

CORPORATE GOVERNANCE REPORT

STOCK CODE : 0160
COMPANY NAME : Hiap Huat Holdings Berhad
FINANCIAL YEAR : December 31, 2018

OUTLINE:

SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.

SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES PERSUANT CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA MALAYSIA

Disclosures in this section are pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia. This section is only applicable for financial institutions or any other institutions that are listed on the Exchange that are required to comply with the above Guidelines.

SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.1

The board should set the company's strategic aims, ensure that the necessary resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards, and ensure that its obligations to its shareholders and other stakeholders are understood and met.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board is responsible for the oversight and overall management of the Group including assessing and agreeing with the Group's corporate objectives, and the goals and targets to be met by management.</p> <p>The Board has a formal schedule of matters reserved to itself for decision, which includes the overall Group strategy and direction, investment policy, major capital expenditures, consideration of significant financial matters and review of the financial and operating performance of the Group.</p> <p>The management, including the Group Managing Director and Executive Directors of the Company, is responsible for managing the day-to-day operation of the business activities in accordance with the strategies direction and delegation by the Board. The management meets regularly to discuss and resolve operational issues. The Group Managing Director briefs the Board on business performance and operations as well as the management initiatives during quarterly Board's meetings.</p> <p>The Board is entrusted with the responsibility to promote the success of the Group by directing and supervising the Group's affairs. Hence, to develop corporate objectives and position descriptions including the limits to management's responsibilities, which the management are aware and are responsible for meeting.</p> <p>The Board understands the principal risks of all aspects of the business that the Group is engaged in and recognising that business decisions require the incurrence of risk. To achieve a proper balance between risks incurred and potential returns to shareholders, the Board ensures that there are in place systems that effectively monitor and manage these risks with a view to the long term viability of the Group.</p>
Explanation for departure	:	

<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.2

A Chairman of the board who is responsible for instilling good corporate governance practices, leadership and effectiveness of the board is appointed.

Application	:	Applied
Explanation on application of the practice	:	<p>The roles of the Chairman and the Group Managing Director are clearly defined and segregated, to ensure appropriate balance of power and authority, increased accountability and enhanced capacity of the Board for independent decision making.</p> <p>The Chairman being an Independent Non-Executive Director, is not involved in the day-to-day management of the Group's business and has no relationship that could materially interfere with his judgment.</p> <p>The Chairman are not related to the Group Managing Director and is responsible in leading the Board in the oversight and supervision of the Group's management.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.3

The positions of Chairman and CEO are held by different individuals.

Application	:	Applied	
Explanation on application of the practice	:	<p>The positions of Chairman and Group Managing Director of Hiap Huat Holdings Berhad ("Hiap Huat" or "the Company") are held by two different individuals. The Chairman, En Zulkifly Bin Zakaria leads the Board in the oversight and supervision of the Group's management whereas the Group Managing Director, Dato' Chan Say Hwa is responsible for the day-to-day operations of the Group, making strategic business decision and implementing the Board's policies and decisions.</p> <p>During the financial year under review, the Company has complied with the recommendation of the MCCG where the positions of the Chairman and the Group Managing Director are held by different individuals, and that the Chairman is a non-executive member of the Board.</p> <p>The roles of the Chairman and the Group Managing Director are clearly defined and segregated, to ensure appropriate balance of power and authority, increased accountability and enhanced capacity of the Board for independent decision-making. The Chairman are not related to the Group Managing Director and are responsible in leading the Board in the oversight and supervision of the Group's management; whilst the Group Managing Director is responsible for the day-to-day operations of the Group, making strategic business decision and implementing the Board's policies and decisions.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.4

The board is supported by a suitably qualified and competent Company Secretary to provide sound governance advice, ensure adherence to rules and procedures, and advocate adoption of corporate governance best practices.

Application	:	Applied
Explanation on application of the practice	:	<p>Every Director has ready and unrestricted access to the advice and the services of the Company Secretaries in ensuring the effective functioning of the Board. The Company Secretaries is to provide and assist the Board, Board Committee or Director individually on matters including but not limited to board procedures, rules and Articles of the Company, legislations, regulations, codes, guidelines and operations matter within the Group. The Board also regularly updated and advised by the Company Secretaries on new statutory and regulatory requirements and the resultant implications to the Company and Directors in relations to their duties and responsibilities.</p> <p>The Company Secretaries shall keep themselves abreast with the development and new changes in relation to any legislation and regulations concerning the corporate administration and to highlight the same to the Board of Directors accordingly.</p> <p>The Company Secretaries attend all Board and all Board Committees meetings and ensure that meetings are properly convened, and that accurate and proper records of the proceedings and resolutions passed are taken and maintained accordingly.</p> <p>The Board recognises that the Company Secretaries are suitably qualified and capable of carrying out the duties required. The Board is satisfied with the service and support rendered by the Company Secretaries in discharge of their functions.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.5

Directors receive meeting materials, which are complete and accurate within a reasonable period prior to the meeting. Upon conclusion of the meeting, the minutes are circulated in a timely manner.

