

CORPORATE GOVERNANCE REPORT

STOCK CODE : 3034
COMPANY NAME : Hap Seng Consolidated 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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board of Hap Seng Consolidated Berhad ("HSCB" or the "Company") is committed to foster a corporate governance culture that is grounded on the hallmarks of accountability, objectivity and transparency. As fiduciaries, the Board members are fully cognisant of the need to discharge their duties and responsibilities with unfettered judgment, due care and skill at all times.</p> <p>The Board is responsible for governing the business and affairs of the Company. The Board sets the strategic direction of HSCB and monitors the outcome of efforts to reach that direction. The Board institutes regular reviews and approves the objectives, strategies, business plans and monitors performance against established plans. The 2019 Business Plan was approved by the Board during its final Board meeting in 2018. The Board has also established key performance indicators to define, measure and monitor the performance and progress towards achieving the Company's goals.</p> <p>In setting the "tone from the top", the Board is committed to drive ethics and HSCB's cultural values amongst employees. Honesty and integrity are key values as the Board believes that the success of HSCB's business is built on the foundations of trust and confidence.</p> <p>Board Committees are established by the Board to assist the Board with oversight functions in selected responsibility areas. Management is meanwhile responsible for implementing policies of the Board and overseeing HSCB's operations. The demarcation of responsibilities between the tripartite parties of the Board, Board Committees and Management are outlined in the Board Charter of HSCB. While the Board delegates its responsibility in accordance with the matters reserved in the Board Charter, the Board at all times exercises collective oversight of the Board Committees and Management.</p> |

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| Explanation for departure : | | |
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| <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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board is led by Dato' Jorgen Bornhoft, an independent chairman.</p> <p>The chairman is responsible for leading and ensuring effective conduct of the Board. In fulfilling this role, he amongst others carries out the following:</p> <ul style="list-style-type: none">• ensuring that appropriate procedures are in place to govern the Board's operations;• setting the agenda, style and tone of Board deliberations, facilitating effective review, analysis, discussions and contributions by each director with sufficient time allocated for discussion of complex and contentious issues, encouraging constructive debate so as to enable a sound decision-making process;• ensuring accurate and timely information, in particular about the performance of the Company, is furnished to Board members;• establishing a close relationship of trust with the managing director, providing support and advice while respecting executive responsibility and hence, fostering a collegial relationship or partnership with the Management team;• leading efforts to address the Board's developmental needs; and• chairing of general meetings, and ensuring a smooth, open and constructive dialogue between the Board and the shareholders. <p>The responsibilities of the chairman are set out in the Board Charter of HSCB.</p> |
| Explanation for departure | : | |
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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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | <p>The positions of chairman and managing director of HSCB are held by different individuals (i.e. Dato' Jorgen Bornhoft as the chairman and Datuk Edward Lee Ming Foo as the managing director).</p> <p>The chairman leads the Board in its collective oversight of Management and the managing director focuses on the business and day-to-day management of the Company. The division of responsibilities between the chairman and managing director is clearly articulated in the Board Charter.</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.

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| Application : | Applied |
| Explanation on application of the practice : | <p>The Board is supported by professionally qualified and competent Company Secretaries, namely, Ms Lim Guan Nee and Ms Quan Sheet Mei.</p> <p>The Board is regularly apprised and advised by both Company Secretaries on statutory and regulatory requirements as well as pertinent governance matters. In discharging their role as counsels to the Board, the Company Secretaries also ensure proper supply of relevant information as well as the accuracy and adequacy of meeting materials, organising and facilitating the convening of board meetings, meetings of the board committees, general meetings, in consultation with the chairman, recording of meeting minutes and resolutions of the Board and Board Committees. The Company Secretaries also serve as a focal point for stakeholders' communication and engagement on corporate governance issues.</p> <p>The Company Secretaries constantly keep themselves abreast of changes in the realm of corporate governance through continuous professional development. During the year 2018, they attended pertinent internal and external trainings on changes in regulatory requirements.</p> <p>Process flows on the operational processes and procedures of the secretarial function have been put in place to guide the day-to-day running of the function. Detailed information on the functional accountabilities of the Company Secretaries is encapsulated in the Board Charter.</p> |
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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.

