

CORPORATE GOVERNANCE REPORT

STOCK CODE : 5274
COMPANY NAME : HONG LEONG CAPITAL BERHAD
FINANCIAL YEAR : 30 JUNE 2018

OUTLINE:

SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

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

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

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

SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

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

Intended Outcome

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

Practice 1.1

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

Application :	Applied.	
Explanation on application of the practice :	<p>The Board of Directors of Hong Leong Capital Berhad (“HLCB” or “Company”) assumes responsibility for effective stewardship and control of the Company and has established terms of reference (“TOR”) to assist in the discharge of this responsibility.</p> <p>In discharging its responsibilities, the Board established functions which are reserved for the Board and those which are delegated to management. The key roles and responsibilities of the Board are set out in the Board Charter, which are reviewed periodically by the Board and published on the Company’s website ‘www.hlcap.com.my’ (“the Company’s Website”). The key roles and responsibilities of the Board broadly cover formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Group’s businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage those risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals, and major capital expenditure.</p>	
Explanation for departure :		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure :		
Timeframe :		

Intended Outcome

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

Practice 1.2

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

Application	:	Applied.	
Explanation on application of the practice	:	<p>The Chairman helms the Board of Directors. He leads the Board and ensures its smooth and effective functioning.</p> <p>The responsibilities of the Chairman are set out in the Board Charter, which are published on the Company's Website.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 1.3

The positions of Chairman and CEO are held by different individuals.

Application	:	Not Applicable – The Chairman is not the CEO of the Company. The Company presently does not have a CEO.	
Explanation on application of the practice	:		
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 1.4

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

Application	:	Applied.	
Explanation on application of the practice	:	All Directors have access to the advice and services of a qualified and competent Company Secretary to facilitate the discharge of their duties effectively. The Company Secretary is qualified to act under Section 235 of the Companies Act 2016. She supports the effective functioning of the Board, provides advice and guidance to the Board on policies and procedures, relevant rules, regulations and laws in relation to corporate secretarial and governance functions and facilitates effective information flow amongst the Board, Board Committees and senior management. The Company Secretary attends programmes and seminars to keep abreast of relevant regulatory requirements, company law and corporate governance requirements and best practices.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 1.5

Directors receive meeting materials, which are complete and accurate within a reasonable period prior to the meeting. Upon conclusion of the meeting, the minutes are circulated in a timely manner.

Application	:	Applied.	
Explanation on application of the practice	:	Prior to Board meetings, Directors are provided with minutes of the previous meeting(s). The agenda together with meeting reports and reference materials are disseminated electronically via 'BoardPAC', an iPad-based solution which stores meeting documents digitally in a secured manner.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

There is demarcation of responsibilities between the board, board committees and management.

There is clarity in the authority of the board, its committees and individual directors.

Practice 2.1

The board has a board charter which is periodically reviewed and published on the company's website. The board charter clearly identifies–

- the respective roles and responsibilities of the board, board committees, individual directors and management; and
- issues and decisions reserved for the board.

Application	:	Applied.
Explanation on application of the practice	:	The Board Charter sets out the responsibilities of the Board and Board Committees, the Chairman and CEO, matters reserved and delegated by the Board and proceedings of Directors. The Board Charter is reviewed periodically by the Board and published on the Company's Website.
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

Practice 3.1

The board establishes a Code of Conduct and Ethics for the company, and together with management implements its policies and procedures, which include managing conflicts of interest, preventing the abuse of power, corruption, insider trading and money laundering.

The Code of Conduct and Ethics is published on the company's website.