Application	:	Applied
Explanation on application of the practice	:	<p>Unless otherwise agreed, notice of each meeting confirming the venue, time, date and agenda of the meeting together with relevant board papers shall be forwarded to each Director no later than seven (7) days before the date of the meeting. This is to ensure that board papers comprising of due notice of issues to be discussed and supporting information and documentations were provided to the Board sufficiently in advance. Furthermore, Directors are given sufficient time to read the board paper and seek for any clarification as and when they may need advice or further explanation from management and/or Company Secretaries. The deliberations of the Board in terms of the issues discussed during the meetings and the Board's conclusions in discharging its duties and responsibilities are recorded in the minutes of meetings by the Company Secretaries.</p> <p>The Board has access to all information within the Company as a full Board to enable them to discharge their duties and responsibilities and is supplied in a timely basis with information and reports on financial, regulatory and audit matters by way of board papers for informed decision making and meaningful discharge of its duties.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

There is demarcation of responsibilities between the board, board committees and management.

There is clarity in the authority of the board, its committees and individual directors.

Practice 2.1

The board has a board charter which is periodically reviewed and published on the company's website. The board charter clearly identifies–

- the respective roles and responsibilities of the board, board committees, individual directors and management; and
- issues and decisions reserved for the board.

Application	:	Applied
Explanation on application of the practice	:	<p>As part of governance process, the Board has formalised and adopted the Board Charter. This Board Charter sets out the composition and balance, roles and responsibilities, operation and processes of the Board and is to ensure that all Board members acting on behalf of the Company are aware of their duties and responsibilities as Board members. The Board will periodically review the Board Charter and make any changes whenever necessary.</p> <p>The Board Charter is reviewed periodically as and when the need arises to ensure that the dynamic needs of the Group are consistently met. A copy of the Board Charter is available for reference at the Company's website at www.hiaphuat.com.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

Practice 3.1

The board establishes a Code of Conduct and Ethics for the company, and together with management implements its policies and procedures, which include managing conflicts of interest, preventing the abuse of power, corruption, insider trading and money laundering.

The Code of Conduct and Ethics is published on the company's website.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board is committed in maintaining a corporate culture which engenders ethical conduct. The Board has formalised the Code of Conducts and Ethics which summarises what the Company must endeavour to do proactively in order to increase corporate value, and which describes the areas in daily activities that require caution in order to minimise any risks that may occur. The Code of Conduct and Ethics provides guidance for Directors regarding ethical and behavioural considerations and/or actions as they address their duties and obligations during the appointment.</p> <p>The Board will review the Code of Conduct and Ethics when necessary to ensure it remains relevant and appropriate. The details of the Code of Conduct and Ethics are available for reference at the Company's website at www.hiaphuat.com.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

Practice 3.2

The board establishes, reviews and together with management implements policies and procedures on whistleblowing.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board has formalised a Whistle-blowing Policy, with the aim to provide an avenue for raising concerns related to possible breach of business conduct, non-compliance of laws and regulatory requirements as well as other malpractices.</p> <p>The main objectives of the policy are:</p> <ul style="list-style-type: none"> (i) Be committed to the Company's business ethics of Honesty, Integrity and Transparency; (ii) To provide a transparent and confidential process for all parties to give information on non-compliances to the Code of Conduct and Ethics, or any misconduct regardless of his or her position, to an independent party to investigate the allegations and take the appropriate actions; and (iii) To uphold the moral duty being a Company by protecting the interest of all its stakeholders. <p>The details of the Whistle-blowing Policy are available for reference at the Company's website at www.hiaphuat.com.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.1

At least half of the board comprises independent directors. For Large Companies, the board comprises a majority independent directors.

Application	:	Applied
Explanation on application of the practice	:	The Board of Directors consists of six (6) members, comprising an Independent Non-Executive Chairman/Senior Independent Non-Executive Director, a Group Managing Director, two (2) Executive Directors and two (2) Independent Non-Executive Directors. The roles of the Chairman of the Board and Group Managing Director are segregated to ensure that there is balance of power and authority. Hiap Huat thus complies with Rule 15.02 of the Listing Requirements on board composition, where at least two or one-third, whichever is higher, of the Board members shall be Independent Directors.
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.2

The tenure of an independent director does not exceed a cumulative term limit of nine years. Upon completion of the nine years, an independent director may continue to serve on the board as a non-independent director.