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| Application | : Applied |
| Explanation on application of the practice | <p>Board members are given appropriate materials in advance of each Board and Board Committee meetings. For Board meetings, these materials include but not limited to:</p> <ul style="list-style-type: none">• Annual and quarterly financial statements;• Report on current trading and business issues from the managing director;• Proposals for capital expenditures (if any);• Proposals for acquisitions and disposals not in the ordinary course of business (if any);• Annual budget or Business Plan;• Risk management status report;• Sustainability report; and• Reports of the Board Committees (if any). <p>These meeting materials and notice to the meeting are furnished to the Board members at least five business days in advance of the meeting. Exceptions may be made in certain ad-hoc or urgent instances when Directors unanimously consent to a shorter notice period and elapsed timeframe for the provision of meeting materials.</p> <p>In order to ensure Directors are well-informed of the proceedings that took place, the minutes of the meetings are recorded by the Company Secretaries and circulated to the Board members in a timely manner upon conclusion the relevant meeting. The minutes of meetings record the decisions, including the key deliberations, rationale for each decision made, and any significant concerns or dissenting views.</p> <p>In addition to the provision of meeting materials, the Board also authorises Directors to seek independent professional advice if necessary at the Company's expense in the furtherance of their duties (as stated in paragraph 15.04 of Main Market Listing Requirements of Bursa Malaysia Securities Berhad). Prior to incurring the professional fees, the directors shall obtain written approval from the managing director on the nature and the fees of the professional advice to be sought.</p> |

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| Explanation for departure : | | |
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| 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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board has in place a Board Charter that serves as a primary reference and literature document which guides the governance and conduct of the Board.</p> <p>The Board Charter inter alia outlines the following:</p> <ul style="list-style-type: none">• Board composition;• Board appointments;• Meetings and Board attendance;• Role and responsibilities of the chairman, managing director and company secretary;• Board functions and responsibilities;• Board Committees comprising the Audit, Nominating and Remuneration Committee;• Dichotomy between the Board and Management's role and responsibilities;• Values, ethos, principles and Code of conduct and ethics;• Stakeholder communication policy; and• Sustainability. <p>In developing and reviewing the Board Charter, the Board has taken into account the applicable rules, laws and regulations as well as internal policies.</p> <p>The Board Charter is periodically reviewed by the Board and updated based on the prevailing regulatory promulgations. The Board Charter is available on the Company's website.</p> <p>In relation to the audited financial statements, the directors are responsible for ensuring that:</p> <ul style="list-style-type: none">• the annual audited financial statements of the Group and of the Company are prepared in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and requirements of the Companies Act 2016 in Malaysia; and |

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| | <ul style="list-style-type: none"> the annual financial statements of the Group and of the Company give a true and fair view of the financial position of the Group and of the Company and of their financial performance and cash flows for the year then ended. <p>In preparing the financial statements, the Directors have:</p> <ul style="list-style-type: none"> used appropriate accounting policies and applied them on a consistent basis; made judgments and estimates that are reasonable and prudent; and prepared the audited financial statements on a going concern basis. <p>The directors are also responsible to:-</p> <ul style="list-style-type: none"> ensure that the Group and the Company keep accounting records which disclose the financial position of the Group and the Company with reasonable accuracy, enabling them to ensure that the financial statements comply with the Companies Act 2016; and take reasonable steps to safeguard the assets of the Group and the Company to prevent and detect fraud and other irregularities. |
| Explanation for departure : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | |
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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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>In tandem with HSCB's aspiration to instil and promote appropriate standards of conduct and ethical practices, the Board has established a code of conduct and ethics ("Code of Conduct") that is to be strictly complied with by the Directors and members of the Management. For the avoidance of doubt, the provisions of the Code of Conduct are in addition to any other obligations imposed on the directors by any applicable rules, laws and regulations.</p> <p>The Code of Conduct of the Company covers the following areas:</p> <ul style="list-style-type: none"> • Principles and values such as honesty and integrity; • Compliance with rules, laws and regulations (including but not limited to abuse of power, corruption, insider trading and money laundering); • Conflicts of interest; and • Confidentiality. <p>The Code of Conduct is reviewed periodically by the Board and published on the Company's website.</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> | | |
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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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board, has formalised a Whistleblowing Policy that is applicable to all employees of the Company. The Whistleblowing Policy outlines avenues for employees of the Company to raise legitimate concerns relating to potential breaches of business conduct, non-compliance with legal and regulatory requirements as well as other malpractices. The Board vide the Whistleblowing Policy emphasises good faith in reporting, protection from reprisal as well as anonymity of the whistleblower's identity.</p> <p>The Audit Committee oversees the implementation of whistleblowing procedures. The Audit Committee directs the Internal Audit Department to undertake the necessary inquiries and investigations of the whistleblowing reports. The Audit Committee will then make a finding based on the results of the investigations and the same will be notified to the whistle-blower. If the claim of malpractice or misconduct is established, appropriate disciplinary actions will be taken against the defaulting officers up to and including termination of employment.</p> <p>The Whistleblowing Policy is reviewed by the Board and published on the Company's website.</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> | | |
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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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>Independent directors contribute the element of detached impartiality to the decision-making process and oversight function of the Board. With their watchful eyes and inquiring minds, the presence of independent directors allows the Board to apply heightened professional vigilance and appropriately challenge Management in an unbiased manner.</p> <p>Recognising the value that independent directors add to the Board and the Company as a whole, the Board strives to ensure that HSCB applies the higher order practice of having a majority independent director on its Board. The Board presently comprises five independent directors, one non-independent non-executive director and three executive directors including the managing director.</p> <p>As additional measures to safeguard independence, the Board has formalised a Board Charter which clearly sets out the matters reserved for the Board as well as the non-overlaps of independent directors between HSCB and its subsidiaries. These mechanisms jointly provide for the relevant checks and balances to ensure that no one individual has unfettered powers or assumes a dominant position in the Board’s decision making process.</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