Application	: Applied.
Explanation on application of the practice	<p>The Board observes the Code of Ethics for Company Directors established by the Companies Commission of Malaysia (“CCM”).</p> <p>The Company is committed to good business ethics and integrity as set out in HLCB – Code of Conduct and Ethics, which is communicated to all employees within the Company. To this end, the Company commits to a high standard of professionalism and ethics in the conduct of its business and professional activities.</p> <p>The Code of Conduct and Ethics requires all employees to observe and adhere to the following:</p> <ul style="list-style-type: none">a) to faithfully and diligently perform such duties and accept such responsibilities as may from time to time be assigned by the Company. Every employee is expected to promote and advance the interests of the Company at all times;b) to perform duties in respect of the Company he is attached to as well as any other company within the Group;c) to faithfully observe and comply with all rules, regulations, procedures, practices and policies of the Group or Company, whether expressed or implied. <p>In conjunction with the above, employees are also required to observe the following:</p> <ul style="list-style-type: none">1. Confidentiality The employee shall keep and maintain the secrecy of all confidential and proprietary information which comes into his knowledge as a result of his employment by the Company.2. Conflict of Interest The employee shall devote his whole time, attention, energies and skill solely to the business of the Company or Group and shall not be concerned or interested directly or indirectly in any business or work other than of the Company or Group.3. Insider Trading No employee is allowed to invest in stocks and shares quoted on Bursa Malaysia which tantamount to insider trading.

	<p>4. Anti-Bribery The employee shall not in any manner offer or receive an offer of a bribe for his own benefit or his relative(s), with intent to influence his conduct in relation to the Company's affairs.</p> <p>5. Professional Behaviour The employee is expected to conduct himself professionally and in accordance with accepted standards of behaviour in Malaysia.</p> <p>6. Abuse of Power The employee is expected to not use their position to influence and to act in their personal interest or to gain personal or mutual gains.</p> <p>7. Integrity of Records The employee shall not make or allow false entries to be made for any account, record or document of the Company and any discovery of such unauthorised copying, entries, deletions or alterations in the Company's records should be reported immediately.</p> <p>8. Money Laundering and Terrorism Financing The employee is expected to always conduct business with reputable counterparties and all parties must abide by the laws and regulation pertaining to Anti-Money Laundering and Counter Financing of Terrorism.</p> <p>The Code of Code of Ethics for Company Directors and the Code of Conduct & Ethics for Employees are published on the Company's Website.</p>
<p>Explanation for departure :</p>	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>	
<p>Measure :</p>	
<p>Timeframe :</p>	

Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

Practice 3.2

The board establishes, reviews and together with management implements policies and procedures on whistleblowing.

Application	:	Applied.	
Explanation on application of the practice	:	<p>A Whistleblowing Policy has been established by the Company and it provides a structured channel for all employees of the Company and any other persons providing services to, or having a business relationship with the Company, to report any concerns about any improper conducts or wrongful acts that may adversely impact the Company.</p> <p>The Whistleblowing Policy of the Company, the email address of the recipient of the reports as well as the Whistleblower Form are available on the Company's Website.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 4.1

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

Application	:	Applied.	
Explanation on application of the practice	:	The Board of the Company comprises a majority of Independent Directors.	
Explanation for departure	:		
	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 4.2

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

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

Application	:	Not applicable – The Independent Directors who have served more than 9 years have informed the Board that they wish to retire at the forthcoming Twenty-seventh Annual General Meeting (“AGM”) of the Company.	
Explanation on application of the practice	:		
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 4.3 - Step Up

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

Application	: Not adopted. The Board is of the view that the 9-year Tenure Policy of Independent Directors as explained in the Corporate Governance Overview, Risk Management and Internal Control Statement is adequate.
Explanation on adoption of the practice	:

