

# CORPORATE GOVERNANCE REPORT

**STOCK CODE** : 5010  
**COMPANY NAME** : TONG HERR RESOURCES BERHAD  
**FINANCIAL YEAR** : December 31, 2018

## OUTLINE:

### **SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE**

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

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

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

## SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

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

### Intended Outcome

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

### Practice 1.1

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board plays an important role for the long-term success of the Group and the delivery of sustainable value to the stakeholders, which includes setting the vision and objectives as well as strategic direction of the Group, establishing goals for management and monitoring the achievement of these goals. The Board responsibilities are defined in the Board Charter and is available in the Company's website at <a href="http://www.tong.com.my">www.tong.com.my</a> with delegated specific responsibilities to the following committees:</p> <p>(i) <u>Audit Committee</u> Key role of the Audit Committee is to provide oversight of the financial reporting process, the audit process, the system of internal controls and compliance with laws and regulations through the Board delegation via approved Terms of Reference ("TOR").</p> <p>(ii) <u>Nominating Committee</u> The role of the Nominating Committee is to evaluate and assess the existing Directors and identifying, nominating, and recruiting new Directors by taking into consideration of an optimal mix of qualifications, skills, expertise and experience of the individual to fulfill the duties of a Director appropriately.</p> <p>The Board meets quarterly to review performances and strategies of the Company. Special board meetings may be conducted when the need arises. Besides, the Board also recognises that the decision making process is highly contingent on the quality of information furnished. As such, all Directors have unrestricted access to any information pertaining to the Company and the Group. The Chairman ensures that all Directors have full and timely access to information with agenda and Board papers distributed in advance of meetings. This ensures that Directors have sufficient time to appreciate issues to be deliberated at the Board meeting and expedites the decision making process.</p>

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

### 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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Chairman is responsible for providing leadership for the Board so that the board can perform its responsibilities effectively and to ensure that all Directors receive sufficient and accurate relevant information on financial and non-financial matters to enable them to participate actively in Board discussions.</p> <p>During the Board Meetings, the Chairman always encourages board members active participation in order to provide suggestions and comments for the discussion.</p> <p>The Executive Chairman of the Company, Mr. Tsai Ming Ti ("Mr. Tsai") is an executive member of the Board. The Board is mindful that the Chairman position is held by an executive member of the Board is not in compliance with the best practice, but taking into consideration the fact that since Mr. Tsai is also one of the major shareholders, there is the advantage of shareholder leadership and natural alignment of interests. In respect of potential conflict of interests, the Board is comfortable that there is no undue risk involved as all related party transactions are disclosed and strictly dealt with in accordance with the MMLR of Bursa Securities. In addition, the presence of Independent Directors with distinguished records and credentials ensures that there is independence of judgement.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### 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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>There is a clear division of responsibility between the Chairman and the Managing Director. The Position of Chairman and Managing Director are held by two different individuals to ensure that there is a balance of power and authority.</p> <p>The Chairman, Mr. Tsai Ming Ti is responsible for encouraging good corporate governance practices, leadership and effectiveness of the board while the Managing Director, Mr. Tsai Yi Ting is responsible for the overall day-to-day management of the business, the implementation of Board decisions as well as serves as an audience of the management team and employee.</p> <p>The separate distinct functions and responsibilities are also reflected in the Board Charter.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

## 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.

<b>Application</b> :	Applied
<b>Explanation on application of the practice</b> :	<p>The Board is supported by suitably qualified and competent Company Secretaries to provide sound governance advice, ensure adherence to rules and procedures, and advocate adoption of corporate governance best practices.</p> <p>The Company has outsourced the company secretaries' services to TMF Administrative Services Malaysia Sdn. Bhd. which has specialist knowledge and professional ability to function efficiently to the Board. Both of the Company Secretaries, Ms. Angelina Cheah Gaik Suan and Ms. Lee Mei Mei are qualified to act as Company Secretaries under Section 235(2) of the Companies Act 2016 and are Associate members of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA).</p> <p>The key responsibilities of the Company Secretary are outlined as below:</p> <ul style="list-style-type: none"><li>a) Monitor corporate governance developments and assist the Board in applying best corporate governance practices</li><li>b) Ensure adherence to the Board's and Board committees' policies and procedures</li><li>c) Provide updates and assist the Board with interpreting regulatory requirements related to company and securities regulations as well as listing requirements</li><li>d) Circulates notice of the meeting(s) and attend meetings of the Board, Board Committees and shareholders to record the proceedings of the meetings</li><li>e) Ensure the deliberations at Board and Board Committee meetings are well documented and maintained at the registered office of the Company.</li></ul> <p>The Company Secretaries constantly keep themselves abreast of the evolving capital market environment, regulatory changes and development by regularly attending continuous development programmes and seminars conducted by various professional bodies and authorities like MAICSA, Bursa Securities and Companies Commission of Malaysia.</p>
<b>Explanation for departure</b> :	