If the board intends to retain an independent director beyond nine years, it should justify and seek annual shareholders' approval. If the board continues to retain the independent director after the twelfth year, the board should seek annual shareholders' approval through a two-tier voting process.

Application	:	Not applicable - No independent director(s) serving beyond 9 years	
Explanation on application of the practice	:		
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.3 - Step Up

The board has a policy which limits the tenure of its independent directors to nine years.

Application	:	Not Adopted
Explanation on adoption of the practice	:	

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.4

Appointment of board and senior management are based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender.

Application	:	Applied
Explanation on application of the practice	:	<p>The appointment of new Directors is the responsibility of the full Board after considering the recommendations of the Nomination Committee. As a whole, the Company maintains a very lean number of Board members. The Board appoints its members through a formal and transparent selection process which is consistent with Constitution of the Company. This process has been reviewed, approved and adopted by the Board. New appointees will be considered and evaluated by the Nomination Committee. The Nomination Committee will then recommend the candidates to be approved and appointed by the Board. The Company Secretaries will ensure that all appointments are properly made, and that legal and regulatory obligations are met.</p> <p>Generally, the Board adopts a flexible approach when selecting and appointing new Directors depending upon the circumstances and timing of the appointment. The Nomination Committee will help to assess and recommend to the Board, the candidature of Directors, appointment of Directors to Board Committees, review of Board's succession plans and training programmes for the Board.</p> <p>In assessing suitability of candidates, consideration will be given to the core competencies, commitment, contribution and performance of the candidates to ensure that there is a range of skills, experience and diversity (including gender diversity) represented in addition to an understanding of the Business, the Markets and the Industry in which the Group operates and the accounting, finance and legal matters.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.5

The board discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.

Application	:	Applied	
Explanation on application of the practice	:	<p>The Board is aware of the importance of boardroom diversity and is supportive of the recommendation of MCCG to the establishment of boardroom and workforce gender diversity policy. However, the Board does not adopt any formal boardroom diversity policy in the selection of new Board candidates and does not have specific policies on setting target for female candidates in the Group. The Group basically evaluate the suitability of candidates as new Board member or as a member of the workforce based on the candidates' competency, skills, character, time commitment, knowledge, experience and other qualities in meeting the needs of the Group, regardless of gender. Equal opportunity is given and does not practise discrimination of any form, whether based on age, gender, race and religion, throughout the organisation. Nevertheless, the Board will evaluate and match the criteria of the potential candidate as well as considering the boardroom diversity for any new proposed appointment of Directors of the Company in the future.</p> <p>Currently, our Board comprise of two (2) female Directors which in line with the country's aspirational target of 30% representation of women on boards.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.6

In identifying candidates for appointment of directors, the board does not solely rely on recommendations from existing board members, management or major shareholders. The board utilises independent sources to identify suitably qualified candidates.

Application	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	<p>The current process with regards to the appointment of new Directors to the Board is based on the recommendation of the Nomination Committee. The Board relies on the existing network and referrals from existing board members, senior management and major shareholders as primary means to source for new Directors as they represent a tried and tested method of sourcing high-caliber directors with a sound understanding of the business.</p> <p>The Directors appointment process is carried out based on methodical and robust process undertaken by the Nomination Committee. Candidates recommended are thoroughly assessed based on their competence, integrity, character, time commitment and experience as stated in Rule 2.20A of Ace Market Listing Requirements of Bursa Securities.</p>
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	Please explain the measure(s) the company has taken or intend to take to adopt the practice.
Timeframe	:	Choose an item.

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.7

The Nominating Committee is chaired by an Independent Director or the Senior Independent Director.

Application	:	Applied
Explanation on application of the practice	:	<p>As recommended by MCCG, the Company has established the Nomination Committee comprising exclusively of Independent Non-Executive Directors, with the responsibilities of assessing the balance composition of Board members, nominate the proposed Board member by looking into his skills and expertise for contribution to the Company on an ongoing basis.</p> <p>The present members of the Nomination Committee are:</p> <p><u>Chairman</u> Woo Yew Tim - Independent Non-Executive Director</p> <p><u>Members</u> Zulkifly bin Zakaria - Independent Non-Executive Chairman / Senior Independent Non-Executive Director Wong Kah Ming - Independent Non-Executive Director</p> <p>The Board has stipulated specific Terms of Reference for the Nomination Committee and copy of the terms of reference of the Nomination Committee can be viewed at the Company's website at www.hiaphuat.com</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Stakeholders are able to form an opinion on the overall effectiveness of the board and individual directors.