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.

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| Application | : | Applied - Two Tier Voting |
| Explanation on application of the practice | : | <p>The Nominating Committee assesses independent directors annually to ascertain if they display a strong element of impartiality. In conducting this assessment, the dimension of tenure is also considered as to ensure that the same has not reduced impartiality or lack of fresh insights.</p> <p>Dato' Jorgen Bornhoft, despite having served as an independent non-executive chairman for more than 12 years, the Board, upon the assessment and recommendation of the Nominating Committee, is of the opinion that Dato' Jorgen Bornhoft continues to advocate professional views without fear or favour and is capable of acting objectively in the best interest of the Company, as well as has demonstrably proven to be in compliance with all the requirements to be independent in accordance with the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.</p> <p>At the upcoming Annual General Meeting ("AGM"), the Board will seek shareholders' approval by way of a two-tiered voting process to retain Dato' Jorgen Bornhoft as an independent director.</p> <p>Dato' Mohammed Bin Haji Che Hussein, having served as an independent non-executive director of the Company for more than 9 years has expressed his intention to resign from the Board upon conclusion of the forthcoming AGM.</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> | | |

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| Measure | : | | |
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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.

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| 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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board regularly reviews its composition with the aim to ensure that it achieves a diverse Board which is able to bring to bear a breadth of perspectives. In sourcing for suitable candidates, the Company takes into account the benefits of having different facets of diversity including gender, age, ethnicity, nationality, professional background, skills and experience.</p> <p>The Board is currently made up of members with a mix of skill sets, knowledge and experience (e.g. accounting, legal, finance and economics, engineering and business management), cultural background (Malay, Chinese and Danish) and age (range between 50 - 77).</p> <p>The appointment of senior management is also based on predetermined criteria of skill sets and leadership qualities, driven by their respective job descriptions. HSCB has also put in human resource programmes which seeks to address the need for capable individuals at the senior management level, taking into account the different dimensions of diversity.</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

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.

