in which a director serves as an executive.

8 Familial relationships include a person's spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces, nephews, in-laws and anyone (other than domestic employees) who shares such person's home. A director is an affiliate if the director has a family member who is employed by the company.

9 A company includes any parent or subsidiary in a group with the company or any entity that merged with, was acquired by, or acquired the company.

to be "current" for purposes of this test.[10] In addition, if an independent director has served on the board for more than nine years, the director's independence may be questioned. In such instances, a company should explain to shareholders why it believes the individual continues to be independent and deserving of re-election.[11]

However, we will not consider a director to be independent if they have progressively been re-designated from an executive director to an independent director despite never leaving the board. We believe that where a director transitions from an executive director to an independent director, they must leave a board for a period of time before rejoining the board with a designation as non-executive or independent director.

Affiliated Director[12] — An affiliated director has a material financial, familial or other relationship with the company or its executives but is not an employee of the company. This includes: (i) directors whose employers have a material financial relationship with the company; (ii) any director who has been designated to act on behalf of an executive of the company or of a substantial shareholder who owns or controls more than 5% of the company's voting stock;[13] and (iii) any director who owns or controls 5% or more of the company's voting stock.[14] In addition, where we find independent non-executive directors receiving additional compensation in the form of salaries, allowances and/or emoluments that exceed 50% of a director's normal fee-based compensation, we will consider such independent directors as being affiliated.

Inside Director — An inside director simultaneously serves as a director and as an employee of the company. This category may include a board chair of the board who acts as an employee of the company or is paid as an employee of the company.

Voting Recommendations on the Basis of Independence

Glass Lewis believes that a board will most effectively perform the oversight necessary to protect the interests of shareholders if it is independent. Pursuant to the Listing Requirements, independent directors must make up at least one-third of the board. In addition, the 2017 Code states that 50% of the board should be independent directors and a majority of directors should be independent for large companies. In the event that less than 50% of the board is comprised of independent directors, we typically recommend voting against some of the inside and/or affiliated directors in order to satisfy the independent number we believe is appropriate.

In determining our recommendation as to who we may recommend shareholders vote against for board independence, we will reserve discretion to not recommend against a company's CEO or managing director. In particular, given the importance of the executive's role, if the executive has no other issues that would warrant a negative recommendation, we will exempt such directors from receiving an against recommendation. However, should the executive have additional issues that would warrant an against recommendation, we will generally oppose the reelection of such executives on the basis of the board being insufficiently independent

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10 The Listing Requirements use a two-year look-back period for most relationships. However, a five-year standard is more appropriate, in our view, because we believe that the unwinding of conflicting relationships between former management and board members is more likely to be complete and final after five years. However, Glass Lewis does not apply the five-year look-back period to directors who have previously served as executives of the company on an interim basis for fewer than six months. If the timing of the cessation of a relationship is not disclosed, as a general rule we treat the relationship has having existed until recently.

11 The 2017 Code states that the tenure of an independent director should not exceed nine years. Where the tenure exceeds nine years, that director may continue to serve on the board as a non-independent non-executive director. However, if a company wants to retain that director as an independent director, they may do so for an additional three years, provided companies justify the director's independence and shareholders approve that director's independence. Any period after 12 years, if companies seek to retain an individual director, a two-tier voting process will apply to evaluate that director's independence. Section 4.2, Malaysian Code on Corporate Governance.

12 In every instance in which a company classifies one of its directors as non-independent, that director will be classified as an affiliate by Glass Lewis.

13 These directors are often referred to as "nominee directors."

14 We view 5% shareholders as affiliates because they typically have access to and involvement with the management of a company that is fundamentally different from that of ordinary shareholders. More importantly, 5% holders may have interests that diverge from those of ordinary holders, for reasons such as the liquidity (or lack thereof) of their holdings, personal tax issues, etc.

PERFORMANCE OF DIRECTORS

The most crucial test of a board's commitment to the company and its shareholders lies in the actions of the board and its members. We look at the performance of these individuals in their capacity as directors and executives of the company, as well their performance in positions at other companies where they have served. We also look at how directors were voted while on the board.

Voting Recommendations on the Basis of Performance

We disfavor directors who have a record of not fulfilling their responsibilities to shareholders at any company where they have held a board or executive position. We typically recommend voting against:

- **Poor Attendance —** A director who fails to attend a minimum of 75% of the board meetings, or 75% of the total of applicable committee meetings and board meetings.[15] While we generally recommend directors to attend board meetings in person, we understand it is not always feasible to do so. Therefore, when evaluating a director's attendance, we will consider a director's participation via electronic communication means, such as audio, video or web conferencing "devices."

  Where companies fail to disclose the attendance records of the board and committees, we will recommend shareholders vote against the board chair. Further, when the attendance record is not disclosed, we will not exempt executives from serving on more than two public company boards.

- **Serious and Material Restatement —** A director who is also the CEO of a company where a serious and material restatement has occurred, after the CEO had previously certified the pre-restatement financial statements.

- **Company Performance —** All members of the board if a company's performance has been consistently lower than its peers and the board has not taken reasonable steps to address the poor performance.

EXPERIENCE OF DIRECTORS

We find that a director's past conduct is often indicative of future conduct and performance. We often find directors with a history of overcompensating executives or with a history of serving on boards where significant and avoidable disasters have occurred, reappearing at companies that follow these same patterns.

Voting Recommendations on the Basis of Experience

We believe that boards should have diverse backgrounds and members with a breadth and depth of relevant experience. We believe that the nomination committee should consider diversity when making director nominations within the context of each specific company and its industry. In our view, shareholders are best served when boards make an effort to ensure a constituency that is not only reasonably diverse on the basis of age, race, gender and ethnicity, but also on the basis of geographic knowledge, industry experience, board tenure and culture.

We typically recommend that shareholders vote against directors who have served on boards or as executives of companies with a track record of poor performance, over-compensation, audit or accounting related issues and/or other indicators of mismanagement or actions against the interests of shareholders.

Likewise, we look carefully at the backgrounds of those who serve on the key committees of the board to ensure that they have the required skills and diverse backgrounds to make informed and well-reasoned judgments about the subject matter for which the committee is responsible.

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15 However, if a director has served for less than one full year, we will not typically recommend voting against him/her for a failure to attend 75% of meetings. Rather, we will note the failure and track this issue going forward. We will also refrain from voting against directors when the proxy discloses that the director missed the meetings due to serious illness or other extenuating circumstances.

