

GUIDANCE NOTE NO 11/2006

DISCLOSURE IN RELATION TO THE MALAYSIAN CODE ON CORPORATE GOVERNANCE AND THE STATE OF INTERNAL CONTROL

Issued in relation to Rules 15.25 and 15.26 of the Listing Requirements;

And

Pursuant to Rule 2.09 of the Listing Requirements.

1.0 Introduction

1.1 Rule 15.25 of the Listing Requirements provides that a listed company must include the following statements (hereinafter referred to as “the Corporate Governance Statement”) in its annual report in relation to its compliance with the Malaysian Code on Corporate Governance (hereinafter referred to as “the Code”):-

- (a) a narrative statement of how the listed company has applied the principles set out in Part 1 of the Code (hereinafter referred to as “the Principles”); and
- (b) a statement on the extent of compliance with the Best Practices in Corporate Governance set out in Part 2 of the Code (hereinafter referred to as “the Best Practices”) which statement shall specifically identify and give reasons for any areas of non-compliance with Part 2 and the alternatives to the Best Practices adopted by the listed company, if any.

1.2 Rule 15.26(b) requires a listed company to ensure that its board of directors make a statement in its annual report about the state of internal control of the listed company as a group (hereinafter referred to as “the Internal Control Statement”).

1.3 This Guidance Note clarifies the obligation of the listed companies in making the Corporate Governance Statement and the Internal Control Statement.

2.0 Location of the Corporate Governance Statement and the Internal Control Statement in the annual report

2.1 A listed company may combine both the Corporate Governance Statement and the Internal Control Statement (both statements are collectively referred to as “the said Statements”).

2.2 A listed company must set out the said Statements prominently and clearly in its annual report. The said Statements must not be incorporated into its management’s discussion in the annual report as referred to in paragraph 8 of Appendix 9C.

3.0 Contents of the Corporate Governance Statement

3.1 A listed company must note that there are 2 parts to the Corporate Governance Statement, namely:-

- (a) a narrative statement on application of the Principles; and

- (b) a statement on extent of compliance with the Best Practices.
- 3.2 A listed company must ensure that the narrative statement on application of each Principle contains adequate information to enable an informed assessment of the application of the Principles by the listed company.
- 3.3 In making the statement on the extent of compliance with the Best Practices, a listed company must:-
- (a) make a general statement stating whether it complies with the Best Practices. Although it need not comment separately on each Best Practice with which it complies, a listed company must nevertheless provide adequate information to enable an informed assessment of its corporate governance practices; and
- (b) in respect of Best Practices which the listed company does not comply with, it must deal with them individually, give reasons for the non-compliance and alternatives to the Best Practices adopted, if any.
- 3.4 A listed company must ensure that the Corporate Governance Statement covers its corporate governance practices for the whole financial year. If a practice had been in place for only part of the financial year, the listed company must state so and the period during which it had been in place.
- 3.5 If a listed company has not complied with any Best Practice for a certain part of the financial year, but intends to take steps or has taken steps to be compliant with such Best Practice or intends to establish or has established an alternative approach, such listed company should make a statement to that effect.
- 3.6 All listed companies are reminded that certain Best Practices are also the subject matter of provisions in the Listing Requirements, particularly in Chapter 15 thereof. If a listed company does not comply with a Best Practice but complies with a Listing Requirement dealing with the same issue, it must still explain the reasons for departing from the Best Practice. Compliance with a Listing Requirement dealing with an issue also covered by a Best Practice must not be used by a listed company as a circumstance justifying departure from a Best Practice.

4.0 Contents of the Internal Control Statement

- 4.1 In making the Internal Control Statement a listed company is required to address the Principle and Best Practices in the Code which relate to internal control, namely the following:-
- (a) Principle D II in Part 1 of the Code which reads as follows:-
- “The board should maintain a sound system of internal control to safeguard shareholders’ investment and the company’s assets.”*
- (b) Best Practice AAI in Part 2 of the Code which reads, inter alia, as follows:-
- “The board should explicitly assume the following specific responsibilities, which facilitate the discharge of the board’s stewardship responsibilities:-*
- ♦ *Identifying principal risks and ensure implementation of appropriate systems to manage these risks;*

- ♦ *Reviewing the adequacy and the integrity of the company's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines."*

- 4.2 In making the Internal Control Statement, a listed company should be guided by the Statement on Internal Control: Guidance for Directors of Public Listed Companies which is issued by the Taskforce on Internal Control with the support and endorsement of the Exchange.
- 4.3 A listed company must ensure that the Internal Control Statement contains adequate information to enable an informed assessment of its state of internal control.

5.0 The said Statements

- 5.1 The said Statements must clearly identify the board of directors of the listed company as the party which is making the statements.

6.0 Implementation of requirements

- 6.1 All listed companies with financial years ending after 30 June 2007 must ensure that their annual reports shall contain the Corporate Governance Statement.
- 6.2 All listed companies with financial years ending on or after 30 June 2007 must ensure that their annual reports shall contain the Internal Control Statement.
- 6.3 All listed companies are encouraged to make the said Statements on a voluntary basis, prior to the implementation dates stated in paragraphs 6.1 and 6.2 respectively.

7.0 Effective Date

- 7.1 This Practice Note takes effect on 3 July 2006.