

CORPORATE GOVERNANCE REPORT

STOCK CODE : 7034
COMPANY NAME : THONG GUAN INDUSTRIES 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 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.

SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

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

Intended Outcome

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

Practice 1.1

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

Application	:	Applied
Explanation on application of the practice	:	<p>The Board is guided by its Board Charter (Board Charter) and its responsibilities are included in the Board Charter which is available on Thong Guan 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 Audit Committee ("AC"), Nomination Committee ("NC") and Remuneration Committee ("RC"). These three (3) Committees established to assess the performance of its stewardship duties under specific terms of reference.</p> <p>The Board was briefed on a quarterly basis where the performance and results of the Group benchmarked against budget and last year.</p> <p>The Board assume 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	:	
<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	:		
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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 1.2

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 is the Independent Non-Executive Chairman of the Board. His profile is outlined under the Profile of Directors in the Annual Report 2018.</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 Managing Director or his senior management team. He also leads governance activities on the Board in order to create a conducive condition 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, overseeing 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 Paragraph 7 of the Board Charter, which is available on Thong Guan 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>DYTM Tengku Sarafudin Badlishah Ibni Sultan Sallehuddin is the Independent Non-Executive Chairman of the Board whilst Dato' Ang Poon Chuan is the Managing Director of the Company. Their profiles are outlined under the Profile of Directors in the Annual Report 2018.</p> <p>The position of Chairman and CEO (Managing Director) are held by different individuals. The roles of Chairman and Managing Director are distinct and separate to ensure there is a balance of power and authority.</p> <p>The Chairman, overseeing the board in the effective discharge of its supervisory role and facilitates effective contributions of all members of the board during meetings, while the Managing Director responsible for the vision and strategic directions of the Group, initiating innovative ideas to create competitive edge and development of business and corporate strategies and overseeing the day to day operation of the Group.</p> <p>The respective roles and responsibilities of the Chairman and the Managing Director are contained in paragraph 7 of the Board Charter which is available on Thong Guan 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. Two of them are Associate members of the Malaysia Institute of Chartered Secretaries and Administrators ("MAICSA").</p> <p>The Company Secretaries manage all Board and Board Committee meetings. Attendance and minutes of all Board and Board Committee Meetings will properly recorded and kept by the Company Secretaries. The Company Secretaries ensure that deliberations at Board and Board Committee meetings are well documented and subsequently communicated to the relevant Management personnel for appropriate 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 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 of Directors, whether as a full board or their individual capacity, may upon approval of the Board, seek professional advice if required, in discharge of their duties, at the Company's expenses.</p> <p>The Company Secretaries constantly attend relevant conference or training programmes to ensure 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>To facilitate the Directors' time planning, the annual meeting calendar is prepared and circulated in advance of each new year. The calendar provides Directors with scheduled date for meetings of the Board and Board Committees and the Annual General Meeting.</p> <p>review them for effective discussions and decision making during the</p> <p>The notice of meetings and the meeting materials will be sent to the directors at least seven (7) calendar days prior to the 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 meeting.</p> <p>The draft minutes of meetings are targeted to circulate within 14 working days after the meetings. The minutes of meetings record the decision, 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 website at www.thongguan.com which outlines the roles and responsibilities of the Chairman, Managing Director, Board and Board Committees.</p> <p>During the year, the Board had conducted a review and formalise 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 separate Code of Conduct for Directors and employees of the Company.</p> <p>During the year, the Board formalise the Code of Conduct for Directors. The Code of Conduct for Directors provides principles and standards relating to Directors' duties to act in public interest and best interest of the Group, and covers the areas of transparency, integrity, accountability, sustainability, conflict of interest, anti-bribery, confidentiality, insider dealing, compliance with laws, rule and regulations.</p> <p>The Code of Ethics for Directors is available on Thong Guan Website www.thongguan.com.</p> <p>The Code of ethics for employees promote integrity and ethical conduct/behaviour in all aspects of the Company's operations. The code also set out certain prohibited activities or misconduct involving gifts, gratuities, bribes, dishonest behaviour and sexual harassment.</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”) is made available on Thong Guan Website 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. The Board comprises 50% of independent Directors.</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 INED. The presence of Independent Directors allows Board’s deliberations and decisions to be made objectivity in the best interest of the Company.</p> <p>The Board’s view on independence is in accordance with the definition of an independent director under para 1.01 and Practice Note 13 of MMLR of Bursa Securities. The present INEDs fulfil the key criteria of appointment as they are not a member of management, free of any relationship that could interfere with exercise of independent judgement or ability to act in the best interest of the Company.</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 4.2

