

CORPORATE GOVERNANCE REPORT

STOCK CODE : 7034
COMPANY NAME : THONG GUAN INDUSTRIES BERHAD
FINANCIAL YEAR : December 31, 2017

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 of Directors (“Board”) of Thong Guan Industries Berhad (“Thong Guan” or “the Company”) is guided by its Board Charter (Board Charter) which is available on Thong Guan’s website at www.thongguan.com.</p> <p>The Board takes full responsibilities for the overall performance of the Group by providing leadership and direction as well as management supervision. On top of that, the Board has delegated specific powers of the Board to the relevant Board Committees and the Managing Director (“MD”). The Board Committees comprise of Audit Committee (“AC”), Nominating Committee (“NC”) and Remuneration Committee (“RC”). These three (3) Committees are established to assess the performance of its stewardship duties under specific terms of reference (“TOR”).</p> <p>The Board is briefed on a quarterly basis on the performance and results of the Group which benchmarked against budget and last year.</p> <p>During the financial year ended 31 December 2017 (“FY2017”), the Board also discussed sustainability issues such as business development, additional investment into existing business segment as well as capital investment on machinery and equipment.</p> <p>The Board assumed full responsibility for the Group’s strategic direction, overseeing the proper conduct of the Group’s businesses, identifying principal risks and ensuring the implementation of systems to manage risk, succession planning, developing investor relations programme, reviewing the adequacy and integrity of the Group’s internal control systems and management information systems, establishing goals for management and monitoring the achievement of these goals.</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>DYTM Tengku Sarafudin Badlishah Ibni Sultan Sallehuddin ("DYTM Chairman") is the Independent Non-Executive Chairman of the Board. His profile is outlined under the Profile of Directors in the Annual Report 2017.</p> <p>DYTM Chairman ensures that all Directors have full access to information with Board papers and agendas on matters requiring the Board's consideration issued with appropriate notice in advance of each meeting to enable Directors to obtain further explanations from the MD and senior management team. He also leads governance activities on the Board in order to create a conducive environment geared towards building and growing Directors' effectiveness and ensure that appropriate issues are discussed by the Board in a timely manner.</p> <p>DYTM Chairman oversees the Board in the effective discharge of its supervisory role and facilitates effective contributions of all members of the Board during meetings.</p> <p>The role and responsibilities of the Chairman of the Board have been clearly specified in the Board Charter, which is available on Thong Guan's website www.thongguan.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

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 position of Chairman and CEO (MD in the case for Thong Guan) are held by different individuals. The roles of Chairman and MD are distinct and separate to ensure there is a balance of power and authority.</p> <p>DYTM Tengku Sarafudin Badlishah Ibni Sultan Sallehuddin is the Independent Non-Executive Chairman of the Board whilst Dato' Ang Poon Chuan is the MD. Their profiles are outlined under the Profile of Directors in the Annual Report 2017.</p> <p>The Chairman oversees the Board in the effective discharge of its supervisory role and facilitates effective contributions of all members of the Board during meetings, while the MD is responsible for the vision and strategic directions of the Group, initiating innovative ideas to create competitive edge and development of business and corporate strategies as well as overseeing the day to day operation of the Group.</p> <p>The respective roles and responsibilities of the Chairman and the MD are contained in the Board Charter which is available on Thong Guan's website www.thongguan.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