Practice 5.1

The board should undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committees and each individual director. The board should disclose how the assessment was carried out and its outcome.

For Large Companies, the board engages independent experts periodically to facilitate objective and candid board evaluations.

Application	:	Applied
Explanation on application of the practice	:	<p>The Nomination Committee would conduct an assessment of the performance of the Board, as a whole, Board Committees and individual Directors, based on a self-assessment approach on an annually basis. From the results of the assessment, including the mix of skills and experience possessed by Directors, the Board will consider and approve the recommendations on the re-election and re-appointment of Directors at the forthcoming Annual General Meeting of the Company, with a view to meeting current and future requirements of the Group.</p> <p>The criteria used by the Nomination Committee in evaluating the performance of individual, including contribution to interaction, integrity, competency and time commitment of the members of the Board and Board Committees in discharging their duties, are in a set of questionnaires. Each of the Directors will perform a self-assessment on an annually basis. The Board did not engage any external party to undertake an independent assessment of the Directors.</p> <p>Based on the assessment conducted for the financial year 2018, the Board and the Nomination Committee is satisfied with the current size, composition as well as the mix of qualifications, skills and experience among the Board and Board Committees members and the independence of its Independent Non-Executive Directors.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

Practice 6.1

The board has in place policies and procedures to determine the remuneration of directors and senior management, which takes into account the demands, complexities and performance of the company as well as skills and experience required. The policies and procedures are periodically reviewed and made available on the company's website.

Application	:	Applied
Explanation on application of the practice	:	<p>The Remuneration Committee is authorised by the Board to establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors.</p> <p>The Board believes in a remuneration policy that fairly supports the Directors' responsibilities and fiduciary duties in steering the Group to achieve its long-term goals and enhance shareholders' value. The Board's offers a competitive remuneration package in order to attract, develop and retain talented individuals to serve as directors.</p> <p>The Remuneration Committee's principal objective is to evaluate, deliberate and recommend to the Board a remuneration policy for Executive Directors that is fairly guided by market norms and industry practice. The Remuneration Committee also recommends the Executive Directors' remuneration and benefits based on their individual performances and that of the Group.</p> <p>The determination of the remuneration for Non-Executive Directors is a matter of the Board as a whole. The level of remuneration for Non-Executive Directors reflects the amount paid by other comparable organisations, adjusted for the experience and levels of responsibilities undertaken by the particular Non-Executive Directors concerned. The remuneration package of Non-Executive Directors will be a matter to be deliberated by the Board, with the Director concerned abstaining from deliberations and voting on deliberations in respect of his individual remuneration. In addition, the Company also reimburses reasonable out-of-pocket expenses incurred by all the Non-Executive Directors in the course of their duties as Directors of the Company. The aggregate annual Directors' fees and other benefits payable are to be approved by shareholders at the Annual General Meeting based on recommendations of the Board.</p>
Explanation for departure	:	

Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.

Measure	:		
Timeframe	:		

Intended Outcome

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

Practice 6.2

The board has a Remuneration Committee to implement its policies and procedures on remuneration including reviewing and recommending matters relating to the remuneration of board and senior management.

The Committee has written Terms of Reference which deals with its authority and duties and these Terms are disclosed on the company's website.

Application	:	Applied
Explanation on application of the practice	:	<p>In line with the best practices of MCCG, the Board has set up a Remuneration Committee which comprising exclusively of Independent Non-Executive Directors in order to assist the Board for determining the Director's remuneration.</p> <p>The present members of the Remuneration Committee are as follow:</p> <p><u>Chairman</u> Wong Kah Ming - Independent Non-Executive Director</p> <p><u>Members</u> Zulkifly bin Zakaria - Independent Non-Executive Chairman/ Senior Independent Non-Executive Director Woo Yew Tim - Independent Non-Executive Director</p> <p>The Remuneration Committee is authorised by the Board to establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. The remuneration of Directors shall be the ultimate responsibility of the full Board after considering the recommendations of the Remuneration Committee.</p> <p>The Terms of Reference of the Remuneration Committee can be viewed at the Company's website at www.hiaphuat.com</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		

Measure	:		
Timeframe	:		

Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

Practice 7.1

There is detailed disclosure on named basis for the remuneration of individual directors. The remuneration breakdown of individual directors includes fees, salary, bonus, benefits in-kind and other emoluments.

