

# CORPORATE GOVERNANCE REPORT

**STOCK CODE** : 8079  
**COMPANY NAME** : Lee Swee Kiat Group Berhad  
**FINANCIAL YEAR** : December 31, 2019

## OUTLINE:

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

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

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

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

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

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

### Intended Outcome

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

### Practice 1.1

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

<b>Application</b>	: Applied
<b>Explanation on application of the practice</b>	<p>The Board is responsible to set a strategic direction of Lee Swee Kiat Group Berhad ("the Company" or "LSK") and its subsidiaries ("the Group") with measurable objectives and goals. The Group aims to be one of the largest natural latex bedding manufacturers in Association of South East Asia Nations ("ASEAN"). The Group practises conservative corporate financing structure with healthy cash flow to ensure sufficient resources are available for future expansion to achieve its target.</p> <p>LSK endeavours to become a responsible corporate citizen by incorporating Corporate Social Responsibilities ("CSR"). The Board embedded Economics, Environment and Social ("EES") into the corporate mission to ensure sustainability of the Group.</p> <p><u>Mission Statement of the Group</u> LSK is a responsible corporate citizen helping people to sleep better by using environmentally friendly natural latex as raw materials, through utilizing energy-efficient green technology production methods, in order to minimize carbon footprint to the environment</p> <p>The key responsibilities of the Board are as follows:-</p> <ol style="list-style-type: none"><li>(1) Review, adopt and monitor the implementation of the strategic plans for the Group by the Management to achieve long term shareholders' value as well as promoting sustainability within the context of economic, environment, social and governance.</li><li>(2) Review, adopt and monitor the annual budget for the Group with regular revision on forecast taking into account the changes in the economic, legal, social and general business environments.</li><li>(3) Review and approve the Group's financial statements and other reporting prepared in accordance to the prevailing accounting</li></ol>

	<p>standards as well as Main Market Listing Requirements of Bursa Malaysia Securities Berhad and ensure the integrity of the Group's financial and non-financial reporting.</p> <p>(4) Constant review of various key performance ratios and embedded the performance link compensation plan in an Executive Directors Incentive Scheme for the Executive Directors. The key performance indicators including profitability, return on shareholders fund and gearing ratio target to encourage prudent financial management without involving excessive gearing.</p> <p>(5) Carry out periodic review of the Code of Business Conduct and Ethics of the Group as follows:</p> <ul style="list-style-type: none"> <li>(i) Practise the Group's Motto "EIE" which stands for "Efficient, Improve, Integrity and Effective"</li> <li>(ii) Compliance to all applicable laws, rules and regulations: <ul style="list-style-type: none"> <li>(a) Constantly be aware of all applicable laws, rules and regulations for lawful Company's business operations.</li> <li>(b) The major laws, rules and regulations including, inter alia, the Income Tax Act, Labour Law, Main Market Listing Requirements and Sales and Services Tax Act.</li> </ul> </li> <li>(iii) Promote sustainability on environment, community and working environment by communicating the Social Responsibility Philosophy to the Group's employees.</li> <li>(iv) Cultivate an environment of high integrity by having a Whistle Blowing Policy to complement the internal audit procedures to assist the Board in deterring and early detection of fraud.</li> </ul> <p>(6) Identify key business risks with constant monitoring of market changes and establish a risk management framework to manage those risks in order to safeguard the Group's assets. The main risks identified and being monitored includes Foreign Exchange Risk, Credit Risk, Default Risk, Fire Risk, Competitive Risk and Information Technology ("IT")/ Cyber Risk. The internal auditors are assigned the job to monitor and report to the Audit Committee periodically on the various efforts undertaken by the Management to mitigate the above risks.</p> <p>(7) Review the internal controls and management information systems for compliance with applicable laws and regulations.</p> <p>(8) Establish a detailed annual internal audit plan covering various key operational and risk areas, and to monitor the execution of internal audit functions by having periodic meetings with the internal auditors.</p> <p>(9) Establish and review the succession plan for the Company's Board of Directors and Senior Management on an annual basis, and to provide necessary training as needed from time to time.</p>
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	(10) Establish authorisation limit which defines relevant matters and applicable limits for Chairman and Managing Director.	
<b>Explanation for departure</b> :		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b> :		
<b>Timeframe</b> :		

