

CORPORATE GOVERNANCE REPORT

STOCK CODE : 0185
COMPANY NAME : HSS Engineers Berhad
FINANCIAL YEAR : December 31, 2019

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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board is responsible for the leadership, oversight, control, development and long-term success of the Group. It is also responsible for instilling the appropriate culture, values and behaviour throughout the Group.</p> <p>The Company's Board Charter defines the specific duties and responsibilities of the Board which can be found at the Company's website at www.hssgroup.com.my.</p> <p>The Board has delegated some of its responsibilities to the Committees of the Board, namely Audit and Risk Management Committee ("ARMC"), Nomination Committee ("NC") and Remuneration Committee ("RC"). The activities of each Committee are set out in the Corporate Governance Overview Statement of the Annual Report 2019.</p> <p>While the responsibility for monitoring the effectiveness of the Group's risk management and internal control systems has been delegated to the ARMC, the Board retains ultimate responsibility for determining the Group's "risk tolerance" and annually considers a report in relation to the monitoring, controlling and reporting of identified risks and uncertainties. In addition, the Board receives regular reports from the Chairman of the ARMC in relation to the work of that Committee in the area of internal control.</p> <p>The Board promotes the application of sustainability practices throughout the Group, the benefits of which are believed to translate into better corporate performance and ensure the integrity in the company's financial and non-financial reporting.</p> |
| Explanation for departure | : | |

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

Intended Outcome

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

Practice 1.2

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

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| Application | : | Applied | |
| Explanation on application of the practice | : | The Board is led by Dato' Mohd Zakhir Siddiqy Bin Sidek, an Independent Non-Executive Chairman. The Chairman's role and responsibilities have been set forth in the Board Charter which is available on the Company's website at www.hssgroup.com.my . | |
| 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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board recognises the importance of exercising objective oversight over Management and therefore the roles of Chairman and Group Chief Executive Officer (“GCEO”) are undertaken by separate individual to ensure an appropriate balance of roles, responsibilities and accountability. The positions of Chairman and GCEO are held by Dato’ Mohd Zakhir Siddiqy bin Sidek, an Independent Non-Executive Director, and Dato’ Ir. Nitchiananthan A/L Balasubramaniam, an Executive Director, respectively. The Chairman in leading the Board is responsible for the effective overall functioning of the Board.</p> <p>In addition, the Board delegated responsibilities for the management of the Group, through the Executive Vice Chairman (“EVC”) and GCEO, to executive management. There is a clear division of responsibilities between the roles of the Chairman, EVC and GCEO, which are set out in the Board Charter and is available on the Company’s website at www.hssgroup.com.my.</p> |
| Explanation for departure | : | |
| <p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

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

Practice 1.4

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

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>All Directors have full access to the advice and services of the Company Secretaries, who are responsible to the Board for ensuring that Board procedures are complied with. In addition to Ms Ng Kuan Yee as the in-house Company Secretary, Ms Samantha Tai Yit Chan and Ms Tan Ai Ning (from Boardroom Corporate Services Sdn Bhd) have also been appointed as Company Secretaries of the Company. Both of them are professionally qualified, competent and capable of carrying out the duties required and have attended trainings/ seminars conducted by the of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA) and other regulatory bodies to keep abreast on the changes of regulations and requirements. The appointment and removal of the Company Secretary is a matter for the Board. Further details on the Company Secretary's roles and responsibilities are set forth in the Board Charter of the Company.</p> <p>The Board is satisfied with the performance and support rendered by the Company Secretaries to the Board to discharge its functions. The Company Secretaries play an advisory role to the Board in relation to the Company's Constitution, Board policies and procedures, compliance with the relevant regulatory requirements, corporate governance and legislations.</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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>Prior to the Board and Board Committee meetings, a formal and structured agenda together with the agenda papers are forwarded to the Directors via electronic mail within a reasonable period prior to the Board and Board Committee meetings to ensure the Directors have a proper and relevant depiction of the issues at hand. Exceptions may be made for certain ad-hoc or urgent instances when Directors unanimously consent to a shorter notice period and elapsed timeframe for the provision of agenda papers.</p> <p>All key deliberations and decisions at Board and Board Committee meetings are duly recorded in respective minutes of meetings. The draft minutes of the meetings are circulated to the Board of Directors and Committee members for their comments and necessary action in a timely manner.</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.