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>Both Company Secretaries of Thong Guan are Chartered Secretaries by profession and are qualified to act as Company Secretaries under Section 235(2) of the Companies Act 2016. They are Associate members of the Malaysia Institute of Chartered Secretaries and Administrators ("MAICSA").</p> <p>The Company Secretaries manage all Board and Board Committees meetings. Attendance and minutes of all Board and Board Committees meetings are properly recorded and kept by the Company Secretaries. The Company Secretaries ensure that deliberations at Board and Board Committee meetings are documented and subsequently communicated to the relevant Management personnel for appropriate follow-up actions.</p> <p>The Board is updated by the Company Secretaries on the follow-up of its decisions and recommendations by the Management. Action items would stay as matters arising in the minutes of meetings until they are resolved.</p> <p>All the Directors have unrestricted access to all information within the Group and to the advice and service of the Company Secretaries. The Company Secretaries also advise the Board on any updates relating to new statutory and regulatory requirements pertaining to the duties and responsibilities of Directors and the potential impact and implications arising there from. The Board, whether as a full board or in their individual capacity, may upon approval of the Board, seek professional advice if required, in the discharge of their duties, at the Company's expenses.</p> <p>The Company Secretaries constantly attend relevant conference or training programmes to keep themselves abreast with the changing business environment, regulatory changes and development in corporate governance. They also attended relevant professional development programmes as required by the Companies Commission of Malaysia or MAICSA.</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>An annual meeting calendar is prepared and circulated in advance of each new year to facilitate the Directors' time planning. The calendar provides Directors with scheduled date for meetings of the Board and Board Committees and the Annual General Meeting ("AGM").</p> <p>The notice of meetings together with supporting materials will be sent to the Directors at least seven (7) calendar days prior to the relevant meetings to ensure Directors have sufficient time to review them for effective discussions and decision making during the meetings. The said practice is in line with Guidance to Practice 1.5 of the Malaysian Code on Corporate Governance which states that "the meeting materials should be circulated at least five (5) business days in advance of the board meeting". Board materials, if deemed sensitive, would be embargoed for release until nearer to the relevant meeting.</p> <p>The draft minutes of meetings are targeted for circulation to the members of the relevant meetings within 14 working days after the relevant meetings. The minutes of meetings recorded the decisions, including key deliberation, rationale for each decision made and any significant concerns or dissenting views. Minutes, upon incorporating comments from the Directors, will then be confirmed and signed by the Chairman at the subsequent meetings.</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>The Board Charter serves as a primary reference and guiding document for the Directors. The Board charter is available on Thong Guan's website at www.thongguan.com and outlines the roles and responsibilities of the Chairman, MD, Board and Board Committees.</p> <p>During the year, the Board had conducted a review and formalised the Board Charter and relevant policies. These documents serve as reference and guide for the Board, Board Committees and respective Board in discharging their responsibilities for the Company.</p> <p>The Board Charter will be periodically reviewed and updated to take into consideration the needs of the Company as well as any development in rules and regulation that may have an impact on the discharge of the Board's duties and responsibilities.</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>There is a Code of Conduct ("CoC") for the Directors of the Company.</p> <p>During the year, the Board formalised a CoC for Directors which provides principles and standards relating to Directors' duties to act in public interest and best interest of the Group. The CoC covers transparency, integrity, accountability, sustainability, conflict of interest, anti-bribery, confidentiality, insider dealing, compliance with laws, rule and regulations.</p> <p>The CoC is available on Thong Guan's website at www.thongguan.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 Company has formalised its Whistleblowing Policy and Procedures (“WPP”) on 23 April 2018 and these are made available on Thong Guan’s website at www.thongguan.com.</p> <p>The Company’s WPP fosters an environment in which integrity and ethical behaviour are maintained through protocols which allow for the exposure of any violations or improper conduct or wrongdoing within the Group.</p> <p>The WPP provide a platform for all employees of Thong Guan Group and members of the public to disclose any improper conduct in accordance with the procedures as provided for under this policy and to provide protection for employees and members of the public who report such allegations.</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	:	<p>The current Board comprised of eight (8) members with four (4) being Independent Non-Executive Directors (“INEDs”) and four (4) Executive Directors. As such, the Board comprises 50% of INEDs.</p> <p>The Company is also in compliance with para 15.02 of Main Market Listing Requirements (“MMLR”) of Bursa Malaysia Securities Berhad (“Bursa Securities”) which requires a minimum of 2 Directors or 1/3 of the Board, whichever is higher to be INEDs. The presence of INEDs allows Board’s deliberations and decisions to be made objectively in the best interest of the Company.</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.

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 Board recognises the benefits of having a diverse Board to ensure that the mix and profiles of the Board members in terms of age, ethnicity and gender, will provide the necessary range of perspectives, experience and expertise required to achieve effective stewardship and management of the Group.</p> <p>The NC takes into account the diversity in the skills set, experience, age and race/ethnicity (cultural background) of the existing Board in seeking potential candidate.</p> <p>The Board is committed to ensuring diversity and inclusiveness in its composition and deliberations. The present Board composition reflects the broad range of experience, skills and expertise necessary for the success of the Group and the importance of independent judgment and opinion at Board level. The profile of the Directors are included in the Annual Report 2017.</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.

