

## **CORPORATE GOVERNANCE REPORT**

**STOCK CODE** : 7060  
**COMPANY NAME** : NEW HOONG FATT HOLDINGS BERHAD  
**FINANCIAL YEAR** : December 31, 2017

### **OUTLINE:**

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

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

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

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

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

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

### Intended Outcome

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

### Practice 1.1

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board is responsible for the long-term performance of the Group and for overseeing the Group's strategy and monitoring its operation.</p> <p>The Board's main functions are to provide leadership, provide guidance on the Group's strategic objectives, ensure that necessary resources are in place for the Company to meet its objectives, as well as to review the performances of the Group and the Management against targets. The Board had delegated to the Managing Director, amongst others, the responsibility for implementing the Group's strategic direction and for managing its day-to-day operations. Strategies and policies, including annual business plan and budget are developed by the Managing Director together with the Management, which are then reviewed, constructively challenged and approved by the Board.</p> <p>The Board monitors the Group's performance quarterly whereby the Managing Director and the Management keep the Board informed on the financial performance of the Group as well as the development and performance of key business areas. The Managing Director also responsible to bring material issues and other relevant matters to the attention of the Board.</p> <p>The Board also ensures the implementation of appropriate risk management and internal control systems, including financial, operational and compliance to safeguard the shareholders interest and the Group's assets. In addition, the Board is mindful of the importance of business sustainability and in conducting the Group's business, the impacts on the environmental, social and governance aspects are taken into consideration. By integrating environmental and social considerations across its business strategies and activities, the Group ensures the sustainability of its business and thus creates a long-term value for the stakeholders.</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 Board is led by an Executive Chairman who is capable to lead the Board based on her entrepreneurial leadership coupled with her many years of extensive experience in the operations of the Group. As one of the pioneer members of the Group, the Chairman is able to provide effective leadership to the Board and guide the vision, strategic direction and business development of the Group, and at the same time be guided by the independent advice and views from the Independent Directors, who offer the necessary checks and balances in the decision making process of the Board.</p> <p>The Chairman plays an instrumental role in providing leadership to the Board for all aspects of the Board's roles and responsibilities, ensuring that operations conform to the Board's strategic directions, Company's vision and corporate policies, as well as facilitating the communication and understanding between the Management and the Board.</p> <p>The Chairman presides over board meetings and ensures that all directors' views are heard, ensures sufficient time for discussion of each agenda, and provides fair opportunity to all directors to participate actively and constructively during the meetings and discussions.</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>	:	The roles of Chairman and Managing Director are exercised by different individuals. A clear segregation of their responsibilities and powers is stated and defined in the Company's Board Charter. Besides ensuring an appropriate balance of power and authority, the segregation of roles facilitates an open exchange of views and opinions between the Board and the Management in their deliberation of the business, strategies and key operations of the Group.	
<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>	:	The Board is supported by a qualified and competent Company Secretary who is responsible to advise and regularly update the Board on good governance, board policies and procedures, administrative matters and corporate compliances.	
<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>Reasonable notice of meetings and the agenda on the business to be conducted at the Board meetings were circulated to all Directors two (2) weeks before each meeting. The board papers that provided relevant information such as minutes of previous meetings, management reports and financial reports were furnished to the Directors at least five (5) working days prior to the Board meeting so that each Director had ample time to review the papers to enable informed decision making.</p> <p>Minutes of meeting were circulated to all Directors within one (1) month after each meeting to ensure that the minutes accurately reflect the deliberations and decisions of the Board, including whether any director abstained from voting or deliberating on a particular matter.</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>	:	The Board is guided by the Board Charter that sets out amongst others its roles, composition, responsibilities, powers, board committees and board meeting procedures. The key elements of governance principles embedded in the Board Charter regulate the Board’s conducts and guide the business strategic initiative of the Group. The Board Charter was reviewed and updated during the financial year and is available on the Company’s website, <a href="http://www.newhoongfatt.com.my">www.newhoongfatt.com.my</a> .	
<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.