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|--|---|---|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board Charter is available on the Company's website at www.hssgroup.com.my which has been incorporated into the Group's governance system, documented policies that the Board has decided upon to meet, among others, its responsibilities, governance and leadership as a description tool of how the Board operates. The terms of references of the ARMC, RC and NC are also available on the Company's website. The Board Charter and Terms of Reference of the Board Committees were last updated on 25 February 2020 .</p> <p>There is a formal schedule of matters reserved to the Board for consideration and decision which is set out in the Board Charter.</p> <p>The Board Charter is periodically reviewed by the Board and updated based on the Malaysian Code of Corporate Governance, Main Market Listing Requirements and Companies Act 2016 to ensure relevance and effectiveness.</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.

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| Application | : | Applied |
| Explanation on application of the practice | : | All of the Group's relationships are underpinned by high ethical standards, as expressed in our Code of Ethics of Directors and Code of Conduct (collectively referred to as "the Codes"), which set acceptable practices and guide the behaviour of directors, management and employees. All the employees including Directors of HSS Engineers Berhad Group are required to read the Codes and understand on how to deal with situations involving ethical dilemmas to ensure that they continuously uphold high standards of conduct while performing their duties. The Codes include, inter alia, matter relating to conflicts of interest, proper use of the Company's assets and properties as well as knowledge and information on prohibited activities or misconduct involving gifts, gratuities, bribes and corruption, insider trading and money laundering. The Codes are available on the Company's website at www.hssgroup.com.my . |
| 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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | The Whistle-blower Policy serves as a guide to employees of the Group and other interested parties on the avenue where genuine concerns related to possible improprieties in matters of financial reporting, compliance, corruption, bribery and other malpractices can be objectively investigated and addressed. The Whistle-blower Policy is available on the Company's website at www.hssgroup.com.my . | |
| 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.

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| Application | : | Departure | |
| Explanation on application of the practice | : | Please provide an explanation on how the practice is being applied. | |
| Explanation for departure | : | <p>During the financial year ended 31 December 2019, the Board comprised of five (5) Executive Directors, three (3) Independent Non-Executive Directors and two (2) Alternate Directors, of which the independent directors represented 37.5% of the Board composition.</p> <p>The Board is of the view that the current Board composition provides appropriate balance in terms of skills, knowledge and industry experience to lead and oversee HEB Group. The nominees for the major shareholders is balances by the presence of the Independent Directors on the Board whose collective views carry significant weight in the Board's deliberation and decision making process. The Independent Non-Executive Directors of the Company challenge management proposals constructively and review management performance in meeting agreed objectives and targets.</p> | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | The Board aims to move towards adopting Practice 4.1 in the future. However, the Board would not bludgeon through changes for the mere sake of compliance in form. Instead, the Board will search for the right candidates that can contribute to the Group's long term growth strategy. | |
| Timeframe | : | | |

Intended Outcome

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

Practice 4.2

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

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

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

Intended Outcome

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

Practice 4.3 - Step Up

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

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| Application | : | Not Adopted |
| Explanation on adoption of the practice | : | Please provide an explanation on the adoption. |

Intended Outcome

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

Practice 4.4

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

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>In recommending the appointment of Directors and Senior Management, the NC considers salient attributes such as mix of skills and experience, expertise, strengths, expected contribution, independence (where applicable) and the multiple facets of diversity to ensure a balanced mix of talents on the Board and Senior Management level.</p> <p>The Board, alongside the NC, undertakes periodic reviews of the composition of the Board and Senior Management to ensure that they remain diverse, in the context of the needs of the Company's businesses and strategies.</p> <p>The current composition of the Board includes a diverse mix of skill sets, knowledge, experience (Eg. Accounting, Finance, Business, Management and Engineering) and age (range between 49 years old to 71 years old)</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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board have one woman director, namely Puan Ir. Sharifah Azlina Bt Raja Kamal Pasmah, representing 12.5% of the total Board members (<i>excluding one Alternate Director who is also a woman</i>).</p> <p>The Company has in place a Diversity Policy which outlines its approach to achieving and maintaining diversity (including gender diversity) on its Board of Directors and in Senior Management positions. To-date, 16.67% of the Senior Management positions of the Company are held by women.</p> <p>The Board recognises the challenges in achieving the right balance of diversity in the Company. This will be done over time, taking into account the present size, the valuable knowledge and experience of the present Senior Management and the evolving challenges to the Company over time.</p> |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