DIRECTOR COMMITMENTS

We believe that directors should have the necessary time to fulfill their duties to shareholders. In our view, an overcommitted director can pose a material risk to a company's shareholders, particularly during periods of crisis. In addition, recent research indicates that the time commitment associated with being a director has been on a significant upward trend in the past decade. As a result, we generally recommend that shareholders vote against a director who serves as an executive officer of any public company while serving on more than two public company boards and any other director who serves on more than five public company boards.[16] We will count directors who serve as board chairs in select other non-Asian markets, per our global policies, as two board seats given the time commitment of directorship in those markets.

Because we believe that executives will primarily devote their attention to executive duties, we generally will not recommend that shareholders vote against overcommitted directors at the companies where they serve as an executive.

When determining whether a director's service on an excessive number of boards may limit the ability of the director to devote sufficient time to board duties, we may consider relevant factors such as the size and location of the other companies where the director serves on the board, the director's board roles at the companies in question, whether the director serves on the board of any large privately-held companies, the director's tenure on the boards in question, and the director's attendance record at all companies.

We may also refrain from recommending against certain directors if the company provides sufficient rationale for their continued board service. The rationale should allow shareholders to evaluate the scope of the directors' other commitments as well as their contributions to the board, including specialized knowledge of the company's industry, strategy or key markets, the diversity of skills, perspective and background they provide, and other relevant factors.

CONFLICTS OF INTEREST

In addition to the three key characteristics — performance, director commitments and experience — that we use to evaluate board members, as described above, we also consider conflict-of-interest issues in making our voting recommendations.

We believe that a board should be wholly free of people who have an identifiable and substantial conflict of interest, regardless of the overall presence of independent directors on the board. Accordingly, we recommend that shareholders vote against the following types of directors in nearly all circumstances:

Voting Recommendations on the Conflict of Interest

- **Professional Services and Business Transactions** — A director or a director who has an immediate family member, providing material professional services during the last fiscal year or on an ongoing basis. Material professional services may include legal, consulting or financial services to the company. Also a director who engages – or has a family member of whom engages – in business contracts with the company such as purchase or sales agreement will have to make unnecessarily complicated decisions that may pit their interests against those of the shareholders they serve. With a limited exception, we will recommend voting against a director if his/her direct/indirect related party transactions exceed any of the following thresholds: (i) US$50,000 or no disclosure for personal direct transactions; (ii) US$100,000 for indirect transactions with an entity in which a director holds more than 50% interest; (iii) US$100,000 for indirect professional services transactions with a professional services firm in which a director works for; or (iv) 1% of a company's consolidated gross revenue for indirect transactions with an entity in which a director serves as an executive. In light of the nature of intra group transactions of a controlled entity, in which the parent entity controls more than 50% of the shares, we will refrain from recommending shareholders vote against such transactions.

16 Article 15.06, Listing Requirements limit directorships at five. While there is no limit on foreign directorships, we will enforce a cap for non-executive directorships at five.

- **Interlocking Directorship —** CEOs or other top executives who serve on each other's boards create an interlock that poses conflicts that should be avoided to ensure the promotion of shareholder interests above all else.[17]

BOARD SIZE

While we do not believe there is a universally applicable optimum board size, we do believe boards should have at least five directors to ensure sufficient diversity in decision-making and enable the formation of key board committees with independent directors. Conversely, we believe that boards with more than twenty members will typically suffer under the weight of "too many cooks in the kitchen" and have difficulty reaching consensus and making timely decisions. Sometimes the presence of too many voices can make it difficult to draw on the wisdom and experience in the room by virtue of the need to limit the discussion so that each voice may be heard.

In this case, we note that in Malaysia, the minimum board size is three directors.[18] While we prefer a minimum board size of five directors, we will not recommend against the chair of the nomination committee, but instead will note our preference for a larger board size. However, we will recommend voting against the chair of the nomination committee if a board has more than twenty directors.

SEPARATION OF THE ROLES OF BOARD CHAIR AND CEO

Both the 2012 and 2017 Codes on Corporate Governance recommend that the position of board chair and CEO should be held by different individuals, and the chair must be a non-executive member of the board.[19] Glass Lewis believes that separating the roles of corporate officer and board chair creates a better governance structure than a combined executive/chair position. An executive manages the business according to a course the board charts. Executives should report to the board regarding their performance in achieving the board's goals.

This process is needlessly complicated when a CEO sits on or chairs the board, since a CEO presumably will have significant influence over the board. It can become difficult for a board to fulfill its role of overseer and policy-setter when a CEO/chair controls the agenda and the boardroom discussion. Such control can allow a CEO to have an entrenched position, leading to longer-than-optimal terms, fewer checks on management, less scrutiny of the business operation and limitations on independent, shareholder-focused goal-setting by the board.

A CEO should set the strategic course for the company, with the board's approval, and the board should enable the CEO to carry out his/her vision for accomplishing the board's objectives. The failure to achieve the board's objectives should lead it to replace the CEO with someone in whom it has more confidence.

Similarly, an independent board chair can better oversee executives and set a pro-shareholder agenda without the management conflicts that a CEO or other executive insider often faces. Such oversight and concern for shareholders allows for a more proactive and effective board of directors that is better able to look out for the interests of shareholders.

Thus, where the board chair is a part of the management team, we believe that the board should instead appoint one or more independent vice chairs or a leading independent director to carry out the role of overseer and policy setter. Absent at least one independent vice chair or leading independent director, Glass Lewis will recommend shareholders vote against the chair of nomination committee.[20]

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17 There is no look-back period for this situation. This only applies to public companies and we only footnote it for the non-insider.

18 Article 15.02, Listing Regulations.

19 Section 1.3, Malaysian Code on Corporate Governance 2017, and Section 3.4, Malaysian Code on Corporate Governance 2012.

20 When the information regarding committee chair is not disclosed, we recommend voting against the committee member with the longest tenure on the board. If a board does not have a nomination committee (or a committee that serves such a purpose), we recommend voting against the chair of the board on this basis.

DISCLOSURE OF ANNUAL REPORT

We believe that public companies have a responsibility to disclose information to shareholders in a timely and transparent manner. We are concerned that a short timeframe to review proxy materials prevents shareholders from making informed decisions. Therefore, we strongly encourage companies to disclose annual reports well in advance of annual meetings to allow for meaningful review.