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

### 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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Directors are furnished with the agenda and board papers at least 7 days prior to the Board meetings to enable them to participate actively in the meetings. The Directors meet, review related matters and approve all corporate announcements, including the announcement of the quarterly financial results, prior to releasing them to Bursa Securities.</p> <p>The Directors have the right to obtain full and unrestricted access to any information pertaining to the Group and also to the advice and dedicated support services of the Company Secretaries to ensure effective functioning of the Board. Apart from that, the Board also has the right to seek for independent professional's advice on matters, that will be put forward to the Board for decision making and to discharge their responsibilities.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	



### 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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board has formalized and adopted the Board Charter with clear functions, which forms an integral part to guide the conduct of the Board.</p> <p>The Board Charter was designed to achieve the following objectives:-</p> <ul style="list-style-type: none"><li>• To enable the Board to provide strategic guidance and effective oversight of Management;</li><li>• To clearly define the roles and responsibilities of members of the Board and Management to facilitate Board and Management's accountability to the Company and its shareholders; and</li><li>• To ensure a balance of authority so that no single individual or group of Directors has unfettered powers.</li></ul> <p>A copy of the Board Charter is available in the Company's website at <a href="http://www.tong.com.my">www.tong.com.my</a> and it would be reviewed and updated by the Board from time to time.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### 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.

<b>Application</b>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	The Company has established the Human Resources Policy whereby each employee is required to sign for the Confidential and Secrecy Agreement as well as Employee's Responsibility Statement. Employees are made aware that relevant disciplinary actions will be taken for unethical behaviour.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	The Board will consider to formalising a Code of Conduct and Ethics for the Company, and together with management implements such policy and procedures, which include managing conflicts of interest, preventing the abuse of power, corruption, insider trading and money laundering.
<b>Timeframe</b>	:	Within 1 year

**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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Company has established a Whistleblowing Policy which is designed to enable employees to raise concerns internally and at a high level and to disclose information which the employee believes indicates the possible presence of malfeasance or wrongdoing within the Group.</p> <p>These concerns could include indications of:</p> <ul style="list-style-type: none"> <li>• Financial malfeasance, wrongdoing or fraud;</li> <li>• Failure to comply with legal obligations;</li> <li>• Enlargement of an individual’s health &amp; safety of the environment;</li> <li>• Criminal activity;</li> <li>• Improper conduct or unethical behaviour; and/or</li> <li>• Concealment of any of the above or a combination.</li> </ul> <p>All employees can raise their concern via email to the Chairman of the Audit Committee, who protects employees who contemplate “blowing the whistle” against any negative repercussions arising from genuine reporting, and provide an assurance of confidentiality to them. Confidentiality of all matters raised and the identity of the whistleblower are protected under the policy.</p>
<b>Explanation for departure</b>	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### 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.

<b>Application</b>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	As at 31 December 2018, the Board consists of nine (9) members, which included four (4) Executive Directors, three (3) Independent Non-Executive Directors and two (2) Non-Independent Non-Executive Directors. Together, the Directors from various backgrounds of professionals and entrepreneurs allow a mix of qualifications, skills integrity, competence and experience which is necessary for the successful direction of the Group. A brief profile of each Director is presented in the Annual Report.
		The Board composition complies with Paragraph 15.02 of the MMLR of Bursa Securities that requires at least two (2) Directors or one-third (1/3) of the Board, whichever is higher, to be Independent Directors.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### 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.