Application	:	Applied
Explanation on application of the practice	:	Detailed disclosure on named basis for the remuneration of individual directors detailing fees, salaries, and other emoluments are stated in the Corporate Governance Statement in the Annual Report.
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

Practice 7.2

The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

Application	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	<p>The Company opts not to disclose the Senior Management's remuneration components (salary, bonus, benefits-in-kind and other emoluments) as it is not in the best interest of the Company and Senior Management personnel to disclosure of their personal data to the public at large.</p> <p>There are only six (6) Senior Management in the group, three (3) are the Executive Directors of the Company, their remuneration components (salary, bonus, benefits-in-kind and other emoluments) have disclosed in the Company's 2018 Annual Report under Corporate Governance Statement.</p> <p>The other three (3) Senior Management, their total remuneration components (salary, bonus, benefits-in-kind and other emoluments) are 8% of the overall salary of the Group and the range of the salary in line with the industrial practice.</p> <p>The Company alternative plan to meet the intended outcome is to disclose the percentage (%) of salary received by Senior Management over the total salary of the Group.</p>
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	Please explain the measure(s) the company has taken or intend to take to adopt the practice.
Timeframe	:	Choose an item

Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

Practice 7.3 - Step Up

Companies are encouraged to fully disclose the detailed remuneration of each member of senior management on a named basis.

Application	:	Not Adopted
Explanation on adoption of the practice	:	

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.
The company's financial statement is a reliable source of information.

Practice 8.1

The Chairman of the Audit Committee is not the Chairman of the board.

Application	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	Currently, the Chairman of the Audit Committee is also the Chairman of the Board. However, the Board is of the view that the said practice will not materially interfere and affect his independence judgement. Further, based on the assessment conducted for the financial year 2018, the Board and the Nomination Committee is satisfied with the current size, composition as well as the mix of qualifications, skills and experience among the Audit Committees members.
		The Board noted the recommendation from the MCCG and may consider to restructure the composition of the Audit Committee in future.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	Please explain the measure(s) the company has taken or intend to take to adopt the practice.
Timeframe	:	Choose an item.

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.
The company's financial statement is a reliable source of information.

Practice 8.2

The Audit Committee has a policy that requires a former key audit partner to observe a cooling-off period of at least two years before being appointed as a member of the Audit Committee.

Application	:	Applied	
Explanation on application of the practice	:	<p>Hiap Huat recognised the need to uphold independence of its external auditors and that no possible conflict of interest whatsoever should arise. Currently, none of the members of the Board nor the Audit Committee of the Company were former key audit partners of the external auditors appointed by the Group. The Company will observe a cooling-off period of at least two (2) years in the event any potential candidate to be appointed as a member of the Audit Committee was a key audit partner of the external auditors of the Group.</p> <p>None of the members of the AC was a former key audit partner during the financial year 2018.</p>	
Explanation for departure	:		
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>			
Measure	:		
Timeframe	:		

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.
The company's financial statement is a reliable source of information.

Practice 8.3

The Audit Committee has policies and procedures to assess the suitability, objectivity and independence of the external auditor.

Application	:	Applied
Explanation on application of the practice	:	<p>The Company has established a transparent arrangement with the External Auditors to meet their professional requirements. From time to time, the External Auditors highlight to the Audit Committee ("AC") and Board of Directors on matters that require the Board's attention.</p> <p>The AC is responsible for reviewing the audit, recurring audit-related and non-audit services provided by the external auditors. The AC has been explicitly accorded the power to communicate directly with both the external auditors and internal auditors. The terms of engagement for services provided by the external auditors are reviewed by the AC prior to submission to the Board for approval. The effectiveness and performance of the external auditors are reviewed annually by the AC.</p> <p>In assess or determine the suitability and independence of the External Auditors, the AC has taken into consideration of the following:</p> <ul style="list-style-type: none"> (i) the adequacy of the experience and resources of the External Auditors; (ii) the External Auditor's ability to meet deadlines in providing services and responding to issues in a timely manner as contemplated in the external audit plan; (iii) the nature of the non-audit services provided by the External Auditors and fees paid for such services relative to the audit fee; and (iv) whether there are safeguards in place to ensure that there is no threat to the objectivity and independence of the audit arising from the provision of non-audit services or tenure of the External Auditors.
Explanation for departure	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
Measure	:	
Timeframe	:	

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.
The company's financial statement is a reliable source of information.

Practice 8.4 - Step Up

The Audit Committee should comprise solely of Independent Directors.