Application	:	Applied	
Explanation on application of the practice	:	<p>The Board and all employees are guided by the Group’s core values and policies, as well as relevant regulatory requirements and standards which regulate appropriate conduct and ethics within the Group. The Group has established the following policies and procedures to provide direction and guidance to all Directors, Senior Management, employees and external parties in the discharge of their duties and responsibilities that will be in the best interest of the Group:</p> <p>(a) Corporate Disclosure and Investor Relations Policy; (b) Financial Management Policy and Strategy; (c) Whistle Blowing Policy; (d) Fraud Policy; (e) Human Resources Manuals, Policies, Regulations and Procedures; and Terms and Conditions of Employment; (f) Quality Policy; (g) ISO Quality Manual; and (h) Safety, Health and Environment Policy.</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**

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 the Whistle-blowing Policy that provide a channel to enable employees and other stakeholders to report any suspected breaches of law or regulations or any illegal acts observed in the Group, including financial malpractice or fraud, non-compliance with regulatory requirements, danger to health, safety or the environment, criminal activity and corruption. It outlines the procedures for reporting a genuine concern on any breach of conduct that are taking place, have taken place or may take place in the future.</p> <p>The Company treats all reports in a confidential manner and at the same time provides protection to anyone who reports such concerns in a good faith. The Whistle-blowing Policy is reviewed annually and is available on the Company’s website, <a href="http://www.newhoongfatt.com.my">www.newhoongfatt.com.my</a>.</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**

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

**Practice 4.1**

At least half of the board comprises independent directors. For Large Companies, the board comprises a majority independent directors.

Application	:	Applied	
Explanation on application of the practice	:	<p>The Board currently consists of six (6) members, comprising the Executive Chairman, Managing Director, an Executive Director, and three (3) Independent Non-Executive Directors.</p> <p>The Board is satisfied that its current size and composition reflects an appropriate balance of Executive and Non-Executive Directors which is adequate for the scope and nature of the Group’s business and operations.</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

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 Board had considered the independence of all the Independent Directors whose tenure had exceeded nine (9) years, namely Mr Danny Ng Siew L'Leong ("Mr Ng"), Datuk Dr. Anis bin Ahmad ("Datuk Dr. Anis") and Mr Wong Yoke Nyen ("Mr Wong"). Mr Ng, Datuk Dr. Anis and Mr Wong had been retained by the shareholders of the Company as Independent Directors at the last annual general meeting ("AGM") held in 2017.</p> <p>In their respective assessment, Mr Ng, Datuk Dr. Anis and Mr Wong had confirmed the following to the Board:</p> <ul style="list-style-type: none"><li>(a) They do not have personal interest or conflict of interest and have not entered or expected to enter into any contract or transaction with the Company or the Group;</li><li>(b) They have their own business which is not in the same industry as the Group;</li><li>(c) They sit on the boards of other public and/or private companies which do not have conflicting businesses or having the same nature of business with the Group;</li><li>(d) They do not assist the Company in any operational matters of the Group; and</li><li>(e) Datuk Dr. Anis is registered with the Malaysian Pharmaceutical Board and Mr Wong is a member of the Corporate Finance Faculty of the Institute of Chartered Accountants in England and Wales, and each is governed by its own code of ethics and professional conduct.</li></ul> <p>Based on the assessment above, the Board is generally satisfied with the level of independence demonstrated by Mr Ng, Datuk Dr. Anis and Mr Wong and believes that they are able to provide check and balances in the best interest of the Company. Their retention as Independent Directors shall be subject to the shareholders' approval at the forthcoming AGM.</p>

	The Company currently does not have a policy to limit the tenure of its independent directors to nine (9) years. Nevertheless, pursuant to Practice 4.2 of the MCGG, the Company will seek its shareholders' approval to retain its Independent Directors who have served in that capacity beyond twelve (12) years, namely Mr Ng and Datuk Dr. Anis through a two-tier voting process at the forthcoming AGM.	
<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>	:	

**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 Nomination Committee is responsible for assessing and making recommendations to the Board on the candidature of directors based on recruitment criteria established by the Board. The Committee has the responsibility to ensure that the Board comprises suitably qualified members that demonstrate appropriate qualities and experience that contribute to the effective oversight and stewardship.</p> <p>The Chairman and the Managing Director are responsible for the identification and development of the key Senior Management, as well as to review the succession planning for key management team from time to time. The Chairman and Managing Director shall search for suitable candidates through established channels such as public advertisement or direct approaches being made to individuals who may be suitable or through organisations that may be able to assist in the recruitment process. In selecting the appropriate candidates, the Chairman and Managing Director take into account the candidate’s qualification, experience, competence and character. Newly appointed key Senior Management personnel will have to undergo induction training and/or any other programs in the manner as stipulated in the Group’s Human Resource Manual.</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**