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| Application | : | Departure |
| Explanation on application of the practice | : | |
| Explanation for departure | : | <p>The Board of HSCB strongly believes that diversity enhances decision-making capability of the Company by bringing varying perspectives and better reflecting the realities of the society.</p> <p>Notwithstanding the above, the Board has yet to formalise its policies on gender diversity, its targets and measures to meet those targets. The Board currently does not possess a 30% women representation. The Board would like to allow an advocacy period for the awareness of diversity to be ingrained in the Company so as to enable holistic changes to be made in the future without undue and unwieldy disruptions to the Board composition.</p> <p>Initial steps have been taken to ensure that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered and that there are no conscious or unconscious biases that might discriminate against certain candidates.</p> <p>The Board currently comprises one women director, namely, Ms. Cheah Yee Leng. This is in line with the policy pronouncement by the government that the top 100 public listed companies by market capitalisation should have at least one woman on board.</p> <p>HSCB also has a strong female representation at the Management level which can form the pipeline of candidates potentially available for Directorships and senior management roles.</p> |
| <p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p> | | |
| Measure | : | <p>The Board will undertake to formalise policies on gender diversity, targets and measures to meet those targets. The targets would incorporate specific quantitative benchmarks (e.g. percentage of women at the Board and senior management level) that can be monitored for effectiveness. The Board will also undertake to review its Board composition with a view of enabling a 30% women</p> |

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| | representation on the Board. | |
| Timeframe | : Others | 4 years |

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.

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| Application | : | Departure |
| Explanation on application of the practice | : | |
| Explanation for departure | : | At present, appointments to the Board are decided by the members of the Board based on the recommendations of the Nominating Committee. Directors' network and referrals from incumbent Directors and business associates are the primary means to source for Directors at HSCB as they represent a tried and tested method of sourcing high-calibre directors with a sound understanding of the business imperatives. |
| | : | The Directors appointment process is carried out based on methodical and robust process undertaken by the Nominating Committee. Candidates are thoroughly assessed based on their competence, integrity, character, time commitment and experience as stated in paragraph 2.20A of Main Market Listing Requirements of Bursa Malaysia Securities Berhad and Board Charter. |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | Moving forward, the Nominating Committee would endeavour to seek access to a wider database of candidates by inter alia referring to directors' registry as well as industry and professional associations |
| Timeframe | : | Within 2 years |

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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Nominating Committee is chaired by Dato' Mohammed Bin Haji Che Hussein, who is the senior independent director ("SID") of the Company. Dato' Mohammed Bin Haji Che Hussein was appointed as the chairman of the Nominating Committee on 28 February 2018.</p> <p>As the chairman of the Nominating Committee and the SID, Dato' Mohammed Bin Haji Che Hussein could be the sounding board to the chairman of the Board as well as to lead the performance evaluation of the chairman of the Board.</p> <p>In discharging his duties as the chairman of the Nominating Committee, he undertakes to perform the following:</p> <ul style="list-style-type: none"> • lead the annual review of Board Effectiveness Evaluation, ensuring that the performance of the Board, Board Committees and each individual director is assessed objectively and holistically; • lead the succession planning and appointment of Board members as well as senior management; and • lead the assessment of Directors' training needs periodically with the aim of devising relevant professional development programmes based on such assessment for recommendation to the Board. |
| 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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>Facilitated by the Nominating Committee, HSCB conducted an annual evaluation to determine the effectiveness of the Board, its Committees and each individual Director for the financial year ended 31 December 2018. The process is carried out via questionnaires administered to Directors, using a self and peer-rating model. Assessment criteria revolved around the mix and composition of the Board and Board Committees, quality of information and decision making and boardroom activities.</p> <p>Key findings of the assessments are summarised as follows:</p> <ul style="list-style-type: none">• That Dato' Jorgen Bornhoft, despite having served as an independent chairman of the Board for more than 12 years, continues to manifest the highest level of impartiality. Accordingly, the Board has resolved to seek shareholders' approval by way of a two-tier voting process to retain Dato' Jorgen Bornhoft as an independent director and chairman of the Company;• That board members have participated in effective and constructive board deliberations, which facilitated and enabled the making of informed board decisions; and• That training and development needs of the board members are to be customised based on individual director's qualification, experience and skill-set, which are to be underpinned by the overall strategic direction of the HSCB group. |
| Explanation for departure | : | |
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Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.