Application	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	The Board is of the view that it is important to recruit and retain the best talent regardless of gender, ethnicity and age to maximize the effectiveness of the Board. The Board has yet to establish a specific policy on setting targets for women representation. The Board takes cognizance of the importance of having more women representation on Board.	
		The Board noted the recommendation for lady Director and would be mindful to ensure that suitable lady candidate are included in recruitment to fill Board vacancy, if any.	
<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 4.6

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	:	There was no new appointment during the year.	
		Nevertheless, the Board will consider recommendation of potential Board candidates from independent sources apart from Board members, management or major shareholders.	
<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	:	The current NC Chairman is Mr. Chow Hon Piew, an INED.	
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 NC carries out annual assessment and evaluation of the Board and Board Committees.</p> <p>The evaluation process was based on a self-review assessment whereby the Directors assessed themselves and also the Board as a whole as well as the performance of the Board Committees. The criteria and outcome of the assessment were properly documented.</p> <p>The assessment also took into account the contribution and performance of the Directors in relation to their competencies, time commitment and experience in meeting the needs of the Company.</p> <p>Based on the recent assessment for FY2017, the NC and the Board were satisfied that the Board size and its composition are optimum correlating to the size of the Group’s business operations. Further, the Board comprises individuals with the requisite skills, knowledge, experience, characteristics and competencies to effectively discharge their roles. The Directors and Board Committees had discharged their responsibilities in a commendable manner and contributed to the overall effectiveness of the Board and the Group. The Directors had also committed the time necessary to responsibly fulfill their commitment to the Company during the 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

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 objective of the Remuneration Policy & Procedures ("RPP") is to attract and retain the Directors required to lead and control the Group effectively.</p> <p>The Board formalised the RPP on 23 April 2018 to facilitate the RC to consider and recommend to the Board for decision on the remuneration packages for the executive Board members and INEDs. The RPP will be reviewed periodically and is available on the corporate website at www.thongguan.com.</p>
Explanation for departure	:	<p>Please provide an alternative practice and explain how the alternative practice meets the intended outcome.</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

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>The RC comprises two (2) INEDs currently following decision by the MD, Dato' Ang Poon Chuan to step down as a member of the RC in line with Practice 6.2 of the Malaysian Code on Corporate Governance.</p> <p>The TOR of the RC, which delineate the roles and responsibilities in relation to the remuneration matters is available at www.thongguan.com.</p> <p>The Board is satisfied that the RC has effectively and efficiently discharged its roles and responsibilities with respect to remuneration function.</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	:	In line with the MMLR of Bursa Securities, the disclosure of the Directors' remuneration on a named basis has been made in the Annual Report 2017. The detailed disclosure of remuneration breakdown for all Directors is under the Corporate Governance Overview Statement in the Annual Report 2017.	
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	:	Please provide an explanation on how the practice is being applied.	
Explanation for departure	:	<p>The Company adopts a remuneration system that is responsive to the market elements and performance of the Group and business divisions.</p> <p>The Board acknowledged the need for transparency in the disclosure of its senior management's remuneration. Nonetheless, it takes the view that such disclosure might be detrimental to the Group's business interests given the highly competitive human resource environment in which the Group operates where intense headhunting for candidates with the requisite expertise, knowledge and relevant professional experience is the norm. As such, disclosure of specific remuneration information could give rise to recruitment and talent retention issues going forward.</p>	
<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 7.3 - 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 Chairman of the AC is Mr Chow Hon Piew, who is distinct from the Chairman of the Board. Mr Chow is an INED in accordance with paragraph 15.10 of the MMLR of Bursa Securities. He is appointed as the AC Chairman since 26 November 2013.</p> <p>Mr Chow is a Fellow Chartered Management Accountants. He is able to lead the discussions and deliberations of the AC. The AC comprises three members of whom all are INEDs. As the positions of Board Chairman and AC Chairman are held by different individuals, the Board is able to objectively review the AC's findings and recommendations.</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	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	The AC does not have a written policy that requires a former key audit partner to observe a cooling-off period of at least two year before being appointed as a member of the AC. Notwithstanding the above, to date, no former key audit partner has been appointed as member of AC.	
		The policy will be established when the need arise in future.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:	Others	Please specify number of years.