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

**Practice 4.5**

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

Application	:	Applied	
Explanation on application of the practice	:	The Board acknowledges the importance of gender diversity as an important element of a well-functioning board. According to the Board Charter, at least one-third (1/3) of the Board shall comprise of women and this is evident in NHF’s Board where two (2) Directors or 33% of the Board are female.	
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**

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

**Practice 4.6**

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

Application	:	Applied	
Explanation on application of the practice	:	Appointments of new Directors are undertaken by the Board as a whole after considering the recommendations of the Nomination Committee. Potential candidates may be proposed by any current Board member, shareholder or senior management personnel or by utilising independent sources such as recruitment firms or through industry associations. In considering potential candidates for appointment, the Nomination Committee undertakes a thorough review of the candidate’s criteria, amongst others, qualifications, skills, knowledge, expertise, experience, personal attributes and the capability to devote the necessary time and commitment to the role.  During the financial year, no new Director was appointed.	
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**

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

**Practice 4.7**

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

Application	:	Applied	
Explanation on application of the practice	:	The Nomination Committee comprises exclusively of Independent Non-Executive Directors and is chaired by the Senior Independent Director.	
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**

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>	:	The Nomination Committee annually performs an assessment of the effectiveness and performance of the Board, Board Committees and individual Directors, in order to verify that the Board is functioning appropriately as a whole. Each Director completed a detailed questionnaire in the Directors’ Performance Evaluation which covered matters relevant to the Board performance, among other things, contribution to interaction, quality of input, understanding of role and personal developments. An evaluation of each Board Committee was done by assessing the structure, roles and responsibilities, performance of the respective Chairman, as well as Committee’s performance against its Terms of Reference. The assessment was internally facilitated, whereby results of the assessments had been compiled, documented and reported to the Board accordingly, as part of the Company’s ongoing corporate governance practices.	
<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 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>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>On a yearly basis, the Remuneration Committee reviews and recommends to the Board the remuneration packages of the Executive Directors, while the remuneration for the Non-Executive Directors was determined by the Board as a whole. In making its recommendation, the Remuneration Committee considers the principles set out in the Board Remuneration Policy. The Policy, which covers remuneration for the Directors and key Senior Management personnel, was established with the objective to guide the Group in attracting, retaining and motivating highly qualified individuals to serve on the Board and key Senior Management team. The Board has currently identified the Chief Financial Officer, the Senior General Manager of Manufacturing and the General Manager of Overseas Operations as the key Senior Management personnel.</p> <p>Remuneration for the Executive Directors was structured to align rewards to individual and the Group's performances, and to adequately compensate the Executive Directors for risks and complexities of the duties and responsibilities they assumed. The Remuneration Committee also considered market competitiveness and obtained data for similar roles of other public listed companies in the same industry for comparison. Meanwhile, remuneration for the service of Non-Executive Directors was aligned with market terms, taking into consideration remuneration paid to non-executive directors of other peer companies, the individual's experience, performance and responsibility, market competitiveness as well as the Group's overall performance.</p> <p>Based on the Board Remuneration Policy, the Remuneration Committee also reviews the bonus to be granted to the Executive Directors and key Senior Management personnel, taking into account the individual performance against the Key Performance Indicator targets and competency capability in meeting the Group's core values and Leadership and Management Expectations.</p>

	Fees and benefits payable to the Directors are subject to approval by the shareholders at the Company's AGM. The affected Directors had abstained from participation in deliberations and decisions regarding their individual remuneration.	
<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 level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

**Practice 6.2**

The board has a Remuneration Committee to implement its policies and procedures on remuneration including reviewing and recommending matters relating to the remuneration of board and senior management.

The Committee has written Terms of Reference which deals with its authority and duties and these Terms are disclosed on the company's website.