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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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Company has put in place remuneration policy and procedures which are premised on the need for the remuneration practices of the Company to be competitive, thereby enabling the Company to attract and retain high-calibre Directors.</p> <p>The component remuneration package for executive directors has been structured to link rewards to corporate and individual performance while non-executive directors' remuneration reflects the experience and level of responsibilities undertaken by individual non-executive directors.</p> <p>The policies and procedures are periodically reviewed by the Board and made available on the Company's website.</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

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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board has established a Remuneration Committee which comprises solely non-executive directors and a majority of independent directors. The Remuneration Committee serves to assist the Board in developing and administering a fair and transparent procedure for setting policy on remuneration of directors and senior management.</p> <p>Dato' Jorgen Bornhoft (independent non-executive director), Mr. Leow Ming Fong @ Leow Min Fong (independent non-executive director) and Datuk Simon Shim Kong Yip (non-independent non-executive director) form the composition of the Remuneration Committee. Dato' Jorgen Bornhoft is the chairman of the Remuneration Committee.</p> <p>The Remuneration Committee's Terms of Reference is periodically reviewed by the Board and disclosed on the Company's website.</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

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 of Directors' remuneration is enclosed as Appendix A. The disclosure is made on a group level and listed issuer level, in accordance with paragraph 11, Part A, Appendix 9C of Main Market Listing Requirements of Bursa Malaysia Securities Berhad. | |
| 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 Board is of the opinion that such disclosure may engender tension and unhealthy competition among the business heads of the Group's six core businesses, namely plantation, property investment & development, credit financing, automotive, trading and building materials.</p> <p>This is further aggravated by the highly competitive environment of the various market segments the Group is operating in and such disclosure may heighten the rate of attrition and correspondingly salary cost.</p> <p>The aggregate quantum of the top five senior management's remuneration is RM14,446,236.48.</p> |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | Will not be disclosing |
| Timeframe | : | Others |

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 | : | Applied | |
| Explanation on application of the practice | : | <p>The Audit Committee is led by Dato' Mohammed Bin Haji Che Hussein who is an independent non-executive director while the Board is helmed by Dato' Jorgen Bornhoft.</p> <p>Dato' Mohammed Bin Haji Che Hussein possesses significant financial experience and holds an accounting related qualification, thus, making him well-placed to lead discussions and deliberations. As the chairman of the Audit Committee, he leads the Audit Committee in providing oversight on financial reporting matters, co-ordinating roles discharged by internal and external auditors and ensuring the adequacy and effectiveness of risk management and internal control systems.</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 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 | : | In order to ensure that the independence of the audit process is safeguarded from the potential threats which may arise when a former key audit partner joins HSCB, the Audit Committee has put in place 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. | |
| 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 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 Audit Committee has put in place policies and procedures to assess the suitability, objectivity and independence of the external auditor. Prior to making a recommendation on the continuance of the incumbent external auditor, the Audit Committee performs an annual assessment on the objectivity, qualifications, expertise, resources and effectiveness of the external auditor. The assessment of the Audit Committee is supplemented by feedback gathered from senior finance personnel across HSCB focusing on a range of factors that the Audit Committee considers as relevant to audit quality.</p> <p>The Audit Committee has also taken into consideration the nature and extent of the non-audit services rendered and the appropriateness of the level of fees. Provisions of non-audit services by the external auditor, Messrs Ernst & Young were reviewed to ascertain whether such provision of services would impair the auditor's independence or objectivity. Disclosure on the nature and extent of non-audit services are made in the Notes to the Financial Statements (Annual Report).</p> <p>For the audit of the financial year ended 31 December 2018, Messrs Ernst & Young has also provided the Audit Committee with a written assurance confirming that they were and had been, independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.</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 8.4 - Step Up

The Audit Committee should comprise solely of Independent Directors.

| | | |
|--|---|-------------|
| 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 8.5

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>The Audit Committee comprises four members, namely Dato' Mohammed Bin Haji Che Hussein (independent non-executive director), Datuk Simon Shim Kong Yip (non-independent non-executive director), Dato' Jorgen Bornhoft (independent non-executive director) and Mr. Leow Ming Fong @ Leow Min Fong (independent non-executive director).</p> <p>All the members of the Audit Committee are financially literate which allows them to have a sound understanding of the language of accounting and finance in order to perform the duties that have been entrusted to it by the Board. One member of the Audit Committee, namely, Mr. Leow Ming Fong @ Leow Min Fong is a member of the Malaysian Institute of Accountants (MIA), thus, fulfilling paragraph 15.09(1)(c) of Main Market Listing Requirements of Bursa Malaysia Securities Berhad.</p> <p>In order to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules, the Audit Committee members have attended pertinent programmes during the financial year.</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>The Board is accountable for the establishment of the Group’s (HSCB and its subsidiaries) system of risk management and internal control. The Board determines the level of risk tolerance and puts in place processes to identify, assess and monitor key business risks to safeguard shareholders’ investments and the Group’s assets.</p> <p>The risks profile of the relevant business units are tabled to the Group Risk Management Committee (a Management-level committee) highlighting on the key risks, their causes and management action plans, thereon. The Group Risk Management Committee reports its activities and makes recommendations to the Board via the Audit Committee. An annual comprehensive risk management report and a half yearly update on salient changes to the key risk profile are tabled to the Audit Committee to facilitate timely assessment.</p> <p>Any major changes to risks or emerging significant risk of the business units in the Group together with the appropriate actions and/or strategies to be taken, will be brought to the attention of the Board by the chairman of the Audit Committee.</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