DECLASSIFIED BOARDS

Glass Lewis favors the repeal of staggered boards and the annual election of directors. We believe staggered boards are less accountable to shareholders than boards that are elected annually. Furthermore, we feel the annual election of directors encourages board members to focus on shareholder interests. Moreover, empirical studies have shown that: (i) companies with staggered boards reduce a firm's value; and (ii) in the context of hostile takeovers, staggered boards operate as a takeover defense, which entrenches management, discourages potential acquirers and delivers a lower return to target shareholders.

Given the empirical evidence suggesting staggered boards reduce a company's value and the increasing shareholder opposition to such a structure, Glass Lewis supports the declassification of boards and the annual election of directors.

BOARD EVALUATION AND REFRESHMENT

Glass Lewis strongly supports routine director evaluation, including independent external reviews, and periodic board refreshment to foster the sharing of diverse perspectives in the boardroom and the generation of new ideas and business strategies. Further, we believe the board should evaluate the need for changes to board composition based on an analysis of skills and experience necessary for the company, as well as the results of the director evaluations, as opposed to relying solely on age or tenure limits. When necessary, shareholders can address concerns regarding proper board composition through director elections.

In our view, a director's experience can be a valuable asset to shareholders because of the complex, critical issues that boards face. This said, we recognize that in rare circumstances, a lack of refreshment can contribute to a lack of board responsiveness to poor company performance.

On occasion, age or term limits can be used as a means to remove a director for boards that are unwilling to police their membership and enforce turnover. Some shareholders support term limits as a way to force change in such circumstances.

While we understand that age limits can aid board succession planning, the long-term impact of age limits restricts experienced and potentially valuable board members from service through an arbitrary means. We believe that shareholders are better off monitoring the board's overall composition, including its diversity of skill sets, the alignment of the board's areas of expertise with a company's strategy, the board's approach to corporate governance, and its stewardship of company performance, rather than imposing inflexible rules that don't necessarily correlate with returns or benefits for shareholders.

However, if a board adopts term/age limits, it should follow through and not waive such limits. If the board waives its term/age limits, Glass Lewis will consider recommending shareholders vote against the nominating and/or governance committees, unless the rule was waived with sufficient explanation, such as consummation of a corporate transaction like a merger.

INDEPENDENT DIRECTOR BOARD TENURE

The 2017 Code introduced a new approach to board tenure for independent directors. In particular, after 9 years of cumulative service on a board, an independent director would cease to be considered as independent, while they would be able to continue to serve as a non-independent non-executive director.[21]

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21 Section 4.2, Malaysian Code on Corporate Governance

Where a company has long-serving independent directors exceeding 9 years but less than 12 years, companies can seek an annual resolution at the AGM to consider the independence of the long-serving independent director. After 12 years, a two-tier voting system would apply where: (i) only large shareholders would vote on a director's independence; then (ii) shareholders other than the large shareholder would also vote on a director's independence. Both tiers of voters would have to approve the resolution to affirm the director's continued independence. However, for large companies, the 2017 Code encourages companies to not retain independent directors on a board after 12 years, while such directors may continue as non-independent non-executive directors.[22]

In assessing the independence of a director between 9 and 12 years, Glass Lewis will consider:

- The extent of a company's explanation of a director's independence, which must not be limited a director meeting the legal requirement or definition of being independent;
- Whether the director meets Glass Lewis' definition of independence;
- The composition of the board to assess whether the board has an appropriate mix of skills; and
- The average tenure of all the non-executive directors and overall board independence.

Glass Lewis believes the 2017 Code's recommendation that independent directors serving in excess of 12 cumulative years of service should not continue serving as an independent director on large boards can be extended to all boards. In such instances, we will re-classify independent directors who have served 12 or more cumulative years to become affiliated, while we will apply our policies to the committees they may serve on.

BOARD GENDER DIVERSITY

Glass Lewis recognizes the importance of ensuring that the board is comprised of directors who have a diversity of skills, thought and experience, as such diversity benefits companies by providing a broad range of perspectives and insights.[23] In Malaysia, the 2017 Code provides that large companies must have at least 30% women boards, while all other companies are to disclose policies for board gender diversity and how they intend to meet those targets.

Glass Lewis will make voting recommendations based on the diversity of the board. While our recommendations will only be specific to large companies, we will expect companies to nominate additional women to boards to meet the 30% threshold. In such instances where the board is not 30% women or a company is not nominating a sufficient number of women to meet the 30% target, we will recommend voting against the nomination committee chair. However, where a board does not meet the 30% threshold due to a recent resignation, retirement or other unique instance, provided large companies disclose the reason for the lack of 30%-women board, we may merely note a company's inability to meet such threshold.

For companies not considered to be large companies, Glass Lewis will generally recommend voting against the nominating committee chair of all other boards that have no female members. Depending on other factors, including the size of the company, the industry in which the company operates and the governance profile of the company, we may extend this recommendation to vote against other nominating committee members. When making these voting recommendations, we will carefully review a company's disclosure of its diversity considerations and may refrain from recommending shareholders vote against directors when boards have provided a sufficient rationale for not having any female board members or where boards have disclosed a plan to address the lack of diversity on the board.

22 Section 4.2, Malaysian Code on Corporate Governance.

23 See our In Depth Report on Gender Diversity, available at www.glasslewis.com/special-reports/.

INITIAL PUBLIC OFFERING

Where a company recently completed its initial public offering ("IPO") and became listed on the stock exchange, we will exempt the company from our guidelines for a period of the first financial year or 12 months from the IPO date, whichever is longer.

However, we will review our exemption on a case-by-case basis if: (i) a company and/or its board members are the subject of serious regulatory investigations or actions; and/or (ii) there are significant concerns about overall corporate governance practices.

BOARD COMMITTEES

COMMITTEE INDEPENDENCE

In accordance with the Listing Requirements, every listed company must have an audit committee. Pursuant to the Listing Requirements and the Code, the audit committee should comprise a minimum of three directors, all of whom are non-executive directors and a majority of whom are independent.[24] In addition, the Code recommends that the audit committee chair should be an independent director. While the Listing Requirements and the Code allow non-executive directors to serve the audit committee, we believe that the audit committee should consist solely of independent directors. Furthermore, the audit committee should have at least one member who has accounting or related financial management expertise.[25] In addition, we will recommend voting against any member of the audit committee who owns 20% or more of the company's stock.

The Code recommends that companies establish nomination and remuneration committees. Pursuant to the Code, the nomination committee should be comprised solely of non-executive directors, a majority of whom are independent, and the remuneration committee should be comprised of a majority of non-executive directors. While the Code allows a non-independent director to chair the remuneration and nomination committees, we believe that both committees should be chaired by an independent director and should consist solely of non-executive directors, a majority of whom are considered independent. In addition, in case a board has not established a nomination committee and/or a remuneration committee, we recommend to vote against the chair of the board.