Intended Outcome

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

Practice 4.4

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

Application	:	Applied.
Explanation on application of the practice	:	<p>The Company has in place a fit and proper (“F&P”) policy as a guiding mechanism and framework for appointment of the Board and the CEO as set out in the F&P policy of the Company. The F&P policy provides, inter alia, the assessment criteria and guidelines for such appointments and they are as follows:-</p> <p>(i) how the candidate will be a strategic and effective fit for the Board and contribute to the overall desired composition and required mix of expertise/experience to enhance the Board’s overall effectiveness;</p> <p>The Nomination Committee (“NC”) shall, inter alia, consider the attributes, qualifications, management, leadership and business experience, which ought to be at the most senior levels.</p> <p>In respect of skills, expertise and background, the candidate should ideally complement the mix of core competencies of the Board as a whole including but not limited to business, legal and financial expertise, professional knowledge, information technology and financial industry experience.</p> <p>(ii) in the case of CEO, the candidate’s knowledge and experience in the industry, market and segment and how this will bear on the performance of his/her duties;</p> <p>(iii) the candidate shall complete the F&P Declaration in respect of his/her probity, competence, personal integrity, reputation, qualifications, skills, experience and financial integrity in line with the standards required under the relevant Guidelines;</p> <p>(iv) the candidate is required to ensure the financial obligation information is accurate with cross reference made to his/her individual CCRIS report accordingly;</p> <p>(v) the candidate will be briefed on expectations on his/her role including his/her time commitment, the F&P assessments to be conducted and general and specific contributions expected; and</p> <p>(vi) whether the candidate is required to attend appropriate training to strengthen any specific area of market knowledge/experience so as to close gaps identified to be lacking.</p> <p>In evaluating any new appointment of Senior Management, the Company is guided by the Recruitment Policy where all potential candidates are given equal opportunity regardless of gender, race, religion and/or whether or not one has disability. Senior Management positions are awarded based on qualifications, experience and potential.</p>

	<p>In general, the assessment and selection of Senior Management shall consider the following factors in determining role-profile fit:</p> <ul style="list-style-type: none"> (a) skills, knowledge, expertise and industry experience; (b) past contribution and performance; (c) character, professionalism and integrity. <p>Each and every candidate for Senior Management roles is required to go through a stringent screening process where their competencies and potential are to be assessed through a mix of Interviews, aptitude test, competency and or psychometric assessments in order to ensure the candidate has the right personal profile to be successful in the role.</p> <p>Pre-employment Reference Checks and Post-Employment Reference Checks are also performed to determine past performance track records, conduct, and behaviour of the selected candidate. In addition, all candidates for Senior Management roles are to submit their declaration on Fit and Proper criteria during the selection process, where it addresses the following areas:</p> <ul style="list-style-type: none"> (a) Probity, Personal Integrity and Reputation (b) Competence and Capability (c) Financial Integrity <p>For Senior Management positions, final approval for hiring would be obtained from the CEO, on top of the review and approval of the Hiring Manager and/or Division Heads and Human Resources to ensure hiring decisions are made objectively in the best interests of the Company taking into account multiple perspectives and insights. Where required, Board approval is also obtained for certain roles.</p>		
<p>Explanation for departure :</p>	<table border="1" style="width: 100%; height: 40px;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%;"></td> </tr> </table>		

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

<p>Measure :</p>		
<p>Timeframe :</p>		

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	:	<p>The Board currently has five (5) Directors, of whom two (2) are women directors.</p> <p>The Company has in place a Board Diversity Policy. The Board recognises the merits of Board diversity in adding value to collective skills, perspectives and strengths to the Board. The Board will consider appropriate targets in Board diversity including gender balance on the Board and will take the necessary measures to meet these targets from time to time as appropriate. The Board will continue to maintain women participation on the Board in line with the Malaysian Code on Corporate Governance ("MCCG").</p>
Explanation for departure	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
Measure	:	
Timeframe	:	

Intended Outcome

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

Practice 4.6

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	:	In the search for suitable Board candidates, the Company maintains a pool of potential Board candidates from internal and external introductions, recommendations and independent sources with director databases, including databases for women directors.	
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 4.7

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 is chaired by an Independent Non-Executive Director.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 5.1