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

Practice 4.6

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

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| Application | : | Departure | |
| Explanation on application of the practice | : | | |
| Explanation for departure | : | <p>The process to identify, evaluate and appoint a non-executive Director with the suitable experience, skills and time commitment takes into account both the needs of the Company and the tenure and skills of existing Board members. The Board will consider external and independent sources if necessary.</p> <p>During the financial year ended 31 December 2019, Encik Ir. Syed Mohamed Adnan Bin Mansor Alhabshi was appointed as the Alternate Director to Datuk Ir. Teo Chok Boo.</p> <p>The NC has assessed the composition and needs of the Board taking into consideration the knowledge/ experience of the Directors prior to recommendation to the Board for approval based on their competence, integrity, character, time commitment, and experience as stated in Paragraph 2.20A of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.</p> <p>Nevertheless, the NC has the right to utilise independent sources to identify suitably qualified candidates and leverage on Directors' Registry to identify suitable candidates as Directors as and when necessary.</p> | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | Please explain the measure(s) the company has taken or intend to take to adopt the practice. | |
| Timeframe | : | Choose an item. | |

Intended Outcome

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

Practice 4.7

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

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| Application | : | Applied | |
| Explanation on application of the practice | : | Dato' Sri Ir. Hj. Ismail bin Md.Salleh, an Independent Non-Executive Director was re-designated as Chairman of the NC on 31 May 2019. | |
| Explanation for departure | : | | |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

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

Practice 5.1

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

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

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>During the year, the NC conducted an internally facilitated Board assessment on the effectiveness of the Board as a whole, the effectiveness of the Board Committees, contribution and performance of each Director and Board Committee via questionnaires. The results and recommendations from the evaluation of the Board and Committees are reported to the Board for full consideration and action. The Board was satisfied with the outcome and that the skills and experience of the current Directors satisfy the requirements of the skills matrix and that the Chairman possesses the leadership to safeguard the stakeholders' interest and ensure the Group's performance.</p> <p>In line with the assessment of Board effectiveness, an assessment of the Board Committees as a function of the Board is also carried out to evaluate the effectiveness of the Committees in meeting the objectives for which they are established. Committee members will assess their roles in assisting the Board to fulfil its responsibilities as delegated to the Committee by its terms of reference.</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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>In determining the remuneration of the Directors and Senior Management, the Company's objective is to provide fair and competitive remuneration to its Board and Senior Management in order for the Company to benefit by attracting and retaining a high quality team.</p> <p>When reviewing the structure and level of Directors' fees, the RC takes into consideration of Directors' roles and responsibilities and the RC also compared against the peers' practices, demands, complexities and performance of the Company in determining the level of remuneration.</p> <p>The remuneration packages of the EVC, GCEO and Senior Management are being reviewed annually by the RC, taking into consideration the Company/Group's performance, the individual performance against the key performance indicators determined as well as the required qualification, skills and experience and comparable market statistics.</p> <p>The Company's Remuneration Policy is available on the Company's website at www.hssgroup.com.my.</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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | <p>The RC consists exclusively Independent Non-Executive Directors and the Chairman of RC is Dato' Sri Ir. Hj. Ismail bin Md.Salleh, who was re-designated as Chairman of the RC on 31 May 2019. A copy of its Terms of Reference is available on the Company's website at www.hssgroup.com.</p> <p>The Board is satisfied that the Remuneration Committee had discharged its duties and responsibilities in respect to Directors' remuneration including reviews of the remuneration package for the Executive Directors 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

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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | The details of the remuneration of Directors of the Company comprising remuneration received from the Company and subsidiary companies during the financial year ended 31 December 2019 are disclosed under Note 28 of the Audited Financial Statements in the Annual Report 2019. | |
| Explanation for departure | : | | |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

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.