Such independent committee leadership, in our opinion, is imperative for ensuring independent and objective oversight. We typically recommend that shareholders vote against any insider or affiliated director seeking appointment to these committees if they do not meet the relevant independence standard.

AUDIT COMMITTEE PERFORMANCE

Audit committees play an integral role in overseeing the financial reporting process because "[v]ibrant and stable capital markets depend on, among other things, reliable, transparent, and objective financial information to support an efficient and effective capital market process. The vital oversight role audit committees play in the process of producing financial information has never been more important."[26] When assessing an audit committee's performance, we are aware that an audit committee does not prepare financial statements, is not responsible for making the key judgments and assumptions that affect the financial statements, and does not audit the numbers or the disclosures provided to investors. Rather, an audit committee monitors and oversees the process and procedures that management and the auditors perform. The 1999 Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees stated it best:

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24 Both the Code and Listing Requirements prohibit executive directors from becoming audit committee members.

25 According to the Listing Requirements, one member must be a member of the Malaysian Institute of Accountants or have at least three years of working experience and be a qualified accountant.

26 Audit Committee Effectiveness – What Works Best." PricewaterhouseCoopers. The Institute of Internal Auditors Research Foundation. 2005.

A proper and well-functioning system exists, therefore, when the three main groups responsible for financial reporting — the full board including the audit committee, financial management including the internal auditors, and the outside auditors — form a "three legged stool" that supports responsible financial disclosure and active participatory oversight. However, in the view of the Committee, the audit committee must be "first among equals" in this process, since the audit committee is an extension of the full board and hence the ultimate monitor of the process.

For an audit committee to function effectively on investors' behalf, it must include members with sufficient knowledge to diligently carry out their responsibilities. In its audit and accounting recommendations, the Conference Board Commission on Public Trust and Private Enterprise said, "members of the audit committee must be independent and have both knowledge and experience in auditing financial matters."[27]

We are skeptical of audit committees that include members who lack expertise as a certified public accountant, CFO, corporate controller or similar position. While we will not necessarily recommend voting against members of an audit committee when such expertise is lacking, we are more likely to recommend voting against committee members when a problem such as a restatement occurs and such expertise is lacking.

Glass Lewis generally assesses audit committee members against their decisions with respect to their oversight and monitoring role. Shareholders should be provided with reasonable assurance as to the accuracy of the financial statements through the quality and integrity of the statements and earnings reports, the completeness of disclosures necessary for investors to make informed decisions and the effectiveness of internal controls. The independence of the external auditors and the results of their work all provide useful information for assessing the audit committee.

When assessing the decisions and actions of the audit committee, we typically defer to its judgment and vote in favor of its members. However, we would recommend voting against the following members under the following circumstances:[28]

- The audit committee chair, if they also serve as the board chair.
- The audit committee chair if the committee is chaired by a non-independent director.
- Any member of the audit committee who is not considered independent based on our research.
- Any member of the audit committee who owns or represents an entity that owns 20% or more of the company's stock.
- The audit committee chair, when fees for non-audit services are greater than audit and audit-related fees paid to the auditor for one financial year.
- All serving members of an audit committee, when fees for non-audit services are greater than audit and audit-related fees paid to the auditor for two or more consecutive financial years.
- All members of an audit committee if non-audit fees include fees for tax services for senior executives of the company or involve services related to tax avoidance or tax shelter schemes.
- All members of an audit committee that re-appointed an auditor that we no longer consider to be independent for reasons unrelated to fee proportions.

27 Commission on Public Trust and Private Enterprise. The Conference Board. 2003.

28 If our recommendation would be to vote against the committee chair and the chair is not up for election because the board is staggered, we will express our concern regarding the committee chair and vote against this individual as appropriate upon their next election. In all cases, if the chair of the committee is not specified, but our policy calls for voting against the committee chair, we will recommend voting against the director who has been on the committee the longest as the de facto chair.

- All members of an audit committee at a time when accounting fraud occurred in the company.

- All members of an audit committee at a time when financial statements had to be restated due to negligence or fraud.

- All members of an audit committee if the company has repeatedly failed to file its financial reports in a timely fashion.

- All members of an audit committee at a time when the company fails to report or to have its auditors report material weaknesses in internal controls.

- The audit committee chair if the committee does not have at least two members with "appropriate accounting or related financial management expertise."

- The audit committee chair if the audit committee did not meet at least four times during the year.

- The audit committee chair if the company failed to disclose the fees or breakdown of fees paid to the auditor.

- The audit committee chair if the committee did not hold at least one meeting without any executive attendance.

- The audit committee chair if the committee has fewer than three members.

- The board chair, if the company has not established an audit committee.

REMUNERATION COMMITTEE PERFORMANCE

Remuneration committees have the final say in determining the compensation of executives and directors. This oversight includes deciding the bases on which compensation is determined, as well as the amounts and types of compensation to be paid. The process begins with the hiring and initial establishment of employment agreements, including the terms for such items as base pay, pensions and severance arrangements. It is important that compensation be consistent with and based on the long-term economic performance of the business's long-term shareholders returns.

Remuneration committees are also responsible for overseeing the transparency of compensation. It is important for investors to have clear and complete disclosure of all the significant terms of compensation arrangements in order to reach informed opinions concerning the performance of the remuneration committee.

Finally, remuneration committees are responsible for the oversight of internal controls over the executive compensation process. This includes controls over gathering information used to determine compensation, establish equity award plans and grant equity awards. Lax controls can contribute to conflicting information being obtained, through the use of nonobjective consultants, for example. Lax controls can also contribute to the granting of certain types of improper awards, such as backdated or springloaded options, or bonuses that are paid when the triggers for such payments have not been met.

We evaluate remuneration committee members on the basis of their performance while serving on the remuneration committee in question, not for actions taken solely by prior committee members who are not currently serving on the committee.