## Intended Outcome

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

### Practice 1.2

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Chairman of the Board is the founder of the Group, Mr Lee Ah Bah @ Lee Swee Kiat. Mr Lee has more than 50 years of experience in business and provide good guidance on the strategy of the Group.</p> <p>The responsibilities of the Chairman are:-</p> <ol style="list-style-type: none"> <li>(1) Chair and lead the Board meetings and discussion in a proper manner.</li> <li>(2) Setting the Board agenda and ensuring the board members receive complete and accurate information in a timely manner and all relevant issues are tabled.</li> <li>(3) Provide leadership for the Board to ensure the Board perform its responsibilities effectively in compliance with Board Charter and leading the Board in establishing and monitoring good corporate governance practices in the Company.</li> <li>(4) Ensure timely dissemination of Board Papers to the Board members.</li> <li>(5) Encourage active participation of all Directors in Board activities and allow dissenting views to be freely expressed.</li> <li>(6) Managing the interaction between Board and Management;</li> <li>(7) Ensuring appropriate steps are taken to provide effective communication with stakeholders and that their views are communicated to the board as a whole.</li> </ol>
<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**

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

**Practice 1.3**

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	<p>The positions of Chairman and CEO are held by two different individuals. The Executive Chairman is Mr Lee Ah Bah @ Lee Swee Kiat, while the Managing Director is Dato' Lee Kong Sim, Eric. The role of the Chairman and Managing Director are clearly segregated to ensure a balance of responsibility and authority.</p> <p>The respective roles and responsibilities of the Chairman and Managing Director are provided in the Board Charter, which is available on LSK's website at <a href="http://www.lsk.com.my">www.lsk.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

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

### Practice 1.4

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Group has two external competent Company Secretaries who are qualified under Section 235(2) of the Companies Act 2016. Both the Company Secretaries are Members of the Malaysian Institute of Chartered Secretaries and Administrators and have been undertaking continuous professional development.</p> <p>The Company Secretaries work closely with the Board and Board Committees, and play an important role in implementation of Corporate Governance by advising the Board and its Committees in compliance with the Main Market Listing Requirements, the Companies Act 2016 and other relevant laws and regulations.</p> <p>The roles and responsibilities of the Company Secretaries include, but are not limited to the following:-</p> <ol style="list-style-type: none"><li>1) Attend and record minutes of all Board and Committee meetings and facilitate Board communications;</li><li>2) Advise the Board on its roles and responsibilities as well as corporate disclosures;</li><li>3) Monitor corporate governance developments and assist the Board in applying governance practices to meet the Board's needs and stakeholders' expectations;</li><li>4) Ensure the adherence to the Board's and Board Committee's policies and procedures;</li><li>5) Advise the Board on its obligatory requirements to disclose material information to shareholders in a timely manner;</li><li>6) Manage processes pertaining to the General Meetings.</li></ol> <p>The Company Secretaries keep themselves abreast of relevant corporate governance and regulatory requirements by undertaking continuous professional development.</p>
<b>Explanation for departure</b>	:	

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

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



### Intended Outcome

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

### Practice 1.5

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Directors may hold meetings for the despatch of business and adjourn and otherwise regulate their meetings as they think fit. The annual meeting schedule is prepared and circulated in advance to facilitate Directors' planning.</p> <p>The Group practices timely dissemination of the relevant meeting materials to the Directors and relevant parties prior to the meeting. The meeting materials were distributed at least five (5) business days in advance of the Board meetings via electronic mail transmission and follow by hard copy to the respective Directors to enable the Directors to obtain further explanations, where necessary, in order to be sufficiently briefed before the meeting.</p> <p>Upon completion of each Board meeting, the Company Secretaries will circulate the minutes to Directors for review before approving it as soon as practicable, after the meeting is held. The Board ensures that the minutes of meetings accurately reflect the deliberations and decisions of the Board, including whether any Director abstained from voting or deliberating on a particular manner.</p>
<b>Explanation for departure</b>	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