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

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

Application	:	Applied
Explanation on application of the practice	:	<p>A formal evaluation process has been put in place by the Board and the NC is delegated the authority to, inter alia, assess the effectiveness of the Board as a whole, the Board Committees and the contribution and performance of each individual Director on an annual basis (“Annual Board Assessment”) in conjunction with the annual F&P assessment of the Chairman, Directors and CEO. The NC will deliberate on the results of the Annual Board Assessment and submit its recommendation to the Board for consideration and approval.</p> <p>Assessment criteria for Board as a whole include, inter alia, the effectiveness of the Board composition in terms of size and structure vis-à-vis the complexity, size, scope and operations of the Company; the core skills, competencies and experience of the Directors; and the Board’s integrity, competency, responsibilities and performance. The assessment criteria for Board Committees include the effectiveness of the respective Board Committees’ composition in terms of mix of skills, knowledge and experience to carry out their respective roles and responsibilities per the Board Committees’ TOR and the contribution of Board Committees members. Each individual Director is assessed on inter alia, the effectiveness of his/her competency, expertise and contribution. The skills, experience, soundness of judgment as well as contribution towards the development of business strategies and direction of the Company and analytical skills to the decision-making process are also taken into consideration.</p> <p>The NC will deliberate and present the results of the Annual Board Assessment to the Board. The results of the assessment form one of the criteria of the NC’s recommendation to the Board for the re-election, re-appointment or retention of Directors.</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	:	The Board considers the Board Assessment described above to be effective for the Company presently.
Timeframe	:	The Board may consider as appropriate in the future.

Intended Outcome

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

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

Practice 6.1

The board has in place policies and procedures to determine the remuneration of directors and senior management, which takes into account the demands, complexities and performance of the company as well as skills and experience required. The policies and procedures are periodically reviewed and made available on the company's website.

Application	:	Applied.
Explanation on application of the practice	:	<p>The Company's remuneration scheme for Executive Directors is linked to performance, service seniority, experience and scope of responsibility and is periodically benchmarked to market/industry surveys conducted by human resource consultants. Performance is measured against profits and targets set in the Company's annual plan and budget.</p> <p>The level of remuneration of Non-Executive Directors reflects the scope of responsibilities and commitment undertaken by them.</p> <p>The Remuneration Committee ("RC") of the Company, in assessing and reviewing the remuneration packages of Executive Directors, ensures that a strong link is maintained between their rewards and individual performance, which are reviewed from time to time to align with market/industry practices. The fees of Directors are recommended and endorsed by the Board for approval by the shareholders of the Company at its AGM.</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

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	:	The Board has an RC, whose TOR deals with its authority, including inter alia recommending to the Board the framework and policies governing the remuneration of the Directors, CEO, senior management officers and other material risk takers. The TOR of the RC is published on the Company's Website.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 7.1

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

Application	:	Applied.	
Explanation on application of the practice	:	There is detailed disclosure on a named basis for the remuneration of individual Directors in the Annual Report of the Company.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 7.2

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

Application	:	Not Applicable – the employees of the Company employed under the operating subsidiaries.	
Explanation on application of the practice	:		
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 7.3 - Step Up

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

Application	: Not adopted. The Board may consider in the future as appropriate taking into consideration the market practice and interest of the Company in relation to competition for talents as explained above.
Explanation on adoption of the practice	:

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

Practice 8.1

The Chairman of the Audit Committee is not the Chairman of the board.

Application	:	Applied.	
Explanation on application of the practice	:	The Chairman of the Board Audit and Risk Management Committee ("BARMC") an Independent Non-Executive Director, is not the Chairman of the Board.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

Practice 8.2

The Audit Committee has a policy that requires a former key audit partner to observe a cooling-off period of at least two years before being appointed as a member of the Audit Committee.