When assessing the performance of remuneration committees, we will recommend voting against the following members under the following circumstances:

- The remuneration committee chair if the committee is chaired by a non-independent director.
- Any remuneration committee member who is considered an executive or employee of the company based on our research.
- Any remuneration committee member who is not considered independent, when the committee is not majority independent.
- All members of the remuneration committee (from the relevant time period) if excessive employment agreements and/or severance agreements were entered into.
- All members of the remuneration committee if performance goals were changed (i.e., lowered) when employees failed or were unlikely to meet original goals, or performance-based compensation was paid despite goals not being attained.
- All members of the remuneration committee if excessive employee perquisites and benefits were allowed.
- The remuneration committee chair if non-executive directors received excessive compensation, i.e., payments other than directors' fees and stock options.[29]
- The remuneration committee chair if the committee did not meet during the year but should have (e.g., executive compensation was restructured).
- The remuneration committee chair if the committee has fewer than three members.
- The chair of the board, if the company has not established a remuneration committee.

NOMINATION COMMITTEE PERFORMANCE

The nomination committee, as an agency for the shareholders, is responsible and accountable for the selection of objective and competent board members.

Regarding the nomination committee, we will recommend voting against the following members under the following circumstances:

- The nomination committee chair if the committee is chaired by a non-independent director.
- Any nomination committee member who is not considered independent, when the committee is not majority independent.
- Any committee member who is considered an executive or employee of the company based on our research.
- All members of the nomination committee when the committee nominated or re-nominated an individual who had a significant conflict of interest, or whose past actions demonstrated a lack of integrity or inability to represent shareholder interest.

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29 As a general rule, we believe non-executive directors should not be compensated with salaries, bonuses, pension fund contributions and other emoluments other than director's fees and such compensation should not be excessive compared to the director's fees awarded to that director. One exemption to this rule is where such compensation is due to or likely to be due to that director's service as an executive of the company's subsidiary and/or affiliate.

- The nomination committee chair if the committee failed to meet at least once during the previous fiscal year.

- The nomination committee chair if a large company does not have a board with 30% women directors.

- The nomination committee chair if the committee re-nominates a director who did not attend any board meetings in the previous fiscal year.

- The nomination committee chair if the committee re-nominated a director who attended less than 75% of the meetings held by the board and/or the committees for two or more consecutive years.

- The nomination committee chair if less than 50% of the board is independent.

- The nomination committee chair if there are more than twenty members on the board.

- The nomination committee chair if the chair of the board is a part of the management team and there is no independent vice chair or leading/senior independent director on the board.[30]

- The nomination committee chair if a managing director does not face re-election three years after his/her appointment or reappointment on board or if any director is appointed to the board and has a term of service that is not subject to retirement by rotation.

- The nomination committee chair if the committee has fewer than three members.

- The chair of the board, if the company has not established a nomination committee.

GOVERNANCE COMMITTEE PERFORMANCE

In performing this role, the board is responsible for the governance of the company and its executives, as well as for providing leadership on governance policies adopted by the company.

We will recommend voting against all members of the governance committee during whose tenure the board failed to implement an approved shareholder proposal with a direct and substantial impact on shareholders and their rights.

In the absence of a nomination committee, we will evaluate the governance committee in the same manner as we would the nomination committee.

RISK MANAGEMENT COMMITTEE PERFORMANCE

The 2017 Code provides that as a practice, companies should establish a risk management committee.[31] This committee, if separate from the audit committee, would be responsible for ensuring robust internal control systems to oversee and manage a company's risk profile.

While the 2017 Code provides that this committee should be applicable to large companies, where additional companies establish this committee, we will recommend voting against members of the board under the following circumstances:

- The committee should comprise a majority of independent non-executive directors, including the committee chair.

30 When the information regarding committee chair is not disclosed, we recommend voting against the committee member with the longest tenure on the board.

31 Section 9.3, Malaysian Code on Corporate Governance.

- Where there is a failure of risk management, we will recommend against the members of the committee for their lack of oversight.

- Where a large company does not establish this committee and does not disclose that its function is carried out by the audit committee or another board committee, we will hold the board chair accountable.

Where companies establish a risk management committee and it is combined with an audit committee, we will apply our policies relating to audit committee composition and independence.

ENVIRONMENTAL AND SOCIAL RISK OVERSIGHT

Glass Lewis understands the importance of ensuring the sustainability of companies' operations and believes that an inattention to material environmental and social issues can present direct legal, financial, regulatory and reputational risks for companies that could serve to harm shareholder interests. Therefore, we believe that these issues should be carefully monitored and managed by companies and that companies should have an appropriate oversight structure in place to ensure that they are mitigating attendant risks and capitalizing on related opportunities to the best extent possible.

Glass Lewis believes that companies should ensure appropriate, board-level oversight of material risks to their operations, including those that are environmental and social in nature. Accordingly, in instances where we identify material oversight issues, Glass Lewis will review a company's overall governance practices and identify which directors or board-level committees have been charged with oversight of environmental and/or social issues.

Where it is clear that companies have not properly managed or mitigated environmental or social risks to the detriment of shareholder value or when such mismanagement has threatened shareholder value, Glass Lewis may consider recommending that shareholders vote against members of the board who are responsible with oversight of environmental and social risks. In the absence of explicit board oversight of environmental and social issues, Glass Lewis may recommend that shareholders vote against members of the audit committee, risk committee or other applicable committees. In making these determinations, Glass Lewis will carefully review the situation at hand, its effect on shareholder value, as well as any corrective action or other response made by the company.

Transparency and Integrity in Financial Reporting

ACCOUNTS AND REPORTS

In Malaysia, companies are required to submit annual financial statements[32] and director and auditor reports for shareholder approval. A company's consolidated financial statements combine the activities of the company and the activities of its subsidiaries.

Unless there are concerns about the integrity of the statements/reports, we will recommend voting for these proposals. Should an auditor be unable to ensure a clean bill of health, depending on the circumstance, we may recommend that shareholders abstain from voting or withhold votes from this agenda item in addition to recommending voting against members of the audit committee.

However, if the audited financial statements have not been made available, we do not believe shareholders will have sufficient information to make an informed judgment on this matter. As such, we will recommend that shareholders abstain from voting on this agenda item.

ALLOCATION OF PROFITS/DIVIDENDS

Glass Lewis generally supports a company's policy when it comes to the payment of dividends including decisions not to pay them. In most cases, we believe the board is in the best position to determine whether a company has sufficient resources to distribute a dividend or if shareholders would be better served by forgoing a dividend to conserve resources for future opportunities or needs. As such, we will only recommend that shareholders refrain from supporting dividend proposals in exceptional cases.

APPOINTMENT OF AUDITORS AND AUTHORITY TO SET FEES

The auditor's role as gatekeeper is crucial to ensure the integrity and transparency of the financial information necessary for protecting shareholder value. Shareholders rely on the auditor to ask tough questions and thoroughly analyze a company's books to ensure that the information provided to shareholders is complete, accurate and fair, and that it is a reasonable representation of a company financial position. The only way shareholders can make rational investment decisions is if the market is equipped with accurate information about a company's fiscal health.