Application	:	Adopted
Explanation on adoption of the practice	:	<p>In line with the best practices of MCCG, the Board has set up the Audit Committee which comprising exclusively of Independent Non-Executive Directors.</p> <p>The present members of the Audit Committee are as follows :</p> <p><u>Chairman</u> Zulkifly Bin Zakaria - Independent Non-Executive Chairman/ Senior Independent Non-Executive Director</p> <p><u>Members</u> Wong Kah Ming - Independent Non-Executive Director Woo Yew Tim - Independent Non-Executive Director</p>

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.
The company's financial statement is a reliable source of information.

Practice 8.5

Collectively, the Audit Committee should possess a wide range of necessary skills to discharge its duties. All members should be financially literate and are able to understand matters under the purview of the Audit Committee including the financial reporting process.

All members of the Audit Committee should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.

Application	:	Applied
Explanation on application of the practice	:	<p>Collectively, the members of the AC have the relevant experience and expertise in finance and accounting, and have carried out their duties in accordance with the Terms of Reference of the AC. The qualification and experience of the individual AC members are disclosed in the Directors' Profiles set out in the 2018 Annual Report, at least one member of the AC fulfils the financial expertise requirement of the Listing Requirements.</p> <p>During the financial year ended 31 December 2018, all members of the AC had undertaken the relevant training programmes to keep themselves abreast of the latest development in business environment, statutory laws, regulations and best practices to enable them to effectively discharge their duties. The list of trainings attended are disclosed in the Corporate Governance Statement in this Annual Report.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

Practice 9.1

The board should establish an effective risk management and internal control framework.

Application	:	Applied
Explanation on application of the practice	:	<p>As an effort to enhance the system of internal control, the Board together with the assistance of external professional Internal Audit firm adopted on-going monitoring and review to the existing risk management process in place within the various business operations, with the aim of formalising the risk management functions across the Group. This function also acts as a source to assist the Audit Committee and the Board to strengthen and improve current management and operating style in pursuit of best practices.</p> <p>The Board also has set up a Risk Management Committee ("RMC") which comprises a majority of Independent Non-Executive Directors of the Company to identify, evaluate and manage significant risks faced by the Group as well as report to the Board on significant risks affecting the Group's strategic and business plans, if any. As an ongoing process, significant business risks faced by the Group are identified and evaluated and consideration is given on the potential impact of achieving the business objectives. This includes examining principal business risks in critical areas, assessing the likelihood of material exposures and identifying the measures taken to mitigate, avoid or eliminate these risks.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

Practice 9.2

The board should disclose the features of its risk management and internal control framework, and the adequacy and effectiveness of this framework.

Application	:	Applied
Explanation on application of the practice	:	<p>Key elements that have been established in the of the Group's risk management and internal control systems are described below:</p> <p>1. Risk Management System</p> <p>Risk management is firmly embedded in the Group's management system as the Board firmly believes that risk management is critical for the Group's sustainability and the enhancement of shareholder value. Key management staff and Heads of Department are delegated with the responsibility to manage identified risks within defined parameters and standards.</p> <p>The Group's established risk management practice is guided by ISO 31000: Risk Management – Principles and Guidelines. The key elements of this risk management process are as follows:</p> <ul style="list-style-type: none">• Identify key risks associated with the Group's external and internal risks;• Identify the existing controls that manage the identified risks;• Confirm ownership and timelines for managing and monitoring the identified risks;• Rate the identified risks in terms of likelihood of occurrence and the resulting impact on the organisation. The rating takes into account the effectiveness of existing controls put in place to manage the risks;• Decide on the risk treatment and develop risk response to manage residual risks (if any); and• Regular monitoring and updating of the Group's existing key risk profile. <p>The above risk management process has been in place for the year under review and up to the date of the approval of this Statement.</p> <p>The Board has set up a Risk Management Committee ("RMC") which comprises a majority of Independent Non-Executive Directors of the Company to identify, evaluate and manage significant risks faced by the Group as well as report to the Board on significant risks affecting the Group's strategic and business plans, if any. Detail risk registers of the key risks been identified and existing controls including the risk responses have been created and a risk profile for the Group has been developed. Risks identified were prioritised in terms of likelihood of occurrence and its impact on the achievement of the Group's business objectives.</p>