<b>Application</b>	:	Applied - Annual shareholders' approval for independent directors serving beyond 9 years
<b>Explanation on application of the practice</b>	:	<p>The three Independent Directors, Encik Megat Abdul Munir, Encik Fazrin Azwar Bin Dato' Hj. Md. Nor and Mr. Teh Eng Hin have served in the capacity for more than 9 years. Shareholders' approval have been sought annually to retain them as Independent Directors based on the justifications provided. The Board and its Nominating Committee had conducted annual performance evaluations and assessments on the independence of the abovenamed Independent Directors based on the following justifications: -</p> <ul style="list-style-type: none"><li>(i) in particular their professionalism experience, standing and calibre in the respective professional fields;</li><li>(ii) as respected and successful professionals in their own right, the Board takes comfort in their sound advice and independent judgment;</li><li>(iii) consistently challenging the management in an effective and constructive manner;</li><li>(iv) actively participated in the Board's discussion and provided an independent voice to the Board;</li><li>(v) detailed knowledge of the corporate environment and have commitment, experience and competence to effectively advise the Management; and</li><li>(vi) in particular of Mr. Teh's professional experience in accounting and taxation areas and contribution to the Board.</li></ul>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**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.

<b>Application</b>	:	Not Adopted
<b>Explanation on adoption of the practice</b>	:	The Board is presently of the view that tenure is not the absolute indicator of a Director's independence. The Independent Director's ability to serve effectively is very much dependent on his calibre and personal integrity instead of on the director's background and current activities to qualify him or her as independent. In addition, there are also significant advantages to be gained from the long-serving Directors who possess tremendous insight and knowledge of the Company's business and affairs. The Board had deliberated and satisfied that the 3 Independent Non-Executive Directors who had served the Company for more than 9 years respectively, are free from any business dealing or relationships with the Group which could reasonably be perceived to materially interfere with the exercise of their independent judgement.

## 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.

<b>Application</b>	:	Applied																																													
<b>Explanation on application of the practice</b>	:	<p>The practice is reflected in the Terms of Reference of the Nominating Committee (NC). In making recommendations for new appointment to the Board, the NC assesses the suitability of candidates, taking into account the required mix of skills, knowledge, expertise and experience, professionalism and other necessary qualities, before recommending potential new Directors to the Board for approval.</p> <p>The current diversity in the race/ethnicity (cultural background), nationality, age group and gender is as follows:</p> <table border="1" data-bbox="544 925 1388 1111"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">Race/ethnicity</th> <th colspan="3">Nationality</th> </tr> <tr> <th>Malay</th> <th>Chinese</th> <th>Malaysian</th> <th>Permanent Resident</th> <th>Foreigner</th> </tr> </thead> <tbody> <tr> <td>Number of Directors</td> <td>2</td> <td>7</td> <td>4</td> <td>3</td> <td>2</td> </tr> </tbody> </table> <table border="1" data-bbox="544 1144 1388 1292"> <thead> <tr> <th rowspan="2"></th> <th colspan="5">Age</th> <th colspan="2">Gender</th> </tr> <tr> <th>20-29</th> <th>30-39</th> <th>40-49</th> <th>50-59</th> <th>60-69</th> <th>Male</th> <th>Female</th> </tr> </thead> <tbody> <tr> <td>Number of Directors</td> <td>1</td> <td>2</td> <td>2</td> <td>3</td> <td>1</td> <td>7</td> <td>2</td> </tr> </tbody> </table>							Race/ethnicity		Nationality			Malay	Chinese	Malaysian	Permanent Resident	Foreigner	Number of Directors	2	7	4	3	2		Age					Gender		20-29	30-39	40-49	50-59	60-69	Male	Female	Number of Directors	1	2	2	3	1	7	2
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### Intended Outcome

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

### Practice 4.5

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.

<b>Application</b>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	The Nominating Committee and the Board does not set any gender diversity policy in the composition of the Board. However, the Board will remain mindful of the MCGG's Principle on the gender diversity policy for boardroom. In relation to the Group's diversity, there are Two (2) female Directors on the Board whereby one (1) of them is Executive Director and the other one (1) is Non-Independent Non-Executive Director. The Board will continuously seek suitable candidate(s) to sit in the Board when such need arises.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	The Company is not considered as Large Companies as defined in MCGG 2017.
<b>Timeframe</b>	:	



**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.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	In sourcing for suitable candidates, recommendations from existing Board members are considered. The Nominating Committee has also explored the use of an independent search firm.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

### 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.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The Nominating Committee is chaired by Encik Fazrin Azwar Bin Dato' Hj. Md. Nor, an Independent Non-Executive Director of the Company.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