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

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

### Practice 2.1

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

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board maintains a Board Charter which clearly defines the composition of the Board, Board Committees, duties and responsibilities of the Board, Chairman and Managing Director, Board Committees, remuneration of Directors, proceeding of Board meeting, access to information and independence advice, company secretary, Directors' training and continuing education, investor relations and CSR.</p> <p>The Board had also put in place limits of authority for various management positions. There are certain material issues and decisions, especially for any non-recurring transactions exceeding RM250,000 in value, are reserved for the Board.</p> <p>The Board Charter is subject to periodical review by the Board in accordance with the needs of the Company to ensure it remains consistent with the Board's objectives and responsibilities and continued compliance with legal and corporate governance requirements, Main Market Listing Requirements of the Bursa Malaysia Securities Berhad and the Company's Constitution.</p> <p>The Board Charter was reviewed by the Board on 1 April 2019.</p> <p>A copy of the Board Charter is published on the Company's website at <a href="http://www.lsk.com.my">www.lsk.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

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

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

### Practice 3.1

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

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

<b>Application</b>	: Applied
<b>Explanation on application of the practice</b>	<p>The Board has established a Code of Conduct and Ethics ("CCE") for the Group. The Board together with Management, implements its policies and procedures including managing potential conflicts of interests, preventing abuse of power, corruption, insider trading and money laundering to ensure compliance with the relevant laws, rules and regulations.</p> <p>This CCE acts as a reference for conducts of which the Board wishes the Group to practise in its day to day operations.</p> <p>The Group's list of Standards of Conducts were:-</p> <ul style="list-style-type: none"> <li>a) To practice the Group's Motto "EIEE" which stands for " Effective, Integrity, Improve and Efficiency";</li> <li>b) Compliance to all applicable laws, rules and regulations;</li> <li>c) To promote sustainability on environment, community and working environment; and</li> <li>d) To cultivate environment of high integrity by having a Whistle Blowing Policy.</li> <li>e) To avoid situation that may cause conflict of interest to arise. Should such situation become unavoidable, action in the best interest of the company should be taken</li> </ul> <p>The CCE is reviewed periodically by the Board and revised as and when appropriate. A copy of the CCE is available on the Company's website at <a href="http://www.lsk.com.my">www.lsk.com.my</a>.</p>
<b>Explanation for departure</b>	:

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

<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 3.2

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 Board has established a whistle blowing policy (“WB Policy”) with clear objectives, scopes as well as fraud reporting and investigation procedures to complement the internal audit procedures to assist the Board in deterring and early detection of fraud.</p> <p>Any employee that suspected fraud could report directly to the Management, the internal auditor, and even directly to the Chairman of the Audit Committee through his designated email. The identity of the whistle blower will be kept anonymous and external investigators may be engaged to carry out necessary investigations. The Chairman of the Audit Committee may decide or bring the matter to the Audit Committee to decide on the next course of action to be taken, including making a formal police report, if the situation warrants it.</p> <p>The WB Policy is available on the Company’s website at <a href="http://www.lsk.com.my">www.lsk.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.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	<p>The Board comprised of three Executive Directors (including the Executive Chairman and Managing Director) and three Independent Non-Executive Directors, which represented that 50% of the Board members are Independent Directors.</p> <p>All the Independent Non-Executive Directors of the Company met the relevant criteria for independence as defined under Paragraph 1.01 and Practice Note 13 of the Main Market Listing Requirements.</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 4.2