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 | : | The features of the Group's risk management and internal control framework, as well as the adequacy and effectiveness of the framework are described in the Statement of Risk Management and Internal Control (Annual Report). Key functions undertaken by those entrusted with risk management and internal control responsibilities as well as the measures being put in place to manage risks are also articulated in the said statement. |
| 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 9.3 - 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 | : | Not Adopted |
| Explanation on adoption of the practice | : | |

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 Audit Committee considers and approves the remit of the internal audit function and ensures that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with professional standards. The Audit Committee particularly ensures that that the internal audit function has adequate standing and is free from management or other encumbrances in line with paragraph 15.27 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.</p> <p>The Audit Committee meets the Head of the Internal Audit without the presence of the Management whenever deemed necessary, to discuss any issues arising from the internal audits carried out without the presence of the Management. The Head of Internal Audit is given the right of direct access to the chairman of the Board and to the Audit Committee.</p> <p>The internal audit strategy and a detailed annual internal audit plan are presented to the audit committee for approval. The internal audit function adopts a risk based approach and prepares its audit strategy and plan based on the risk profiles of the business units of the Group. Further details are outlined in the Statement of Risk Management and Internal Control (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 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 Company has an in-house internal audit function which is carried out by the Internal Audit Department and is headed by Mr. Ng Seng Wee, a professional member of Institute of Internal Auditors. Mr. Ng Seng Wee holds an accounting degree and is also a Chartered Accountant (Malaysian Institute of Accountants). Mr. Ng Seng Wee has accumulated over 35 years' of experience in areas related governance, risk and controls.</p> <p>There are a total of 13 personnel in the Internal Audit Department. All the personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence during the course of the work.</p> <p>All internal audit work carried out is guided by the International Professional Practices Framework promulgated by the Institute of Internal Auditors Inc., a globally recognised professional body for internal auditors.</p> <p>During the financial year ended 31 December 2018, the total internal cost incurred is approximately RM4.03 million (2017: RM 3.87 million).</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 Company has a stakeholder communication policy which outlines its commitment to ensure that all stakeholders have timely access to all publicly available information of the Company, thus, allowing them to make decisions in an informed manner. The stakeholder communication policy is accessible on the Company's website.</p> <p>As part of the ongoing effort to foster a closer association with its stakeholders, the Company endeavours to ensure that its corporate website contains all material information necessary for the stakeholders' decision-making process. All corporate announcements, press releases, quarterly financial results, corporate presentations on group financials and operation review and the like are placed on the website as soon as practicable after such information is released to Bursa Securities Berhad.</p> <p>Stakeholders may at any time direct questions or request publicly available information via the communication channels provided in the website. The Company places great importance on stakeholders' privacy and will not disclose information of stakeholders unless otherwise required by law.</p> <p>The Company also views the general meetings as an ideal opportunity to communicate with both institutional and private investors. Shareholders are encouraged to participate in general meetings and at the commencement of any general meeting, the chairman of the general meeting will advise shareholders of their rights. Before any proposed resolution is put to a vote, the chairman of the general meeting will open the floor to questions so that all reasonable shareholders' queries could be addressed.</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