### 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.

<b>Application</b>	: Applied				
<b>Explanation on application of the practice</b>	<p data-bbox="539 723 1396 936">The Nominating Committee is responsible for the evaluation of the effectiveness of the Board as a whole by assessing the contribution of each individual director as well as ensuring that its assessments and evaluations are properly documented. The evaluation process is led by the Chairman and supported by the Company Secretary conducted on annual basis.</p> <p data-bbox="539 976 1396 1043">The Board Effectiveness Evaluation exercise will be carried out annually by focusing on the following key areas:</p> <table border="1" data-bbox="539 1081 1396 2076"> <thead> <tr> <th data-bbox="539 1081 914 1122">Matters Considered</th> <th data-bbox="914 1081 1396 1122">Outcome</th> </tr> </thead> <tbody> <tr> <td data-bbox="539 1122 914 2076">Performance evaluation on the Board as a whole, the Committees of the Board, each of the individual Board Member and the independence of the Independent Directors</td> <td data-bbox="914 1122 1396 2076"> <p data-bbox="922 1122 1396 1619">The Nominating Committee carried out Board and committees assessments by individual directors, self and peer assessments together with an assessment of directors for the purposes of evaluating the performance of the Board as a whole, the Committees of the Board, the individual Board member, and the independence of the Independent Directors especially those Independent Directors who have served as Independent Directors for more than nine years.</p> <p data-bbox="922 1659 1396 1760">The key evaluation criteria have been carefully reviewed during the assessments, which include:</p> <ul data-bbox="922 1765 1396 2076" style="list-style-type: none"> <li>•Performance of the Board and Board Committees - composition, structure, processes and principal responsibilities</li> <li>•Performance of each individual Board member, and independence of Independent Director's-competence, integrity, skills, experience, commitment,</li> </ul> </td> </tr> </tbody> </table>	Matters Considered	Outcome	Performance evaluation on the Board as a whole, the Committees of the Board, each of the individual Board Member and the independence of the Independent Directors	<p data-bbox="922 1122 1396 1619">The Nominating Committee carried out Board and committees assessments by individual directors, self and peer assessments together with an assessment of directors for the purposes of evaluating the performance of the Board as a whole, the Committees of the Board, the individual Board member, and the independence of the Independent Directors especially those Independent Directors who have served as Independent Directors for more than nine years.</p> <p data-bbox="922 1659 1396 1760">The key evaluation criteria have been carefully reviewed during the assessments, which include:</p> <ul data-bbox="922 1765 1396 2076" style="list-style-type: none"> <li>•Performance of the Board and Board Committees - composition, structure, processes and principal responsibilities</li> <li>•Performance of each individual Board member, and independence of Independent Director's-competence, integrity, skills, experience, commitment,</li> </ul>
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		<p>contribution, conflict of interest and independence as guided by the MMLR.</p> <p>No major concerns were identified in the evaluation results and the Nominating Committee was satisfied with the overall performance of the parties under review.</p>
	Re-election, re-appointment and retention of Board members	<p>Pursuant to the Company's Constitution, all Directors, including the Managing Director, shall retire from office at least once in every three (3) years but shall be eligible for re-election.</p> <p>As such, those Directors retiring by rotation and who are eligible for re-election undergo a detailed assessment on the quality and contribution of such Directors and the Nominating Committee gave its full support to the retiring Directors to be re-elected at the Company's AGM.</p>
<b>Explanation for departure</b>	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### 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.

<b>Application</b>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	The Company has not set up a Remuneration Committee however the Company has the policy and procedures in place to determine the remuneration of directors and senior management. The remuneration for senior management will take into consideration of the qualification, experience as well as contribution towards the Company whereas the Directors' remunerations are determined by the Board as a whole.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### 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.

<b>Application</b>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	<p>The Company has not set up a Remuneration Committee and in this regard, the full Board of the Company will decide on the Executive and Independent Non-Executive Directors' remuneration packages. In doing so, the component part of the remuneration packages is linked to performance, commitment and responsibility, and is periodically reviewed to reflect and ensure the level of remuneration is sufficient to attract and retain high calibre Directors to run the Company successfully.</p> <p>Directors do not participate in decisions on their own remuneration packages.</p>
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	The information of individual directors on named basis is disclosed in the Tong Herr Resources Berhad Annual Report 2018 under the Directors' Profile meanwhile each Director's Remuneration have been disclosed in the Corporate Governance Overview Statement.
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### 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.