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 - Two Tier Voting
<b>Explanation on application of the practice</b>	:	<p>The Company does not have the policy to limit tenure of Independent Director to a cumulative term of 9 years.</p> <p>The Board through the Nomination and Remuneration Committee ("NRC") evaluate annually the independence, competency and contribution of the Independent Directors to the Group using the criteria specified in the Paragraph 1.01 and Practice Note 13 of the Main Market Listing Requirements to determine whether the Director is independent from Management and free of any business and other relationship that could materially interfere with or could be perceived to materially interfere with the exercise of the Directors unfettered or independent judgement.</p> <p>The Board has assessed the independence of all Independent Non-Executive Directors of the Company during FY2019, and has determined that all Independent Non-Executive Directors remain objective and independent.</p> <p>The Company's Independent Non-Executive Director, Mr Au Thin An @ Low Teen Ann ("Mr Low") has served the Board for more than 16 years. The Board obtained the shareholders' approval through two-tier voting for Mr Low to continue serving the Board as Independent Directors at the Company's 16<sup>th</sup> AGM held on 27 May 2019 based on the following justifications:</p> <ol style="list-style-type: none"><li>Mr Low fulfills the criteria under the definition of "Independent Director" as stated in the MMLR Bursa Securities, and thus, able to function as a check and balance, bring an element of objectivity to the Board;</li><li>His tenure with the Company has neither impaired nor compromise their independent judgement and ability to act in the best interest of the Company. He continues to remain objective and is able to exercise independence judgement in expressing his</li></ol>



	<p>view and participating in deliberations and decision making of the Board and Board Committee in the best interest of the Company;</p> <p>c. His vast experience in a diverse range of business and has good understanding of the Company's business operations;</p> <p>d. He could continue to exercise due care during his tenure as Independent Director of the Company and carried out his professional duties in the interest of the Company and shareholders</p> <p>e. He have devoted sufficient time and commitment to discharge his responsibility and professional obligations as Independent Director; and</p> <p>f. He does not have any business dealings with the Group.</p>
<p><b>Explanation for departure</b></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><b>Measure</b></p>	<p>:</p>
<p><b>Timeframe</b></p>	<p>:</p>

**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 Group practices meritocracy in the appointment of Board members and Senior Management, based on the objective criteria, skills, experience, age and integrity.</p> <p>For the appointment of Board member, it shall be firstly reviewed by the Nomination and Remuneration Committee before recommending the proposed appointment to the Board for approval.</p> <p>The Board recognises the value of appointing individual Directors who brings diverse opinions, skills, experience and backgrounds to its discussions and decision-making processes. The Board had a policy on selection of new Directors, the Board will take into account the diversity of the candidate’s gender, age and racial background as well as their skills and experience as described in the preceding section. The Board does not solely rely on recommendations from existing Board members, management or major shareholders for identifying candidates for appointment of Directors. The Board will utilise independent sources to identify suitably qualified candidates.</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.

<b>Application</b>	:	Departure	
<b>Explanation on application of the practice</b>	:		
<b>Explanation for departure</b>	:	<p>The Group practices meritocracy in the appointment of Board and senior management members, based on the objective criteria, skills, experience, age and integrity.</p> <p>Although, the Board does not have a formal gender diversity policy on the percentage of women representation on both the Board and the senior management, the Board currently has one female Director who is an independent director and one alternate female director to the Chairman. Whilst, the top 5 senior management consists of three male and two female members.</p> <p>The Board acknowledged the benefits of a balanced diversity in the Board composition and encourages a mix of gender in the Board and senior management teams.</p>	
		Please provide an alternative practice and explain how the alternative practice meets the intended outcome.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<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 4.6

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board is open to various sources to identify suitable candidates for the Boardroom and Senior Management team and does not rely solely on the recommendations from the existing Board members, management or major shareholders.</p> <p>During the financial year 2019, a new Independent Non-Executive Director, Mr Wong Yoke San (“Mr Wong”) was appointed. Prior to the appointment, the Chairman of the Nomination and Remuneration Committee (“NRC”) met and interviewed Mr Wong. Thereafter, the NRC reviewed the profile and qualification of Mr Wong and access the suitability and independence of Mr Wong to discharge the duties and responsibilities as an Independent Director before recommending the appointment to the Board for approval.</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 4.7**