Application	:	Applied.	
Explanation on application of the practice	:	<p>In line with the MCCG, the TOR of BARMC provides for a cooling off period of at least two years before a former key audit partner may be appointed as a member of the BARMC.</p> <p>None of the BARMC members were officers or partners of the external auditors during the last 2 years prior to their appointment as BARMC members.</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 8.3

The Audit Committee has policies and procedures to assess the suitability, objectivity and independence of the external auditor.

Application	:	Applied.
Explanation on application of the practice	:	<p>The role of BARMC in relation to the external auditors is guided by its Term of Reference ("TOR"). BARMC is responsible for assessing the capabilities and independence of the external auditor and to make subsequent recommendations to the Board on the appointment, reappointment, termination and remuneration of the external auditor.</p> <p>The assessment on suitability, objectivity and independence of the external auditor, is being conducted annually, covering the following areas :-</p> <ul style="list-style-type: none"> (i) Level of knowledge, capabilities, experience and quality of previous work; (ii) Level of engagement with BARMC ; (iii) Ability to provide constructive observations, implications and recommendations in areas which require improvements; (iv) Adequacy in audit coverage, effectiveness in planning and conduct of audit; (v) Ability to perform the audit work within the agreed timeframe; (vi) Non-audit services rendered by external auditor does not impede independence; and (vii) External auditor demonstrates unbiased stance when interpreting the standards/policies adopted by the Group. <p>In addition, the Company had established the Policy on the Use of External Auditors for Non-Audit Services as one of the measures to safeguard the independence and objectivity of external auditors. BARMC reviews the non-audit services rendered by the external auditors and their related fees prior to the approval of the services. The review also takes into account the non-audit fees threshold established under the Policy to ensure their independence and objectivity are not compromised.</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

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

Practice 8.4 - Step Up

The Audit Committee should comprise solely of Independent Directors.

Application	:	Adopted.
Explanation on adoption of the practice	:	All the BARMC members of the Company are 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.

Application	:	Applied.
Explanation on application of the practice	:	The BARMC members collectively possess the necessary skills and knowledge to discharge their duties and are financially literate. The profile of each BARMC member is set out in the Annual Report 2018. To keep abreast of latest changes and developments in the business environment and to enhance their skills and knowledge, the BARMC members attended various briefings, updates and training programmes as set out in the Annual Report 2018 of the Company.
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

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

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

Practice 9.1

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

Application	:	Applied.
Explanation on application of the practice	:	<p>The Board recognises its overall responsibility in identifying principal risks and ensuring the implementation of appropriate systems to manage those risks. To discharge its oversight responsibilities more effectively, the Board has delegated the independent oversight over risk management to the BARMC. Although the Board has granted such authority to BARMC, the ultimate responsibility and the final decision rest with the Board.</p> <p>The Board has established and maintained a Risk Management Framework appropriate to the operations of the Group, including systems for compliance with applicable laws, regulations, rules, directives and guidelines. The controls built into the Risk Management Framework of the Group are designed to ensure that all relevant and significant risks are identified and managed as part of the risk management process and are not intended to eliminate all risks of failure to achieve business objectives. Therefore, the system 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 Statement on Risk Management and Internal Control in the Company's Annual Report 2018 provides further details on the state of system of internal controls and risk management framework of the Group in financial year 2018.</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 has disclosed features of its risk management and internal control framework, and the adequacy and effectiveness of this framework in the Statement on Risk Management and Internal Control in the Company's Annual Report 2018.	
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	:	Applied.
Explanation on adoption of the practice	:	The Board has established a BARMC which comprises of three (3) members, all of whom are Independent Non-Executive Directors. The Chairman of BARMC is appointed by the Board of Directors, and is not the Chairman of the Board of Directors. BARMC supports the Board in providing oversight over risk management activities of the Group to ensure that the risk management function is effective.