<b>Application</b>	:	Departure	
<b>Explanation on application of the practice</b>	:		
<b>Explanation for departure</b>	:	The Company does not disclose the remuneration of the top five Senior Management on named basis in the bands of RM50,000 due to confidentiality reason as it may be detrimental to the interest of the Company and individuals and may lead to adverse impact on the company's talent retention in the highly competitive environment.	
	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		



**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.

<b>Application</b>	:	Not Adopted
<b>Explanation on adoption of the practice</b>	:	

### 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.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The Audit Committee comprise three (3) Independent Non-Executive Directors and is chaired by Encik Megat Abdul Munir, whereas the Chairman of the Board is Mr. Tsai Ming Ti.	
<b>Explanation for departure</b>	:		
	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**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.

<b>Application</b>	:	Departure	
<b>Explanation on application of the practice</b>	:		
<b>Explanation for departure</b>	:	There is no formal policy in the Audit Committee 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 as none of the members of the Audit Committee were former key audit partners.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

### 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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Terms of Reference of Audit Committee also includes the following:</p> <ul style="list-style-type: none"><li>• Reviewed the External Auditors' scope of work and audit plan for the Group.</li><li>• Reviewed the reports of External Auditors pertaining to accounts and internal control status.</li><li>• Recommend to the Board for the re-appointment of External Auditors.</li></ul> <p>The Audit Committee was satisfied with the suitability and independency of the External Auditors based on the quality of services and sufficiency of resources they provided to the Group, in terms of the firm and the professional staff assigned to the audit. The Audit Committee also took into account the openness in communication and interaction with the lead audit engagement partner and engagement team through discussions at private meetings, which demonstrate their independence, objectivity and professionalism.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**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.

<b>Application</b>	:	Adopted
<b>Explanation on adoption of the practice</b>	:	The Audit Committee comprise wholly of Independent Non-Executive Directors.

## 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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Audit Committee possess a wide range of vast experience and necessary skills to discharge its duties. The background of the three (3) members, whom consists of wholly Independent Non-executive Directors are as below:</p> <p>Encik Fazrin Azwar Bin Dato' Hj. Md. Nor is an Advocate and Solicitor, a member of the Malaysian Bar as well as chartered member of The Malaysian Institute of Directors and The Institute of Internal Auditors Malaysia.</p> <p>Encik Megat Abdul Munir is a member of the Malaysia Bar. He is also the founding partner of the legal firm Messrs. Zain Megat &amp; Murad and leads the Kuala Lumpur branch as well as two of the firm's practice areas. These are namely Corporate Commercial and the Foundation Laws practice areas.</p> <p>Mr. Teh Eng Hin is a Chartered Accountant with the Malaysian Institute of Accountants, fellow member of CPA Australia and member of Chartered Tax Institute of Malaysia.</p> <p>The Directors keep abreast with general economic, industry and technical developments by attending appropriate conference, seminars and briefings. The details of seminar/training attended by the Directors during the financial year are disclosed in the Corporate Governance Overview Statement of the Annual Report 2018.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		

<b>Measure</b>	:		
<b>Timeframe</b>	:		

### 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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board acknowledged its responsibilities and is committed to maintain a sound system of risk management and internal controls covering not only financial controls but also operational and compliance controls as well as risk management to safeguard the shareholder's investments and the Group's assets.</p> <p>The system of risk management and internal control by its nature is designed to manage, rather than eliminate, the risks of not adhering to the Group's policies, in order to enhance the achievement of the Group's objectives. Accordingly, it can only provide reasonable but not absolute assurance against occurrence of any material misstatement, loss and fraud.</p> <p>The primary objective of risk management is to enhance the Group's ability to achieve business objective. The Board is responsible for carrying out periodical review on the adequacy and integrity of the Group's risk management and internal control system including systems to ensure compliance with applicable laws, regulations, rules, directives and guidelines.</p> <p>The in-house internal audit also plays an important role in ensuring an effective risk management and internal control framework of the Company.</p>
<b>Explanation for departure</b>	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	