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| Application | : | Departure |
| Explanation on application of the practice | : | |
| Explanation for departure | : | <p>The Board is of the opinion that the disclosure of Senior Management's remuneration would not be in the best interest of the Group as it would affect the Group's efforts in talent retention and management within the competitive industry as well as for confidentiality reason.</p> <p>In accordance with the Remuneration Policy, the Board recognises the importance of compensating Senior Management with a competitive remuneration package based on the following:-</p> <ul style="list-style-type: none"> • Scope of responsibilities, jobs requirements and accountability; • Experience and relevant competency; • Salary level at relevant comparators and at companies of similar size and within the same industry; and • Remuneration of different groups of employees within the Group. <p>The Board ensures that the remuneration is in the best interests of the Company and its shareholders from a growth perspective, since it helps motivate and retain talented and committed Senior Management staff.</p> <p>Please provide an alternative practice and explain how the alternative practice meets the intended outcome.</p> |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | Please explain the measure(s) the company has taken or intend to take to adopt the practice. |
| Timeframe | : | Choose an item. |

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.

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| 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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | Mr Mohan A/L Ramalingam, the Senior Independent Non-Executive Director, was re-designated as the Chairman of the ARMC on 31 May 2019. Having the Board Chairman and Chairman of the ARMC assumed by different individuals allows the Board to review the ARMC's findings and recommendations objectively. | |
| 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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | The Terms of Reference of the ARMC imposes the requirement for a former key audit partner to observe a cooling-off period of at least 2 years before being appointed as a member of the ARMC. The Terms of Reference of the ARMC is available on the Company’s website at www.hssgroup.com.my . | |
| Explanation for departure | : | | |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | <p>The Terms of Reference of the ARMC includes the procedure to assess the suitability, objectivity and independence of the external auditor of the Company. The ARMC also reviews the nature and extent of non-audit services rendered by the external auditor.</p> <p>During the year under review, the ARMC had reviewed, assessed the suitability and independence of external auditors. The ARMC obtained written assurance from the external auditors on its independence.</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.

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|--|---|--|
| Application | : | Adopted |
| Explanation on adoption of the practice | : | The ARMC comprised only Independent Non-Executive Directors as disclosed in the ARMC Report of the Annual Report 2019. |

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 | : | All the members of the ARMC have the necessary financial experience, commercial expertise, capital markets skills and relevant industry experience required to meet their responsibilities and provide an effective level of challenge to management. They also receive ongoing training and development to keep abreast of latest changes and developments in the business environment, as detailed under Directors' Training section of the Corporate Governance Overview Statement of Annual Report 2019. | |
| Explanation for departure | : | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

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

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

Practice 9.1

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

| | | |
|---|---|--|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board is responsible for reviewing and approving the Group's overall risk philosophy and risk appetite, recognising and understanding the major risks to which the Group is exposed to and ensuring appropriate systems are in place to effectively control, manage and mitigate those risks.</p> <p>The Company has in place an Enterprise Risk Management Framework and adopted a Risk Management Policy for identifying, evaluating and managing significant risks which may affect the Company's business objectives. The Risk Management Framework provides a reasonable and not absolute assurance against material misstatements, losses or frauds that may affect the Group's financial position or its operations.</p> <p>The Board through its ARMC reviews and monitors the key risks identified by KPMG Management & Risk Consulting Sdn Bhd to review the key risks over strategic, operation, reporting, compliance and mitigation of risks and report to the Management and ARMC for the financial year ended 2019.</p> <p>The Statement on Risk Management and Internal Control of the Group provides an overview of the risk management practices and internal controls implemented by the Group can be found in Annual Report 2019.</p> |
| Explanation for departure | : | |
| <p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

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

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

Practice 9.2

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

| | | | |
|--|---|---|--|
| Application | : | Applied | |
| Explanation on application of the practice | : | The Board, assisted by ARMC, has established a framework to formulate and review risk management policies and risk strategies. Further information on the Group’s risk management and internal framework is presented in the Statement on Risk Management and Internal Control of the Annual Report 2019. | |
| Explanation for departure | : | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

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

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

Practice 9.3 - Step Up

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

| | | |
|--|---|-------------|
| Application | : | Not Adopted |
| Explanation on adoption of the practice | : | |