	<p>The RMC meets from time to time to identify and manage risks; the risks are being continually monitored and appropriate actions taken to address any change in existing risks or new risks identified as part of an on-going proactive risk management exercise.</p> <p>During the financial year under review, the risk register of the Group was updated by the RMC. Through this update, which takes into consideration the economic and business outlook, new risks were identified, assessed and rated, and existing risks are also re-evaluated. The updated risk register including additional mitigating action plans to be implemented were then presented to Audit Committee on 21 November 2018.</p> <p>The details of the principal risks faced by the Group is set out in the MD&A of this Annual Report.</p> <p>2. Internal Control System</p> <ul style="list-style-type: none"> (i) The Group has in place an organisational structure with defined lines of responsibilities and delegation of authority. A process of hierarchical reporting has been established, which provide for a documented and auditable trail of accountability and also facilitate the check and balance for proper decision making at the appropriate authority levels of Management including matters that require the Board's approval. (ii) A documented delegation of limits of authority across the Group's operations that sets out decisions that need to be taken and the appropriate levels of Management involved including matters that require the Board's approval. (iii) The Board of Directors and Audit Committee meet at least four (4) times during the financial year to review and deliberate on financial reports, annual financial statements, internal audit reports and etc. Discussions with Management were held to deliberate on the actions that are required to be taken to address internal control issues identified. (iv) Internal policies and procedures had been established for key business units within the Group. Certain subsidiaries within the Group are ISO accredited. (v) The Group has a budgeting process which establishes plans and targets for performances to be measured on an on-going basis. Budget variances are analyzed and reported internally on a quarterly basis. (vi) Comprehensive guidelines on employment, code of conduct and retention of employees are in place to ensure that the Group has a team of employees who are qualified and equipped with all the necessary knowledge, skills and abilities to carry out their responsibilities effectively. (vii) Scheduled operational and management meetings are held to discuss and review the business plans, budgets, financial and operational performances of the Group. Monthly management accounts containing key financial results, operational performances and comparison of actual performance against budgets are presented to the management team for monitoring and review. The quarterly financial statements are presented to the Board for their review and approval. The Board also
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	<p>plays an active role in discussing and reviewing the business plans, strategies, performance and risks faced by the Group.</p> <p>3. Internal Audit Function</p> <p>The Group's Internal Audit Function assists the Board and Audit Committee by providing an independent assessment of the adequacy and effectiveness of the Group's internal control system. Further details of the Internal Audit Function are set out in the Audit Committee Report of this Annual Report.</p>			
Explanation for departure	:			
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>				
Measure	:			
Timeframe	:	<table border="1"> <tr> <td></td><td></td></tr> </table>		

Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

Practice 9.3 - Step Up

The board establishes a Risk Management Committee, which comprises a majority of independent directors, to oversee the company's risk management framework and policies.

Application	:	Adopted
Explanation on adoption of the practice	:	<p>In line with the best practices of MCCG, the Board has set up the Risk Management Committee which comprising a majority of Independent Non-Executive Directors. The present members of the Risk Management Committee are as follows :</p> <p><u>Chairman</u> Zulkifly Bin Zakaria - Independent Non-Executive Chairman/ Senior Independent Non-Executive Director</p> <p><u>Members</u> Dato' Chan Say Hwa - Group Managing Director Datin Chow Pui Ling - Executive Director Soo Kit Lin - Executive Director Wong Kah Ming - Independent Non-Executive Director Woo Yew Tim - Independent Non-Executive Director</p>

Intended Outcome

Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

Practice 10.1

The Audit Committee should ensure that the internal audit function is effective and able to function independently.

Application	:	Applied	
Explanation on application of the practice	:	<p>The Group has appointed an established external professional Internal Audit firm, which reports to the Audit Committee and assists the Audit Committee in reviewing the effectiveness of the internal control systems whilst ensuring that there is an appropriate balance of controls and risks throughout the Group in achieving its business objectives.</p> <p>Internal audit provides independent assessment on the effectiveness and efficiency of internal controls utilizing a global audit methodology and tool to support the corporate governance framework and an efficient and effective risk management framework to provide assurance to the Audit Committee.</p> <p>The Audit Committee approves the internal audit plan during the first Audit Committee meeting each year. Any subsequent changes to the internal audit plan are approved by the Audit Committee. The scope of internal audit covers the audits of all units and operations, including subsidiaries as stated in the letter of engagement.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

Practice 10.2

The board should disclose—

- whether internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence;
- the number of resources in the internal audit department;
- name and qualification of the person responsible for internal audit; and
- whether the internal audit function is carried out in accordance with a recognised framework.