Shareholders should demand an objective, competent and diligent auditor who performs at or above professional standards at every company. Similar to directors, auditors should be free from conflicts of interest and avoid situations requiring a choice between the auditor's interests and those of the public. Almost without exception, shareholders should be able to annually review an auditor's performance and ratify a board's auditor selection.

We generally support management's choice of auditor, except when we believe the auditor's independence or the integrity of the audit has been compromised. When there have been material restatements of annual financial statements or material weakness in internal controls, we usually recommend voting against the auditor. If the audited financial statements have not yet been disclosed, we base our voting recommendations on the company's financial statements for the previous year. We do not hold a company's auditor responsible

32 Including income statements, balance statements and any relevant notes.

for what may be a company's failure to comply with reporting obligations or a lack thereof, depending on the jurisdiction.

Reasons why we may not recommend in favor of the ratification of an auditor include:

- Where the company failed to disclose the auditor fees paid for the previous fiscal year or a breakdown thereof in either the standalone or consolidated financial statements.

- When audit and audit-related fees total 50% or less of the overall fees billed by the auditor.

- Recent material restatements of annual financial statements have been made, including those resulting in the reporting of material weaknesses in internal controls and including late filings by the company where the auditor bears some responsibility for the restatement or late filing.[33]

- When the company has aggressive accounting policies evidenced by restatements or other financial reporting problems.

- When the company has poor disclosure or lack of transparency in its financial statements.

- When the auditor has limited its liability through its contract with the company.

- When other relationships or concerns with the auditor suggest a conflict between the auditor's interests and shareholder interests.

- In cases where the company does not disclose sufficient information regarding the appointment or ratification of the auditor (e.g., the name of the auditor), we will recommend an abstain vote.

33 An auditor does not audit interim financial statements. Thus, we generally do not believe that an auditor should be opposed due to a restatement of interim financial statements, unless the nature of the misstatement is clear from a reading of the incorrect financial statements.

The Link Between Compensation and Performance

DIRECTOR FEES

Glass Lewis believes that non-employee directors should receive reasonable and appropriate compensation for the time and effort they spend serving on the board and its committees. Director fees should be competitive in order to retain and attract qualified individuals. However, excessive fees represent a financial cost to the company and can compromise the objectivity and independence of non-employee directors. Therefore, a balance is required.

In Malaysia, shareholders may vote on only the aggregate amount of fees to be paid to directors as compensation for their services as members of the board. Shareholders do not have the right to vote on executive compensation or a company's compensation policy.

Glass Lewis generally supports this type of proposal, unless we find the proposed fees are excessive relative to those paid by peer companies with similar market capitalizations.

DIRECTORS' BENEFITS

Pursuant to the Companies Act, 2016, companies must seek shareholder approval on the payment of such benefits.[34] As the benefits payable to directors may include meeting fees and allowances, medical insurance, travel, and other remuneration, Glass Lewis will expect clear disclosure of the types and amounts of benefits to be paid to non-executive directors.

In evaluating directors' benefits, Glass Lewis may oppose such proposals if:

- The proposed amount and types of benefits are not disclosed.
- Where benefits other than meeting fees or fixed directors fees exceed fees-based remuneration.
- The benefits include the payment of professional service or consulting fees to non-executive directors.
- If the benefits include the payment of bonuses that exceed directors' fees.
- If the benefits are contingent upon the completion of performance requirements beyond normal board and committee attendance.

RETIREMENT BENEFITS FOR DIRECTORS

We will typically recommend voting against proposals to grant retirement benefits to non-executive directors. Such extended payments can impair the objectivity and independence of these board members. Directors should receive adequate compensation for their board service through initial and annual fees.

34 Section 230, Companies Act, 2016.

EQUITY-BASED COMPENSATION PLANS

We believe that equity compensation awards are useful, when not abused, for retaining employees and providing them with an incentive to act in a way that will improve company performance.

Equity-based compensation programs have important differences from cash compensation plans and bonus programs. Accordingly, our analysis takes into account factors such as plan administration, the method and terms of exercise, and express or implied rights to re-price.

Our analysis is both quantitative and qualitative. In particular, we examine the potential dilution to shareholders, the company's grant history and compliance with best practice recommendations.

We evaluate equity-based compensation based on the following overarching principles:

- Companies should seek more shares only when they need them.
- Plans should be small enough that companies need approval every three-to-four years (or less) from shareholders.
- Plans should not permit the re-pricing of stock options.
- Plans should not contain excessively liberal administrative or payment terms.
- Plan participants should be limited to employees and directors of the company, its subsidiaries and associates. Performance-based plans should not allow non-executive directors' participation.

In addition, as a general rule, we do not support granting performance-linked compensation to those who carry out supervisory duties because we believe that a non-executive director should hold the same type of securities as ordinary shareholders. Thus, we recommend shareholders vote against when non-executive directors are eligible to participate in performance-linked plan.

When evaluating equity-based compensation proposals, we will look for companies to provide complete disclosure surrounding the proposed equity grants. In the absence of complete disclosure, we may recommend shareholders oppose either the adoption of an equity-based compensation plan or the granting of equity awards. However, in recognition of equity compensation practices for Malaysian companies, we will generally evaluate the general authority to grant awards under equity compensation plans in the following manner:

- For proposals seeking to grant awards within the general limits of an existing plan or plans and the proposed grant size is not disclosed, we will look at the previous year's grants to infer a potential grant size in the current financial year. We will generally recommend shareholders oppose proposals to grant additional equity awards if grants exceeded 2% of a company's issued share capital as at the holding of the general meeting.
- Where companies had existing plans, and are looking to adopt a new plan, we will examine whether companies in the preceding two years had plans which granted more than 2% of a company's issued share capital on an annual basis. Where such grant histories are found, we will oppose the adoption of a new equity compensation plan, unless the proposed new plan commits to granting less than 2% of issued share capital on an annual basis.
- Where companies previously did not have equity-compensation plans but are adopting a plan for the first time, we will generally look at the qualitative elements of the proposed plan to guide our recommendation.