Application	:	Applied	
Explanation on application of the practice	:	<p>The Remuneration Committee was established to assist the Board in developing remuneration policies and procedures that enable the Group to attract, motivate and retain qualified Directors and key Senior Management personnel. Full details of the functions and duties of the Remuneration Committee are stated in its Terms of Reference which is available on the Company’s website, <a href="http://www.newhoongfatt.com.my">www.newhoongfatt.com.my</a>.</p> <p>The Remuneration Committee comprises mainly of Non-Executive Directors.</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**

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

**Practice 7.1**

There is detailed disclosure on named basis for the remuneration of individual directors. The remuneration breakdown of individual directors includes fees, salary, bonus, benefits in-kind and other emoluments.

Application	:	Applied	
Explanation on application of the practice	:		
Explanation for departure	:	The detailed breakdown of individual Directors’ remuneration are disclosed in the Corporate Governance Overview Statement of the 2017 Annual Report.	
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.			
Measure	:		
Timeframe	:		

**Intended Outcome**

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

**Practice 7.2**

The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

Application	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	<p>The remuneration paid to the key Senior Management personnel are justified by the individual performance, the Group’s performance and market rate. The Board is fully satisfied and is of the view that the accountability aspects of corporate governance as applicable to key Senior Management members’ remuneration are appropriately served by the vigorous evaluations done.</p> <p>The Board is of the view that a detail disclosure of individual key Senior Management’s remuneration may give rise to the Company’s talent retention issues. The Company will consider disclosing the remuneration of individual key Senior Management as and when it is deemed appropriate.</p>	
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.			
Measure	:		
Timeframe	:		



**Intended Outcome**

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

**Practice 7.3 - Step Up**

Companies are encouraged to fully disclose the detailed remuneration of each member of senior management on a named basis.

<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 Chairman of the Audit Committee is not the Chairman of the Board.	
<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>	:	Applied	
<b>Explanation on application of the practice</b>	:	During the financial year, in line with the recommended practice 8.2 of the MCCG, the Audit Committee had revised its Terms of Reference to include a clause on a minimum cooling-off period of two (2) years before a former key audit partner can be appointed as a member of the Audit Committee.	
<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 8.3**

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 Board, through its Audit Committee maintains a formal and transparent relationship with its External Auditors. The Board had delegated the responsibility to the Audit Committee for making recommendations on the appointment, re-appointment or removal of the External Auditors as well as on their remunerations.</p> <p>The Audit Committee assessed the performance and effectiveness of the External Auditors annually, considering amongst others, their qualifications, effectiveness of the audit process, quality of service and their independence.</p> <p>In order to ensure that the External Auditors remain independent and objective, the Audit Committee's Terms of Reference sets out the nature for the provision of non-audit services which can be entered into by the Group with the External Auditors and the procedures to be followed to obtain approval for those services where they are permitted.</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 comprises exclusively 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 consists of three (3) members, all of whom are independent non-executive directors. The Chairman of the Audit Committee is a member of the Corporate Finance Faculty of the Institute of Chartered Accountants in England and Wales (ICAEW) and has relevant financial experience and expertise to effectively fulfil the role of Audit Committee Chairman.</p> <p>During the financial year, the Nomination Committee had reviewed and evaluated the effectiveness of Audit Committee and each of its members. The Audit Committee was assessed based on quality and composition, skills and competencies, as well as meeting administration and conduct. Based on the results of the assessment, the Nomination Committee was satisfied that the Audit Committee and its members had discharged their functions effectively and had carried out their duties in accordance with its Terms of Reference.</p> <p>During the financial year, all the Directors had participated in various training programs. Particulars of the seminars and courses attended by all the Directors are disclosed in the Corporate Governance Overview Statement of the 2017 Annual Report.</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>	:		
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**Intended Outcome**

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

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

**Practice 9.1**

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 is responsible for maintaining a sound and effective system of risk management and internal control to safeguard shareholders' investment and the Group's assets, as well as reviewing the adequacy and effectiveness of these systems to support the Group's strategy and operations to achieve its business objectives.</p> <p>To discharge these responsibilities, the Board is assisted by the Audit Committee in fulfilling the oversight responsibilities of reviewing the control systems in general and assessing the adequacy and effectiveness of the risk management and internal control practices conducted by the Management.</p> <p>The Board is supported by the Management in developing, implementing and monitoring sound practices for identifying and managing strategic, financial and operational risks; and to provide assurance that risk management and internal control practices with respect to the conduct of business are implemented and adhered to within the Group.</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 9.2**