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 | : <p>The current Annual Report of HSCB provides stakeholders with a balanced, comparable and meaningful overview on the Company’s financial and non-financial information including strategic performance. Components such as Management and Discussion Analysis, Sustainability Statement, Corporate Governance Overview Statement and Statement of Risk Management and Internal Control form an integral part of the non-financial information. Articulation is also provided on the business model as well as the trends, outlook and prospects of the Company.</p> <p>While certain elements of Integrated Reporting may be displayed in the Annual Report of HSCB, it is on the whole not an integrated report based on the parameters set out by the International Integrated Reporting Council’s (“IIRC”) Integrated Reporting Framework.</p> <p>The Board would like to allow an advocacy period for the awareness of integrated reporting to be ingrained in the Company so as to enable holistic changes to be made seamlessly in the future.</p> <p>In order provide stakeholders with a closely knitted picture of HSCB’s business, the Annual Report draws linkages between the various components contained therein, comprising financial and non-financial information.</p> <p>Sustainability reporting via the Sustainability Statement also gears the Company towards the adoption of integrated reporting through the establishment of necessary systems and controls so as to assure the senior management and Board that there is a clear presence of quality non-financial data to support the development of an integrated report.</p> |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | |

| | | | |
|------------------|---|---|---------|
| Measure | : | A readiness assessment will be undertaken to gauge the structural changes that would be necessitated from the proposed shift to integrated reporting. At the preliminary stage, the Company will seek to embed the process of integrated thinking into its activities to better synergise its connectivity of reporting from Management, its business analysis and decision-making process. | |
| Timeframe | : | Others | 4 Years |

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 | : | <p>The Board recognises the significance of the AGM as a platform for direct and meaningful communication between the Board and the Company's shareholders. As such, the Board strives to ensure that shareholders are accorded with sufficient time to consider the resolutions that will be discussed and decided upon at the AGM.</p> <p>In this respect, the Notice to the AGM in 2019 was provided more than 28 days prior to the AGM which will be held on 30 May 2019. This goes above and beyond Section 316(2) of Companies Act 2016 and paragraph 7.15 of Main Market Listing Requirements of Bursa Malaysia Securities Berhad which call for a 21-days notice period.</p> <p>The notice for the AGM outlines the resolutions to be tabled during the meeting and is accompanied with explanatory notes and background information where applicable to shed clarity on the matters that will be decided at the AGM.</p> <p>In order to achieve the widest possible dissemination, the notice of AGM is placed both in a nationally circulated newspaper and the Company's website besides being dispatched to shareholders.</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

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 | : | <p>As stewards of the Company, the Board acknowledges its responsibility to engage shareholders and provide meaningful responses to the questions raised by shareholders. As a testament to this commitment, 8 out of 10 directors of the Company attended the previous AGM which was held on 30 May 2018. The chairs of the respective Board Committees were present to facilitate discussion on matters such as audit, nomination and remuneration. In accordance with paragraph 9.21(2) of Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the minutes of the said AGM are accessible on the Company's website.</p> <p>The need for all directors to attend the general meetings with the respective chairs of the Board Committees being present to facilitate discussion on matters under their purview is well-codified in the Board Charter.</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

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>HSCB has yet to have the facility for the shareholders to vote remotely without being physically present or participate in the general meeting.</p> <p>The Board is of the view that shareholders' meeting is a key platform for shareholders to exercise their voting rights and to have an active engagement with the Board. However, the Board is of the view that the Company is not ready at this stage to adopt the various technologies to facilitate voting in absentia and/or remote participation by shareholders in general meeting. Shareholders are encouraged to attend the general meetings in person or by proxy.</p> <p>The Board has always given foremost consideration to the location of its general meetings to ensure it is easy to reach or easily accessible to shareholders. The forthcoming AGM of the Company will be held at the Kinabalu Room, Ground Floor, Menara Hap Seng, Jalan P. Ramlee 50250 Kuala Lumpur which is located at the city centre of the Kuala Lumpur and it is easily accessible by the shareholders.</p> <p>In accordance with paragraph 8.29A(1) of Main Market Listing Requirements of Bursa Malaysia Securities Berhad, all resolutions put to vote will be carried out by poll voting. An Independent scrutineer, namely, GovernAce Advisory & Solutions Sdn Bhd has been appointed to validate the votes cast at the forthcoming AGM. Shareholders who are unable to attend the AGM are allowed to vote via proxy. In order to facilitate more seamless proceedings at the forthcoming AGM, the voting process will be conducted via electronic means.</p> |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |

| | | | |
|------------------|---|--------|---------|
| Timeframe | : | Others | 4 years |
|------------------|---|--------|---------|

**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.

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