### 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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Group has in place the following key elements:</p> <ul style="list-style-type: none"> <li>• Well-defined hierarchical structure which indicated areas of responsibilities, scope of authority and segregation of duties.</li> <li>• The Audit Committee reviews the financial results on the quarterly basis to monitor the performance of the Group. Any material variances encountered by the internal audit personnel will be reported to the Board.</li> <li>• Formal employee appraisal system, which enables appraisal of employees and rewarding employees, based on performance.</li> <li>• The Group continues to review and update the Standard Operating Procedures for key processes for all Departments. This is being continuously monitored and reviewed to ensure effective management of the Group's operations.</li> </ul> <p>The Board is responsible to maintain a sound system of internal control and recognize that the system must continuously evolve to support the operations of the Group. As such, the Board and the management would continue to take measures to strengthen the internal control environment to safeguard the shareholders investment and the Group's assets.</p>
<b>Explanation for departure</b>	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### **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.

<b>Application</b>	:	Not Adopted
<b>Explanation on adoption of the practice</b>	:	The Company did not establish a Risk Management Committee. However, the risk element and review is undertaken by the Audit Committee and assisted by Internal Audit. At the same time, the Board does act as an oversight body in reviewing the Group's Risk on a regular basis.

## 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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Group has established an in-house Internal Audit Function where its personnel reports independently to the Audit Committee. The Internal Audit Personnel is independent of the activities or operations of other business operating units. Its principal role is to provide independent reports on the Company's management, records, financial and controls to the Audit Committee and review the effectiveness of the Group's internal control system.</p> <p>The Summary of work for Internal Audit Function that was carried out during the financial year includes the following:</p> <ul style="list-style-type: none"> <li>a) Prepared the audit plan that focused on high risk areas.</li> <li>b) Performed internal audit reviews in accordance with the approved audit plan.</li> <li>c) Issued reports on the results of the internal audit reviews, identifying weaknesses with suggested recommendations for improvements to management for further action.</li> <li>d) Attended Audit Committee's meetings to table and discuss the audit reports and follow-up on the matters raised.</li> <li>e) Followed-up on the implementation of corrective action plans or best practices agreed with the Management.</li> <li>f) Reviewed the appropriateness of the disclosure statements with regard to compliance with the MCCG and the statement of internal controls.</li> </ul>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

## 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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	The internal audit personnel are independent and objective, free from any relationships or conflicts of interest which could impair their objectivity and independence.  The information on the Internal Audit function is available in the Statement on Risk Management and Internal Control in the Annual Report 2018.
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### 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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board recognizes the importance of ongoing engagement and communication with stakeholders, which believe would build the trust and understanding between the Company and its stakeholders and also provides stakeholders a better appreciation of the Company's objectives and the quality of the management. This in turn will assist stakeholders in evaluating the Company and facilitate shareholders to determine how their votes should be exercised.</p> <p>The Board provides stakeholders with Annual Report, quarterly results and Audited Financial Statements as well as corporate announcements on significant developments affecting the Company through announcement in Bursa Securities in accordance with the MMLR.</p> <p>The investor relation details published in the Company's website would enable the stakeholders to seek clarification or raise queries via email or phone at any time.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**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.

<b>Application</b>	:	Departure	
<b>Explanation on application of the practice</b>	:		
<b>Explanation for departure</b>	:	The Company is not a large Company as defined by the MCCG .	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**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.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The Company dispatches out the notice of Annual General Meeting ("AGM") to the shareholders at least 28 days prior to the meeting to enable the shareholders have sufficient time to consider the resolutions that will be discussed and decided at the AGM. The 22 <sup>nd</sup> AGM will be held on 27 May 2019 and the notice of AGM was 29 April 2019.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

### 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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	All Directors of the Company including the Chair of Board Committees have attended and will continue to attend the Annual General Meetings (AGM) and any Extraordinary General Meeting (EGMs) of the Company (if any).  There is an open question and answer session on the resolutions being proposed or about the Group's operations in general. The Management and external auditors also were in attendance to respond to the shareholders' queries (if any).
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	



### 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.

<b>Application</b>	:	Departure
<b>Explanation on application of the practice</b>	:	<p>Based on previous years' experience, the shareholders in attendance at general meetings were less than 100 even though the meetings were held in easily accessible areas.</p> <p>The Company has adopted poll voting since the 2017 Annual General Meeting for all resolutions proposed, where the votes were cast by way of voting slips. The number of foreign shareholders is too immaterial to warrant the use of technology to facilitate remote shareholder participation or voting in absentia at this stage.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

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

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

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