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, provide the necessary range of perspectives, experience and expertise required to achieve effective stewardship and management.</p> <p>The Nominating Committee takes into account the current diversity in the skills set, experience, age and race/ethnicity (culture 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 2018.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

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

Practice 4.5

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

Application	:	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	:	The Board does not utilise any independent sources to identify suitably qualified candidates. Currently, the Board solely rely on recommendations from existing board members, management or shareholder in identifying candidates for appointment of directors.	
		The Nominating Committee ("NC") will evaluate the candidates for appointment of Directors on the skills, knowledge, expertise and experience, professionalism, character, integrity and competence and time commitment to effectively discharge his/her role as a Director. Once the NC is satisfied with the result, the committee will recommend the same to the Board for appointment of Directors.	
<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 membership classification of Nominating Committee (“NC”) is set out in its Terms of Reference. The current NC Chairman is Mr. Chow Hon Piew, the Independent Non-Executive Director (“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 Nominating Committee (“NC”) carries out the annual Board assessment and evaluation of the Board, Board Committees and Directors’ performance. The assessment 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>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>Based on the recent assessment, the Nomination Committee was satisfied that the Board size and its composition are optimum as the Board comprises individuals with the requisite skills, knowledge, experience, characteristics and competencies to effectively discharge their roles. The Directors and Board Committees had also discharged their responsibilities in a commendable manner and contributed to the overall effectiveness of the Board and Company. 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 Group's Remuneration Policy is to attract and retain the Directors required to lead and control the Group effectively.</p> <p>For the review and assess of the remuneration package for Executive Directors, the RC recommended based on the practice as below:</p> <ul style="list-style-type: none"> a) Total Directors' fees received by each Executive Directors from subsidiary (ies) shall not exceed RM12K per subsidiary. b) Total bonus payable to all Executive Directors shall not exceed 3% of Group audited profit before tax. c) Annual salary adjustment shall not exceed 15% of the existing monthly salary at the point of review. <p>The Remuneration policy and procedure facilitate the Remuneration Committee to consider and recommend to the Board for decision the remuneration packages of the Executive Directors. The Remuneration policy and procedure will be reviewed periodically and is available on the 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 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 Remuneration Committee ("RC") comprises two (2) Independent Non-Executive Directors ("INEDs"). On 26 February 2018, the Managing Director, Dato' Ang Poon Chuan, stepped down as a member of the RC in line with Practice 6.2 of the Malaysian Code on Corporate Governance.</p> <p>The Terms of Reference ("TOR") of the RC delineate the roles and responsibilities in relation to the remuneration matters, as provided in the TOR of the RC which 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 Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the disclosure of the Directors' remuneration on a named basis has been made in the Annual Report 2018. The detailed disclosure of remuneration breakdown for all Directors, is in the Corporate Governance Overview 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

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 :	The Company adopts a remuneration system that is responsive to the market elements and performance of the Group and business divisions.	
	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.	
<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 Audit Committee ("AC") is Mr. Chow Hon Piew, who is distinct from the Chairman of the Board. Mr Chow is an Independent Non-Executive Director in accordance with paragraph 15.10 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. 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 Independent Non-Executive Directors. With the position of Board Chairman and AC Chairman assessed 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 Audit Committee (“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	:	The policy will be included in the Audit Committee Terms of Reference.	
Timeframe	:	Within 1 year	

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 during AC meeting. This is set out in the Terms of Reference of AC which specifies the functions of the AC.</p> <p>The AC is empowered by the Board to review all issues in relation to appointment and re-appointment, resignation or dismissal of External Auditors. 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. In February 2019, the AC undertook an annual assessment of the suitability and independence of the External Auditors and was satisfied with the independence and technical competency of the External Auditors. The AC then decided to recommend for the Board's approval the re-appointment of Messrs. KPMG PLT as external auditors of the Company.</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 Audit Committee ("AC") comprises wholly of Independent Non-Executive Directors ("INEDs"). An INED satisfies the independence test under the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. 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 Audit Committee ("AC") are financially literate and possess the requisite knowledge and experience to discharge their duties effectively. Mr Chow Hon Piew, the AC Chairman and Dato' 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 Nominating Committee ("NC") reviews the term of office and performance of the AC members annually in accordance with Para 15.20 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.</p> <p>Based on the outcome of the AC effectiveness assessment during the year, the Board is satisfied with the AC performance as its Chairman and members possess the necessary knowledge, experience, expertise and skills which 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 in the Audit Committee Report of the Annual Report 2018.</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	:	