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 BARMC of the Company has established an in-house internal audit ("IA") function at its subsidiary, Hong Leong Investment Bank Berhad ("HLIB") since 1 August 2017.</p> <p>The IA is an independent function where the Head of Internal Audit, reports directly to the BARMC of the Company and HLIB. The BARMC had engaged privately with the Head of Internal Audit twice within the financial year, without the presence of Management, to provide the opportunity for the Head of Internal Audit to discuss issues faced by the Internal Audit Department (IAD). The BARMC had evaluated the performance of the Head of Internal Audit, including providing feedback on the IAD.</p> <p>During the financial year, BARMC had endorsed the HLIB's Audit Charter, which was approved by the Board. The Audit Charter defines the mission, authority, scope of work, organisation status, accountability, independence and objectivity, responsibilities, and the professional proficiency and ethics of the IAD.</p> <p>During the financial year, the BARMC had reviewed and approved the Annual Audit Plan for financial year 2017/18 ("FY2017/18"), as well as IAD's organisation chart, budgeted man-days and personnel cost, audit strategies and risk planning methodology in July 2017.</p> <p>All audit reports on the audits performed on investment banking, stockbroking and asset management businesses as set out under IA function were tabled to the BARMC meeting on a quarterly basis. At the same time, the BARMC reviewed the status update on management's corrective action plans for the resolution on IA's findings and recommendations.</p> <p>The BARMC reviewed and assessed IAD's performance on a half-yearly basis and had engaged privately with the Head of Internal Audit to discuss issues faced by the IA function on 24 October 2017 and 24 April 2018 respectively.</p> <p>The internal audit engagements were carried out based on the Annual Audit Plan for FY2017/18 as approved by the BARMC. The results of the audits were communicated to and deliberated at the quarterly BARMC meetings. The relevant management were made responsible for ensuring that corrective actions were taken within the agreed upon timeframe to close the gap identified by IA. IA conducted follow-up on all outstanding audit issues on a monthly basis with the relevant departments to ensure that the corrective actions were implemented appropriately.</p>

	<p>The BARMC had approved the 5 key assessment areas for the Internal Audit Annual Assessment form and had received the evaluation summary on the IA function.</p> <p>For further information please refer to the BARMC Report in the Annual Report.</p>	
<p>Explanation for departure :</p>		
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<p>Measure :</p>		
<p>Timeframe :</p>		

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>a) Independence and objectivity</p> <p>The IAD reports directly and functionally to the BARMC. In performing its IA function, IAD has no direct responsibility or authority over any of the functions it reviews and audits.</p> <p>The IAD is guided by its Audit Charter which defines the organisational status, accountability, independence and objectivity, responsibilities, the professional proficiency and ethics.</p> <p>The BARMC is responsible for deciding on the appointment, remuneration, appraisal, transfer and dismissal of Head of Internal Audit, and to provide oversight on the adequacy of resources.</p> <p>The BARMC had engaged privately with the Head of Internal Audit twice within the financial year, without the presence of Management, to provide the opportunity for the Head of Internal Audit to discuss issues faced by the IAD.</p> <p>b) Internal Audit Resources</p> <p>As at 30 June 2018, HLIB's IAD has a head count of 8 staff.</p> <p>c) Head of Internal Audit</p> <p>Mr Ngai Chee Kong is the Head of Internal Audit of Hong Leong Capital Group of Companies. Functionally, he reports to both the BARMC of HLCB and HLIB. He is a Chartered Secretary by training and holds himself as Associate Member of the Malaysian Association of the Institute of Chartered Secretaries and Administrators (MAICSA). He is also a Certified Member of the Financial Planning Association of Malaysia (FPAM). Currently, as an individual member of the Asian Institute of Chartered Bankers (ACIB), Mr Ngai is poised to complete the Chartered Banker's level 3 compulsory module on Professionalism, Ethics and Regulations together with an elective module on Credit and Lending.</p> <p>He has over 30 years of banking operations and fund management experience in the financial industry. Prior to joining Hong Leong Capital Group of Companies in 2017, he has worked for 9 years in Hong Leong Bank Berhad covering ethics and compliance on retail sales and marketing.</p>