We will oppose the granting of equity-based compensation awards where:

- The exercise price or discount rate of stock options is determined at the discretion of the plan administrator.
- The exercise price discount for stock options exceeds 20% of the market price.
- The maximum vesting period is less than two years unless vesting occurs immediately after a minimum two-year performance period.
- The equity-based compensation plans include the acceleration of vesting of awards upon an offer being made on a company's shares without the transaction needing to be completed, along with a further event such as termination of employment of the grantee. However, we may take into consideration the acceleration of vesting of awards, provided the vesting is in conjunction with the achievement of performance targets as at the time of the transaction leading to a change in control.

We will oppose proposals to grant individual equity awards where:

- The number of share options or shares to be granted has not been disclosed by the Company.
- We oppose the plan or plans the awards are being granted under.
- If an individual's grant or the combined grant size for several individuals exceed 2% of a company's issued share capital.

PERFORMANCE-BASED OPTIONS

Shareholders commonly ask boards to adopt policies requiring that a significant portion of future stock option grants to senior executives be based on performance metrics such as performance-based options that have an exercise price linked to an industry peer group's stock-performance index.

Glass Lewis believes in performance-based equity compensation plans for senior executives. We feel that executives should be compensated with equity when their performance and the company's performance warrant such rewards. While we do not believe that equity-based pay plans for all employees should be based on overall company performance, we do support such limitations for equity grants to senior executives. However, some level equity-based compensation for senior executives without performance criteria is acceptable, such as in the case of moderate incentive grants made in an initial offer of employment or in emerging industries.

Boards often maintain that basing option grants on performance would hinder their ability to attract talent. We believe that boards can develop a consistent, reliable approach to attract executives who are able to guide the company toward its targets. If the board believes in performance-based pay for executives, then these proposals requiring the same should not hamper the board's ability to create equity-based compensation plans.

We generally recommend that shareholders vote in favor of performance-based option requirements for senior executives.

OPTION EXCHANGES

Glass Lewis views option re-pricing plans and option exchange programs with great skepticism. Shareholders have substantial, real downside risk in owning stock, and we believe that the employees, officers and directors who receive options should be similarly situated to align interests optimally. We are concerned that option grantees who believe they will be "rescued" from underwater options will be more inclined to take on unjustifiable risks. Moreover, a predictable pattern of re-pricing or exchanges substantially alters the value of the stock option, as options that will practically never expire deeply out of the money are worth far more than

options that carry such a risk. In short, repricings and option ex-change programs change the bargain between shareholders and employees after the bargain has been struck. Re-pricing is tantamount to a re-trade.

There is one circumstance in which a repricing or option exchange program is acceptable: if the value of a stock has declined dramatically because of macroeconomic or industry trends (rather than specific company issues) and a re-pricing is necessary to motivate and retain employees. In this circumstance, we think it fair to conclude that option grantees may be suffering from a risk that was not foreseeable when the original equity-based compensation "bargain" was struck. In such a circumstance, we will support a re-pricing only if the following conditions are true:

- Officers and board members do not participate in the program.
- The stock decline mirrors the market or industry price decline in terms of timing and approximates the decline in magnitude.
- The exchange is value-neutral or value-creative to shareholders with very conservative assumptions and a recognition of the adverse selection problems inherent in voluntary programs.
- Management and the board make a cogent case for needing to incentivize and retain existing employees, such as the company's position in a competitive employment market.

EXECUTIVE COMPENSATION

As a general rule, Glass Lewis believes that shareholders should not be involved in setting executive compensation. Such matters should be left to the board's remuneration committee. We view the election of directors — specifically, the election of those who sit on the remuneration committee — as the appropriate mechanism for shareholders to express their disapproval or support of board policy on this issue. Further, we believe that companies whose pay-for-performance policies are in line with their peers should be granted the flexibility to compensate their executives in a manner that drives growth and profit.

However, Glass Lewis favors performance-based compensation as an effective means of motivating executives to act in the best interests of shareholders. Performance-based compensation may be limited if a chief executive's pay is capped at a low level rather than flexibly tied to the performance of the company.

Governance and Financial Structure and the Shareholder Franchise

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

We will evaluate proposed amendments to a company's articles of association on a case-by-case basis. We are opposed to the practice of bundling several amendments under a single proposal because it prevents shareholders from judging each amendment on its own merits and is a practice which we believe negatively limits shareholder rights. In such cases, we will analyze each proposed change individually. We will recommend voting for the proposal only when, on balance, we believe that the amendments are in the best interests of shareholders.

DIVIDEND REINVESTMENT (OR SCRIP DIVIDEND) PLAN

We support plans that provide shareholders with the choice of receiving dividends in shares instead of cash. Scrip dividends allow the company to retain cash that it would otherwise distribute as a normal dividend. For shareholders, a dividend reinvestment plan offers a less expensive way to acquire additional shares without paying brokers' commissions or taxes.

ISSUANCE OF SHARES

In general, the issuance of an excessive amount of additional shares and/or convertible securities can dilute existing holders. Further, if the board has the discretion to implement a poison pill, the availability of additional shares can often serve as a deterrent to interested suitors. Accordingly, if we find that a company has not detailed a plan for using the proposed shares, or if the number of proposed shares far exceeds those needed to accomplish a disclosed plan, we typically recommend shareholders vote against the authorization of additional shares.

While we think that having adequate shares to allow management to make quick decisions and effectively operate the business is critical, we prefer that, for significant transactions, management comes to shareholders to justify its use of additional shares, rather than seeking a blank check in the form of a large pool of unallocated shares available for any purpose.

Under the Listing Requirements, the board may, if so authorized by the shareholders, issue shares and convertible securities at its discretion, provided that the aggregate number of shares and convertible securities to be issued does not exceed 10% of the issued share capital, unless the shares or convertible securities are issued with the prior approval of shareholders in general meeting of the precise terms and conditions of the issue. The authority to issue shares granted to the board by shareholders generally expires within 12 months.

In our view, unless a board provides any compelling reason, in general any authorization to issue shares and/or convertible securities without preemptive rights should not exceed 10% of the company's outstanding shares. Likewise, we believe the discount rate for the new issuance should not exceed 15% of the average market price, unless there is a unique situation such as an acquisition.

REPURCHASE OF SHARES

A company may want to repurchase its own shares for a variety of reasons. A repurchase plan is often used to increase the company's stock price, distribute excess cash to shareholders or provide shares for equity-based compensation plans for employees. Companies may keep the repurchased shares in treasury and re-issue them back into the market. In addition, a company might repurchase shares in order to offset a dilution of earnings caused by the exercise of stock options.