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 Board acknowledges its overall responsibility to maintain effective governance, risk management and compliance framework. Supported by the Management and internal audit function, the Board ensures the adequacy and effectiveness of the Group's risk management and internal control practices. The Board is responsible to ensure that the Group complies with all applicable provisions of law and regulations and ensures that appropriate risk management systems are in place throughout the Group.</p> <p>The Audit Committee assists the Board to oversee and review the effectiveness of the Group's risk management and internal control systems. To facilitate effective monitoring, the Board regularly receives reports from the Management on any business risks related to its business activities that have impacted or likely to impact the Company from achieving of its objectives and strategies.</p> <p>Details of the Group's risk management and internal control framework are presented in the Statement on Risk Management and Internal Control of the 2017 Annual Report.</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 9.3 - 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 Audit Committee assumes the role in overseeing and reviewing the effectiveness of the Group's risk management function together with the Management.

**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’s internal audit function is carried out by an outsourced internal audit firm which is independent of the activities it audit. The Board, through the Audit Committee conducts annual review on the effectiveness of the internal audit function which includes the assessment on the quality of audit review to ensure that the Internal Auditors have sufficient knowledge and experience to perform their role effectively.</p> <p>During the financial year, the Audit Committee had assessed the performance of the Internal Auditors through a formal evaluation form to assess their independence as well as the effectiveness of the internal audit function in terms of competency and performance of the internal audit team, adequacy of audit practices and their audit fees. Based on the results of the assessment, the AC was of the opinion that the internal audit function was effective and the Internal Auditors were independent and competent during their tenure in office.</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 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 Board has established an independent internal audit function that reports directly to the Audit Committee. The Group's internal audit function is carried out by an outsourced internal audit firm which is independent of the activities it audit. The Head of the Internal Auditors is a member of Institute of Internal Auditors Malaysia and is competent to conduct the internal audit activities in accordance with the standards and code of ethics set by the body.
<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 Company strives to promote a better understanding of the Group through investor relation activities. Apart from general meetings, the Company has in place the following initiatives to facilitate effective communication with its shareholders:</p> <ul style="list-style-type: none"> <li>(a) the Annual Report, which contains information such as Management Discussion and Analysis, financial statements, and information on the Audit Committee, Corporate Governance, Sustainability and Corporate Social Responsibility, and Risk Management and Internal Control;</li> <li>(b) various announcements made to Bursa Securities, which include timely release of financial results on a quarterly basis. Concurrent with these releases, the Company posts all announcements on its website, and releases announcements to major newspapers and public media;</li> <li>(c) regular dialogues with analysts and fund managers representing individual and institutional shareholders;</li> <li>(d) attending to shareholders' and investors' emails and phone enquiries; and</li> <li>(e) the Company's website at <a href="http://www.newhoongfatt.com.my">www.newhoongfatt.com.my</a> under Investor Relations section, which houses Board Charter, annual reports, quarterly report announcements, press releases, slide presentations from analyst briefings, analyst coverage and other corporate information on NHF. The website also provides Investor Relations contact for shareholders to direct their queries or concerns to.</li> </ul>
<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**

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 would consider adopting integrated reporting based on globally recognised framework in the near future.	
<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 Notice of Annual General Meeting for year 2018 (“AGM”) to be held on 1 June 2018 was served on 25 April 2018 which is more than 28 days prior to the date of the AGM. In order to facilitate informed decision by the shareholders, notice of meeting is also accompanied by explanatory notes on the items of business to further explain the nature of business of the meeting.	
<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 the directors present themselves at the previous AGMs. The Audit Committee Chairman, the Nomination Committee Chairman and the Remuneration Committee Chairman were being informed that questions relating to the Committee under their purview will be addressed by them accordingly.	
<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>	:	Applied	
<b>Explanation on application of the practice</b>	:	<p>The AGM of the Company is being held at a location in the city area and accessible via public transport.</p> <p>Moving forward, the Company will consider leveraging on technology to facilitate grater shareholders’ participation in general meeting.</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 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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