Application	:	Applied
Explanation on application of the practice	:	<p>The Group's internal audit function, which reports directly to the Audit Committee, is outsourced to the Axcelasia Columbus Sdn Bhd. The Engagement Director is Mr. Mah Siew Hoong who has diverse professional experience in internal audit, risk management and corporate governance advisory. He is a Chartered Member of the Institute of Internal Auditors Malaysia, a member of the Malaysian Institute of Accountants and a Fellow Member of the Association of the Chartered Certified Accountants, United Kingdom. Mr. Mah is a Certified Internal Auditor (USA) and has a Certification in Risk Management Assurance (USA).</p> <p>The number of staff deployed for the internal audit reviews is 4 to 5 staff per visit including the Engagement Director. The staff involved in the internal audit reviews possesses professional qualifications and/or a university degree. Most of them are members of the Institute of Internal Auditors Malaysia. The internal audit staff on the engagement are free from any relationships or conflict of interest, which could impair their objectivity and independence, and the internal audit reviews were conducted using a risk based approach and were guided by the International Professional Practice Framework.</p> <p>Internal audit provides independent assessment on the effectiveness and efficiency of internal controls utilising a global audit methodology and tool to support the corporate governance framework and an efficient and effective risk management framework to provide assurance to the Audit Committee.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

Practice 11.1

The board ensures there is effective, transparent and regular communication with its stakeholders.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board recognises the need for transparency and accountability to the Company's shareholders as well as regular communication with its shareholders, stakeholders and investors on the performance and major developments in the Company. The Company ensures that timely releases of the quarterly financial results, press releases and corporate announcements are made to its shareholders and investors, which are clear, unambiguous, succinct, accurate and contains sufficient and relevant information.</p> <p>In order to maintain its commitment of effective communication with shareholders, the Group embrace the practice of comprehensive, timely and continuing disclosures of information to its shareholders as well as the general investing public.</p> <p>The practice of disclosure of information is to adopt the best practices recommended in the MCGG with regard to strengthening engagement and communication with shareholders, it is not only established just to comply with the Listing requirements of Bursa Securities.</p> <p>The Group also endeavour to provide additional disclosures of information on a voluntary basis, where necessary. The management believes that consistently maintaining a high level of disclosure and extensive communication is vital to shareholders and investors in making informed investment decisions.</p> <p>Besides the above, the Company's Annual Report and financial results are dispatched on annually basis to the shareholders to provide an overview of the Group's business activities and performances. The Share Registrar is available to attend to administrative matters relating to shareholders' interests. The Company strived to provide a high level of transparency reporting in order to provide value for its shareholders and investors.</p>
Explanation for departure	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		

Measure	:		
Timeframe	:		

Intended Outcome

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

Practice 11.2

Large companies are encouraged to adopt integrated reporting based on a globally recognised framework.

Application	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	Not applicable as the Company is not a Large Company as defined by the MCCG.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:	Please explain the measure(s) the company has taken or intend to take to adopt the practice.	
Timeframe	:	Choose an item.	

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.1

Notice for an Annual General Meeting should be given to the shareholders at least 28 days prior to the meeting.

Application	:	Applied	
Explanation on application of the practice	:	The Annual General Meeting ("AGM") is the principal forum for dialogue with the shareholders. As recommended by MCCG, the notice of AGM will be despatched to shareholders at least twenty-eight (28) days before the AGM, to allow shareholders to have additional time to go through the Annual Report and make the necessary attendance and voting arrangements. The Notice of AGM, which sets out the business to be transacted at the AGM, is also published in a major local newspaper. The Board will ensure that each item of special business included in the notices of the AGM or extraordinary general meeting is accompanied by a full explanation of the effects of any proposed resolution.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.2

All directors attend General Meetings. The Chair of the Audit, Nominating, Risk Management and other committees provide meaningful response to questions addressed to them.

Application	:	Applied	
Explanation on application of the practice	:	At the Eighth (8th) AGM of the Company held on 26 June 2018, all the six (6) Directors were present in person to engage directly with shareholders, and be accountable for their stewardship of the Company.	
Explanation for departure	:		
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.			
Measure	:		
Timeframe	:		

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.3

Listed companies with a large number of shareholders or which have meetings in remote locations should leverage technology to facilitate—

- including voting in absentia; and
- remote shareholders' participation at General Meetings.

Application	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	<p>Currently, all the general meetings were held at one (1) venue within capital cities and not in remote location.</p> <p>The Company's AGM is to be held in one venue within Klang Valley, not in remote location and easily accessible by most of the shareholders.</p> <p>Alternatively, shareholders are allowed to appoint any person(s) as their proxies to attend, participate, speak and vote on his/her instead at the AGM.</p>	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:	Please explain the measure(s) the company has taken or intend to take to adopt the practice.	
Timeframe	:	Choose an item.	

SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES PURSUANT CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA MALAYSIA

Disclosures in this section are pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia. This section is only applicable for financial institutions or any other institutions that are listed on the Exchange that are required to comply with the above Guidelines.

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