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 Board recognised the value of an effective AC in ensuring that the Company's financial statements are reliable source of financial information and has therefore established the procedures, for assessing the suitability, objectivity and independence of the External Auditors by the AC on annual basis.</p> <p>On 23 April 2018, the Board approved the External Auditors Assessment Policy.</p> <p>The External Auditors had given written assurance that, they are, and have been, independent throughout the conduct of the audit engagement in accordance with the terms of the relevant professional and regulatory requirements.</p> <p>In February 2018, the AC undertook an annual assessment of the External Auditors. The written assessment included the following broad-based areas: calibre of the firm, service quality, independence and objectivity, audit scope and planning, audit fees and audit communication. The AC had then decided to recommend for the Board's approval the re-appointment of KPMG PLT as External Auditors of the Company for FY2018.</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 8.4 - Step Up

The Audit Committee should comprise solely of Independent Directors.

Application	:	Adopted
Explanation on adoption of the practice	:	The AC comprises wholly of INEDs. An INED satisfies the independence test under the MMLR of Bursa Securities. This enable the AC to exercise their independent judgement objectively in the best interest of the Company.

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 existing AC are financially literate and possess the requisite knowledge and experience to discharge their duties effectively. Mr Chow Hon Piew, the AC Chairman and Mr Kang Pang Kiang are members of professional accountancy bodies whilst Tengku Muzzammil possesses the relevant business knowledge and experience in financial management. All AC members are able to read, interpret and understand the financial statements. This diversity in skills set and knowledge coupled with financial literacy allows the AC to discharge their roles and responsibilities.</p> <p>The Board, through the NC, reviews the term of office and performance of the AC members annually in accordance with Para 15.20 of the MMLR of Bursa Securities.</p> <p>Based on the outcome of the AC's effectiveness assessment during the year, the Board is satisfied with the AC's performance as its Chairman and members possess the necessary knowledge, experience, expertise and skills which have contributed to the overall effectiveness of the AC.</p> <p>The summary of works undertaken by the AC during the financial year in discharging their functions and duties were as disclosed under the Audit Committee Report in the Annual Report 2017.</p> <p>The members of AC keep themselves abreast with relevant industry developments by attending trainings to address any skills or knowledge gaps according to their needs.</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 recognises the importance of sound internal controls which encompass risk management practices as well as financial, operational and compliance controls. In this respect, the Board affirms its overall responsibility for the Group's systems of internal controls and risk management, and for reviewing the adequacy and integrity of those systems.</p> <p>The Statement on Risk Management and Internal Controls in the Annual Report 2017 provides an overview on the state of internal controls and risk management within the Group.</p> <p>The Risk Management Committee ("RMC") identifies risks, evaluates, monitors and manages significant risks affecting the businesses and ensures that adequate and effective controls are in place.</p> <p>Continuous reviews are then carried out by the Group's internal audit function and management to ensure that adequate and effective controls are in place and to address the significant risks identified by the. The findings of the internal audit function are reported to the AC regularly.</p> <p>The Board acknowledges its responsibilities and is committed in maintaining a sound system of internal control and risk management practice. However, such system can only provide reasonable but not absolute assurance against material misstatements or losses.</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>The Board recognizes that identification, evaluation and management of significant risks faced by the Group is an ongoing process. The Board reviews internal control issues identified by the management and internal auditors and evaluates the adequacy and effectiveness of the Group's risk management and internal control system.</p> <p>The Board has further received assurance from the MD, in his role as the Chief Executive Officer and the Executive Director, as the Chief Financial Officer that the Group's risk management and internal controls have been operating adequately and effectively in all material aspects during the year under review and up to the date of this Statement. Taking this assurance into consideration, the Board is of the view that the systems of internal control and the risk management is considered adequate for the Group's business operations.</p> <p>The Statement on Risk Management and Internal Control in the Annual Report 2017 provides an overview on the state of internal controls and risk management within 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