	<p>d) Internal Audit Framework</p> <p>IAD is guided by the requirements as stipulated in the Bank Negara Malaysia (BNM) Guidelines on Internal Audit Function of Licensed Institutions (BNM GL13-4), Rules of Bursa Malaysia Securities Berhad and the International Professional Practices Framework of IIA.</p> <p>For further information please refer to the BARMC Report in the Annual Report.</p>	
<p>Explanation for departure</p>	<p>:</p>	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<p>Measure</p>	<p>:</p>	
<p>Timeframe</p>	<p>:</p>	

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 acknowledges the importance of having effective communication with its shareholders and investors. In addition to filings and announcements with Bursa Malaysia Securities Berhad ("Bursa"), the Company also uses various communication channels to update shareholders and general public :-</p> <p>i) <u>Corporate Website</u></p> <p>Our corporate website at www.hlcap.com.my is a major channel and it provides easy access of relevant information to our shareholders and other stakeholders, which includes corporate information, board charter, quarterly financial statements and Annual Reports.</p> <p>ii) <u>Annual General Meeting (AGM)</u></p> <p>The AGM provides an opportunity for the shareholders to seek and clarify any issues and to have a better understanding of the Group's performance. Shareholders are encouraged to meet and communicate with the Board at the AGM and to vote on all resolutions. Senior management and the external auditors are also available to respond to shareholders' queries during the AGM.</p> <p>In addition to providing comprehensive insights into the Company's financial performance, the Board also recognises the importance of communicating the Company's business strategies and updates on the progress of the current business initiatives.</p> <p>The Board places importance in maintaining active dialogue and effective communication with shareholders and investors, ensuring accountability and transparency to enable shareholders and investors to make informed investment decisions. In terms of disclosure of material information, the Board adopts a comprehensive, accurate and timely approach in compliance with the Listing Requirements and the Corporate Disclosure Guide of Bursa.</p>

	<p>III) <u>Dedicated person to handle Shareholders and Investor Queries</u></p> <p>Shareholders and investors have a channel of communication with the following person to direct queries and provide feedback to the Group.</p> <p>Chief Financial Officer Telephone no: +603-2083 1788 Email : ir@hxcb.hongleong.com.my</p>
<p>Explanation for departure :</p>	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>	
<p>Measure :</p>	
<p>Timeframe :</p>	

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	:	The Company continuously enhances its annual report in order to improve its communication with its stakeholders with regards to the Company's financial results, business performance and operations of the Company.
		The information disclosed in the annual report is in line with current regulatory and statutory guidelines and the principles which underpin integrated reporting that include the Company's strategy, governance, performance and prospects.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	The Company will continually enhance the content of the annual report to improve our communication to our stakeholders.
Timeframe	:	The Company will monitor the market practice and any developments in respect of integrated reporting for future consideration.

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 Company will give 28 days' notice to its shareholders for AGMs.	
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>All Directors are committed to attend General Meetings of the Company, which are scheduled in advance, save for unforeseeable circumstances.</p> <p>The Chair of Board Committees are aware of their respective scope of responsibilities and will respond to questions addressed to them at General Meetings.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 12.3

Listed companies with a large number of shareholders or which have meetings in remote locations should leverage technology to facilitate–

- including voting in absentia; and
- remote shareholders' participation at General Meetings.

Application	:	Departure.	
Explanation on application of the practice	:		
Explanation for departure	:	The Company does not have a large number of shareholders and all General Meetings of the Company are held in accessible locations within the Klang Valley.	
		Shareholders who are unable to attend General Meetings of the Company may, in accordance with the Constitution of the Company, appoint their respective proxies or the Chairman of the meeting to vote on their behalf.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:	The Company will monitor the development of technology and market practice.	
Timeframe	:	Will be considered with the development of technology to avail remote shareholders' participation at General Meetings.	

SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES PURSUANT TO 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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