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

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 of Directors 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 this Annual Report 2018 provides an overview on the state of internal controls and risk management within the Group.</p> <p>A management level Committee, namely, the Risk Management Committee identify risks, evaluate, monitor and manage significant risks affecting the business and ensure that adequate and effective controls are in place.</p> <p>Continuous reviews are carried out by the Group's internal audit function and management to identify, evaluate, monitor and manage significant risks affecting the business and ensure that adequate and effective controls are in place. The findings of the internal audit function are reported to the AC regularly.</p> <p>The Board acknowledges its responsibility 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	:		
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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 Managing Director, 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 control have been operating adequately and effectively in all material aspects during the year 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 this Annual Report 2018 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 outsourced Internal Audit service provider (IA) by a professional firm. The IA reports directly to the AC.</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 undertakes an 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 a high risk to the overall system of internal control under review.</p> <p>To ensure that the responsibilities of IA are fully discharged, the AC reviews:-</p> <ol style="list-style-type: none">a) the adequacy of the IA's scope, competency, experience and resources of the IA function; andb) 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 process within the Group. <p>The IA engagement was based on the audit plan as approved by the AC. The result of the audit as disclosed in the IA report was reviewed by the AC on quarterly basis. The relevant Management members were made responsible for ensuring that corrective action on reported weaknesses were taken within the required timeframes. IA conduct follow-up audits on key engagements to ensure that the corrective actions were implemented promptly. The detailed activities carried out by the IA are provided in the AC report of the Annual Report 2018.</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 :		
<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 internal audit (“IA”) function is independent of the operations of the Group. The AC has received the confirmation form the IA that they have adopted internal audit standards and best practices based on the International Professional Practices Framework (IPPF), endorsed by the Institute of Internal Auditors Malaysia.</p> <p>IA function is outsourced to a professional consulting firm.</p> <p>The AC had conducted an annual assessment of the performance of the IA function. The AC was satisfied with the competency, experience and resources of the IA function for discharging its role and responsibilities.</p> <p>The activities of the IA during the financial period are set out in the AC Report in this Annual Report 2018.</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 engagement through the investor relations function.</p> <p>The Company via its website provides an avenue for information dissemination with dedicated sections on corporate information including announcements to Bursa Malaysia Securities Berhad ("Bursa Securities"), financial information, press releases and news and events related to the Group.</p> <p>Mr Ang See Ming, Alvin, the Executive Director, also 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 Annual General Meeting ("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. Members of the Board attend the AGM and EGM to answer queries and concerns of the shareholders. All suggestions and comments put forth by shareholders will be noted by the Board for consideration.</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	:	This is Not Applicable to the Company in view that the Company does not fall within the definition of "Large Companies".	
<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	:	<p>The Company dispatches the notice of its Annual General Meeting (“AGM”) to the shareholders at least 28 days before the AGM, well in advance for the 21-day requirement under the Companies Act 2016 and Main Market Listing Requirement (“MMLR”) of Bursa Malaysia Securities Berhad. The additional time given to shareholders allows them to make the necessary arrangements to attend and participate in person or through corporate representatives, proxies or attorneys. More importantly, it enables the shareholders to consider the resolution and to make an informed decision in exercising their voting rights at the general meeting.</p> <p>The notice for the upcoming 24th AGM on 26 June 2019 has been provided more than 28 days in advance to enable shareholders to make adequate preparation.</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>At the 23rd Annual General Meeting (“AGM”) held last year, all the 8 Directors were present in person to engage directly with the shareholders.</p> <p>Prior to the proceeding of the 23rd AGM, the Executive Director presented the Company’s operating and financial performance for 2017, the presentation of the external auditors’ unqualified report to the shareholders, and a Questions and Answers session during which the Chairman invited shareholders to raise questions pertaining to the Company’s financial statements and other items for adoption at the meeting, before putting a resolution to vote.</p> <p>The Directors, management and external auditors were in attendance to respond to the shareholders’ queries.</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 22nd Annual General Meeting (“AGM”) held on 30 May 2017 for all resolutions proposed, in accordance with paragraph 8.29A of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad 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.</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>
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	Please explain the measure(s) the company has taken or intend to take to adopt the practice.
Timeframe	:	Choose an item.

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

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

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