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The Nomination and Remuneration Committee is chaired by Mr Au Thin An @ Low Teen Ann, the Senior Independent Director of the Company.  His profile is available on page 5 of the Annual Report 2019.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

### Intended Outcome

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

### Practice 5.1

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

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Nomination and Remuneration Committee (“NRC”) was empowered by the Board to carry out formal annual evaluation of the Board, Board Committee and each individual Director to determine their effectiveness. The process is internally facilitated and conducted through questionnaires covering a variety of assessment criteria.</p> <p>Each individual director has specific tasks and some of them come with general functions within a committee. The evaluation of individual director includes their performance for both specific and general functions, integrity, commitment and confidence to stand up for his view.</p> <p>The outcome of the evaluation will be tabled to the NRC for review and upon discussion of the results, the NRC will present the findings to the Board.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

The 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>The Board has in place policies and procedures to determine the remuneration of directors.</p> <p>The remuneration package of the Directors is aligned with the business strategy and long-term objectives of the Company, and to reflect the Board's responsibilities, expertise and complexity of the Company's business activities.</p> <p>The remuneration package for the Executive Directors consists of monthly remuneration, benefits-in-kind and Executive Directors Incentive Scheme ("EDIS"). EDIS is an incentive to the Executive Directors in lieu of bonus payment to reward them based on the Company's annual performance. The Key Performance Indicators of the EDIS covering profitability target return on shareholders' fund and gearing control to ensure conservative financing.</p> <p>For financial year 2019, approximately 43% of the Executive Directors' remunerations are incentive-based. Should the Group make a loss, no incentive will be payable to the Executive Directors under the EDIS.</p> <p>Independent Director will be paid a basic fee as well as a meeting allowance. The level of remuneration reflects the contribution and responsibilities undertaken by the Independent Director. The fees and the benefit (meeting allowance) are subject to shareholders' approval at the Annual General Meeting.</p> <p>No Board members, whether executive or non-executive, will be involved in deciding his own remuneration.</p> <p>The remuneration of Senior Management is tied to their individual responsibilities aligned to the long-term strategic plan of the Group. Their remuneration package includes salaries, commissions and output incentives.</p>



<b>Explanation for departure</b>	:	
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<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

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

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

### Practice 6.2

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

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Nomination and Remuneration Committee ("NRC"), which comprises solely Independent Non-Executive Directors, is responsible to implement the Group's policy and procedure on remuneration including reviewing and recommending matters relating to the remuneration of Board and Senior Management.</p> <p>The Terms of Reference of the NRC is available on the Company's official website at <a href="http://www.lsk.com.my">www.lsk.com.my</a>.</p> <p>The main objective of remuneration procedures is to attract and retain talents that contributes positively to the Group, and provides basis for assessment with Key Performance Indicators to link remunerations to performances.</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**

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

**Practice 7.1**

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The detailed disclosure on named basis for the remunerations of individual directors, including fees, salaries, incentives, defined contributions, benefits-in-kinds and others is set out in page 28 of the Annual Report 2019.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**Intended Outcome**

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

**Practice 7.2**

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

<b>Application</b>	:	Departure	
<b>Explanation on application of the practice</b>	:		
<b>Explanation for departure</b>	:	The Board is of the opinion that such disclosure does not bring advantage and business interest to the Group, instead it will increase the risk of external pinching of talent which may be detrimental to the operation of the Group.	
		The disclosure of the remuneration of the top five Senior Management of the Group is currently made on an aggregate basis on page 29 of the Annual Report 2019.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**Intended Outcome**

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

**Practice 7.3 - Step Up**

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

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

**Intended Outcome**

There is an effective and independent Audit Committee.