Pursuant to the Listing Requirements, listed companies are not allowed to make purchases of their out-standing shares unless the shareholders have given an authorization to the directors. The total number of ordinary shares and stock that may be purchased or acquired and held by a company during the relevant period shall not exceed 10% of the issued ordinary share capital of the company. Under the Listing Requirements, a company may make an on-market repurchase of its shares at a price which is not more than 15% above the average closing market price of the shares over the five preceding business days prior to the day of repurchase.

We will recommend voting in favor of a proposal to repurchase shares when the plan includes the following three provisions: (i) a maximum number of shares which may be purchased; (ii) a maximum price which may be paid for each share (as a percentage of the market price); and (iii) an expiration date of one year.

SUPERMAJORITY VOTE REQUIREMENTS

Glass Lewis believes that supermajority vote requirements act as impediments to shareholder action on ballot items that are critical to shareholder interests. One key example is in the takeover context, where supermajority vote requirements can strongly limit the voice of shareholders in making decisions on such crucial matters as selling the business.

DUAL-CLASS SHARE STRUCTURES

Glass Lewis believes dual-class voting structures are typically not in the best interests of common shareholders. Allowing one vote per share generally operates as a safeguard for common shareholders by ensuring that those who hold a significant minority of shares are able to weigh in on issues set forth by the board.

Furthermore, we believe that the economic stake of each shareholder should match their voting power and that no small group of shareholders, family or otherwise, should have voting rights different from those of other shareholders. On matters of governance and shareholder rights, we believe shareholders should have the power to speak and the opportunity to effect change. That power should not be concentrated in the hands of a few for reasons other than economic stake.

We generally consider a dual-class share structure to reflect negatively on a company's overall corporate governance. Because we believe that companies should have share capital structures that protect the interests of non-controlling shareholders as well as any controlling entity, we typically recommend that shareholders vote in favor of recapitalization proposals to eliminate dual-class share structures. Similarly, we will generally recommend against proposals to adopt a new class of common stock.

With regards to our evaluation of corporate governance following an IPO or spin-off within the past year, we will now include the presence of dual-class share structures as an additional factor in determining whether shareholder rights are being severely restricted indefinitely.

When analyzing voting results from meetings of shareholders at companies controlled through dual-class structures, we will carefully examine the level of approval or disapproval attributed to unaffiliated shareholders when determining whether board responsiveness is warranted. Where vote results indicate that a majority of unaffiliated shareholders supported a shareholder proposal or opposed a management proposal, we believe the board should demonstrate an appropriate level of responsiveness.

RELATED-PARTY TRANSACTIONS

Paragraph 10.08 and 10.09 of the Listing Requirements, which is intended to protect the interests of shareholders as a whole, requires the disclosure and shareholder approval of certain transactions that fall within the category of "related-party transactions" and are entered into between connected persons of a listed company. A connected person is a person who is a director, CEO or substantial shareholder of the company or any of its subsidiaries or affiliates or anyone connected to such persons.

Pursuant to the Listing Requirements, Malaysian companies may seek a general mandate from their shareholders to enter into related-party transactions of revenue or a trading nature, which are necessary for the company's day-to-day operations. According to the Listing Requirements, such transactions must be made in the ordinary course of business and on terms that are not more favorable to the related party than those generally available to the public. In addition, persons or entities with direct or indirect interest in the proposed transactions are not entitled to vote on such a proposal.

Accordingly, shareholders are often requested to approve a mandate to authorize the company to enter into, directly or indirectly, related-party transactions of a revenue or trading nature. All such transactions must be carried out on normal commercial terms and reviewed by the audit committee.

We will evaluate proposed general mandates on a case-by-case basis. Provided there are no transactions that demonstrate egregious or illegal conduct that might threaten shareholder value, we will follow management's decision to enter a general mandate. In evaluating proposed general mandates, we will follow these general principles:

- Transactions must be part of the company's ordinary course of business.
- Clear disclosure regarding the proposed transactions, including relationships between the parties, descriptions of the transactions, proposed amounts, review procedures and length of time must be provided, along with disclosure that interested parties must refrain or abstain on voting for such transactions. Where the transaction terms are partially disclosed, or no details of the transactions have been disclosed, we will recommend shareholders oppose the proposed general mandate.
- For transactions involving a major shareholder, entities affiliated with a major shareholder, or entities with overlapping directors, the transaction(s) must be related to or necessary for the ordinary day-to-day operations of the company.
- Where the transaction is between a parent company and/or fellow subsidiary or controlled subsidiary, we will generally support the transaction unless the transaction is not part of the day-to-day operations of a company.

We will reserve the option to oppose certain related party transactions. In such instances, we will recommend against a specific transaction and/or a specific director for transactions if his/her direct/indirect related party transactions exceed any of the following thresholds: (i) US$50,000 or no disclosure for personal direct transactions; (ii) US$100,000 for indirect transactions with an entity in which a director holds more than 50% interest; or (iii) US$100,000 for indirect professional services transactions with a professional services firm in which a director works for; or (iv) 1% of a company's consolidated gross revenue for indirect transactions with an entity in which a director serves as an executive.

For any other related party transactions outside of a general mandate, we will generally follow our aforementioned general principles in evaluating the merits of any proposed transaction. Further, where necessary, we will expect companies to disclose the opinion of an independent financial adviser, provided such transactions require such disclosure.

TRANSACTION OF OTHER BUSINESS

We typically recommend that shareholders not give their proxy to management to vote on any other business items that may properly come before the annual meeting. In our opinion, granting unfettered discretion is unwise.

Shareholder Initiatives

Although uncommon in Malaysia, should a shareholder proposal arise, we will evaluate it on a case-by-case basis. We generally favor proposals that are likely to increase shareholder value and/or promote and protect shareholder rights. We typically prefer to leave decisions regarding day-to-day management of the business and policy decisions such as those related to political, social or environmental issues to management and the board except when there is a clear and direct link between the proposal and an economic or financial risk for the company. We feel strongly that shareholders should not attempt to micromanage the business or its executives through the initiative process. Rather, shareholders should use their influence to push for governance structures that protect shareholders, including through director elections, and promote the composition of a board they can trust to make informed and careful decisions that are in the best interests of the business and its owners. We believe that shareholders should hold directors accountable for management and policy decisions through the election of directors.

ENVIRONMENTAL, SOCIAL & GOVERNANCE INITIATIVES

For a detailed review of our policies concerning compensation, environmental, social and governance shareholder initiatives, please refer to our comprehensive *Proxy Paper Guidelines for Shareholder Initiatives*, available at www.glasslewis.com.

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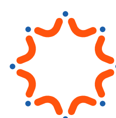

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