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>Internal audit function is carried out by an in-house Internal Audit (“IA”) Department which is led by a Head of IA. The Head of IA reports directly to the AC. The in-house IA Department was maintained until November 2017 before it was outsourced to a professional consulting firm as the IA Department was understaffed and unable to expand its scope of coverage of internal audits.</p> <p>The AC, assisted by the IA Department, provides the Board with assurance on the adequacy and effectiveness of risk governance and internal controls. The IA Department has access to all relevant records, personnel and properties within the Group to carry out its duties. IA Department independently reviewed the risk identification procedures and control processes implemented by the Management, conducts audits that encompass review of critical areas being identified, and reports to AC on quarterly basis.</p> <p>The IA function carries out independent assessment on the internal control system of the Group on a quarterly basis and provides assurance to the AC that no material issue or major deficiency has been noted which would pose high risk to the overall system of internal control and risk management under review.</p> <p>To ensure that the responsibilities of IA are fully discharged, the AC reviews:- (a) the adequacy of the IA’s scope, competency, experience and resources; and (b) the appraisal or assessment of performance of the IA who is responsible for the regular review of the effectiveness of risk management, control, and governance processes within the Group.</p> <p>The IA engagement was based on the audit plan as approved by the AC. The results of the audit as disclosed in the IA reports was reviewed by the AC on quarterly basis. The Management was made responsible for ensuring that corrective action on reported weaknesses were carried out within the required timeframes. IA conducts follow-up audits to ensure that the corrective actions were implemented promptly. The detailed activities carried out by the IA are included in the AC report of the Annual Report 2017.</p> <p>The IA personnel constantly keep himself abreast with development in the profession, relevant industry and regulations through attendance at conferences/training.</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 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 IA function is independent of the operations of the Group and had carried out audits premised upon a risk based audit plan.</p> <p>The IA function is carried out by an in-house IA Department which is led by the Head of IA. The in-house IA Department was maintained until November 2017 before it is outsourced to a professional consulting firm as the IA Department was understaffed and unable to expand its scope of coverage of internal audits.</p> <p>The AC had conducted an annual assessment of the performance of the IA function and was satisfied with the competency and experience of the IA function for discharging its role and responsibilities.</p> <p>The activities of the IA during the financial period are set out under the AC Report in the Annual Report 2017.</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 ensures that its communication with the shareholders and various stakeholders is transparent, timely and with quality disclosure. The Company engages with all its stakeholders through various platform namely Company's website, Bursa LINK for announcements and through the investor relations function.</p> <p>The Company's website provides an avenue for information dissemination with dedicated sections for corporate information including announcements to Bursa Securities, financial information, press releases and news and events related to the Group.</p> <p>The Executive Director holds regular analyst briefings and investor relations roadshows as parts of the Company's investor relations initiatives. Any queries or concerns regarding the Group may be directed to the Investor Relations Department via the email address: info@thongguan.com.</p> <p>The AGM and Extraordinary General Meeting ("EGM") provide a platform for the Board to dialogue and interact with shareholders where individual shareholders and investors may seek clarifications on the Group's businesses, performance and prospects. The notices of the AGM and EGM are sent to shareholders. The notices are also published in a national newspaper and released through Bursa Securities for public dissemination.</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 11.2

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	:	This is Not Applicable to the Company in view that the Company does not fall within the definition of "Large Companies". Please provide an alternative practice and explain how the alternative practice meets the intended outcome.
<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 notice for the upcoming 23 rd AGM on 28 June 2018 has been provided more than 28 days in advance to enable shareholders to make adequate preparation.	
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>At the 22nd AGM held last year on 30 May 2017, all the 8 Directors were present in person to engage directly with the shareholders.</p> <p>Prior to the proceeding of the 22nd AGM, the Executive Director presented a video recording of the Group's business activities. It was then followed by a Question and Answer session during which DYTМ Chairman invited shareholders to raise questions pertaining to the Group's financial statements.</p> <p>The Directors, management and external auditors were in attendance to respond to the shareholders' queries, if any.</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>The Company has adopted poll voting since the 22nd AGM held on 30 May 2017 for all resolutions proposed, in accordance with paragraph 8.29A of the MMLR of Bursa Securities where votes cast at the AGM were validated by a scrutineer appointed by the Company.</p> <p>The Company has yet to leverage on technology to facilitate voting in absentia or remote shareholder participation given that most of its shareholders are Malaysian.</p> <p>As of now, the Company encourages participation of shareholders through the issuance of proxies when the said shareholders are unable to attend and vote in person at general meetings.</p> <p>Please provide an alternative practice and explain how the alternative practice meets the intended outcome.</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.

Click or tap here to enter text.