Intended Outcome

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

Practice 10.1

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

| | | | |
|--|---|--|--|
| Application | : | Applied | |
| Explanation on application of the practice | : | <p>The ARMC of the Company is responsible for monitoring and reviewing the effectiveness of the Group’s Internal Audit function. The function is independent and is led by the Internal Auditor, which is outsourced to KPMG Management and Risk Consulting Sdn Bhd who has a direct reporting line to the ARMC for the financial year ended 2019.</p> <p>The ARMC continually evaluates the Internal Audit function to ensure its activities are performed independently and with impartiality and due professional care.</p> <p>For further details on the key activities of the Internal Audit function, please refer to ARMC Report of the Annual Report 2019.</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 Auditor reports to the ARMC. This reporting relationship promotes independence and objectivity, which assures adequate consideration of audit recommendations and planned corrective actions, and gives the Internal Auditor the authority needed for full, free and unrestricted access to all operations, records, property and personnel within the Group.</p> <p>The Internal Audit function is carried out in accordance with the International Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors (“IIA”).</p> <p>The Internal Auditor is made of a team of 5, including 3 engagement members with the following qualifications respectively:</p> <p>(a) Chartered Member of The Institute of Internal Audit of Malaysia, Certified Internal Auditor (CIA) of The Institute of Internal Auditors, Inc and Accredited Assessor for the Quality Assurance Review Program of the Institute of Internal Auditors;</p> <p>(b) Associate Member of The Institute of Internal Auditors Malaysia and holds Certification in Quality Assurance Review (QAR), The Institute of Internal Auditors; and</p> <p>(c) Certified Internal Auditor of The Institute of Internal Auditors and Professional member of Institute of Internal Auditors, Malaysia.</p> <p>The Internal Auditor, KPMG Management and Risk Consulting Sdn Bhd is free from any relationship or conflicts of interest which could impair their objectivity and independence.</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 11.1

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

| | | |
|--|---|--|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board maintains a dialogue with shareholders, directed towards ensuring a mutual understanding of objectives. Its primary contact, facilitated through the GCEO. The Company enjoys a relatively high level of coverage and exposure to the investment community.</p> <p>When the Company makes announcements on major corporate exercise, it is typically accompanied by a press release. Press conferences are typically held following general meetings approving such major corporate exercise which provides an opportunity for the management team to meet existing and/or potential investors in a concentrated set of meetings.</p> <p>The Company has in place the Corporate Disclosure Policies and Procedures and was revised on 25 February 2020.</p> <p>The Company has established a corporate website including the creation of an Investor Relations (“IR”) web portal to serve as a channel of communication with the existing and/or potential investors by including all the announcements made by the Company, share price information, newsroom and financial information. The IR function is managed by Corporate Communications department 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 continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

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

Practice 11.2

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

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

Intended Outcome

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

Practice 12.1

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

| | | | |
|--|---|---|--|
| Application | : | Applied | |
| Explanation on application of the practice | : | The Notice convening the Fifth AGM scheduled to be held on 10 June 2020 is dated 12 May 2020, giving the shareholders at least 29 clear days notice (exclude the day of sending the notice and the day of the meeting) to make necessary arrangement to attend and participate in AGM. In addition to sending notice, the Company also published the AGM Notice on the newspaper and on its website. The Company had also issued its 2019 AGM notice to its shareholders at least 52 days prior to the AGM date. | |
| 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>During the Fourth AGM of the Company held on 18 June 2019, all Directors attended the meeting to address any questions from the shareholders.</p> <p>Shareholders were invited to ask questions both about the resolutions being proposed before putting them to vote as well as matters relating to the Company's operations in general and meaningful response were given to the questions raised.</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 | : | Applied |
| Explanation on application of the practice | : | <p>The Company does not have large number of shareholders and has less than 100 shareholders who attend its AGM. The AGM of the Company have always been held in accessible locations. The Company also leverages on technology and adopts electronic voting to facilitate general meeting proceedings and to ensure accurate recording of votes.</p> <p>AGM 2019 was held in Petaling Jaya, Selangor Darul Ehsan, a location which was easily accessible by the shareholders. Shareholders who were unable to attend and vote at the AGM were encouraged to submit the proxy forms to appoint their representatives to attend the AGM, which allowed them to vote in absence.</p> <p>The Company will hold its AGM 2020 fully virtual by using remote participation and electronic voting facilities. This allows the shareholders to participate in the AGM while at the same time, follow the health guidance issued by the Government of Malaysia of not having mass gathering and practicing social distancing to curb the spread of coronavirus disease. The virtual AGM is in compliance with the Company's Constitution, Companies Act 2016 and other legal requirements.</p> |
| Explanation for departure | : | Please provide an explanation for the departure. |
| | | Please provide an alternative practice and explain how the alternative practice meets the intended outcome. |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | Please explain the measure(s) the company has taken or intend to take to adopt the practice. |
| Timeframe | : | Choose an item. |

**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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