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

**Practice 8.1**

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	<p>The Board has established an Audit Committee comprises solely Independent Non-Executive Directors.</p> <p>The Chairman of the Audit Committee is Mr Wong Yoke San whilst the Chairman of the Board is Mr Lee Ah Bah @ Lee Swee Kiat.</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 8.2

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>	:	<p>The Audit Committee has incorporated in its Term of Reference on 25 February 2019 on the policy that "any former key audit partners of the Company must have observed a cooling-off period of at least two years before he is eligible for appointment as an Audit Committee member" as recommended under Practice 8.2 of the Malaysian Code on Corporate Governance. This is to avoid potential undue influence the former audit partner may exert over the external auditors. This does not apply if the external auditor is from different audit firm.</p> <p>As at to-date, the Group has not appointed any former key audit partner to be a member of the Audit Committee.</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 8.3

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 Audit Committee ("AC") has established formal procedures to assess the suitability, objectivity and independence of the external auditor. The assessment is conducted annually in written form, includes the competence, audit quality, and timeliness in performing the audit. The external auditors are required to give a written assurance confirming their independence to the Audit Committee annually. The Audit Committee would take into accounts any non-audit services rendered by the external auditors (if any) in their evaluation.</p> <p>For the financial year 2019, there is no non-audit service rendered by the external auditor. Two private meetings were held between the Audit Committee and the external auditor without the presence of executive directors to discuss on the audit plan and audit findings.</p> <p>The Audit Committee had assessed the external auditor based on the quality of audit, performance, competence and sufficiency of resources the audit team provided to the Company and was satisfied with the effectiveness, suitability, objectivity and independence of the external auditor.</p> <p>The AC assessed and evaluated the Company's external auditor, Nexia SSY PLT on 1 April 2019. The AC was satisfied with the quality, performance, independence and suitability of the external auditor and recommended to the Board and shareholders on the re-appointment of the external auditors for the ensuing year.</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**

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 comprised solely Independent Non-Executive Directors, whom are:  (1) Mr Wong Yoke San – Chairman; (2) Mr Au Thin An @ Low Teen Ann – Member; and (3) Ms Seow Nyoke Yoong – Member.

## 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>All members of Audit Committee are financially literate and possess the requisite experience, skills and specialised knowledge to discharge their duties.</p> <p>The Chairman of the Audit Committee is a Chartered Accountant and a member of the Malaysian Institute of Accountants, the Chartered Tax Institute of Malaysia and the Malaysian Institute of Chartered Secretaries and Administrators. The qualification and experience of the respective Audit Committee members are disclosed in the Board of Directors' Profile in the Annual Report 2019.</p> <p>All Audit Committee members undertake continual professional development from time to time to keep themselves updated with the latest accounting standards and relevant practices.</p> <p>Details of the training of the Directors are available on page 24 of Annual Report 2019.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

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

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

### Practice 9.1

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board maintains a sound and internal control system, which provides reasonable assessment of effective and efficient operations, internal financial controls, and compliance with laws and regulations as well as with internal procedures and guidelines to safeguard shareholders’ investment and the Group’s assets.</p> <p>The Board has taken an active approach to establish a Risk Management Framework to identify various potential key business risks of the Group, including Foreign Exchange Risk, Credit Risk, Default Risk, Fire Risk, Competitive Risk and Information Technology (“IT”)/ Cyber Risk. The Board actively identifies, assess and monitor key business risks, determine the level of risk tolerance and drawn up precautionary measures to contain and mitigate the risks.</p> <p>The Board has empowered the Audit Committee to oversee the continual monitoring and implementation of the various measures of containment and mitigation of risks by the Management’s Risk Management Committee which comprised the Executive Directors and certain senior management.</p> <p>The internal auditor would report quarterly to the Board on the risk management status as implemented by the Risk Management Committee for review and assessment of the adequacy and effectiveness of the Risk Management Framework.</p>
<b>Explanation for departure</b>	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	



### Intended Outcome

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

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

### Practice 9.2

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	A detailed statement on how the Group evaluates key risk areas, the control in place to mitigate the risks, the periodic reviews and changes made are disclosed in the Statement of Risk Management and Internal Control in pages 35 to 37 of the Annual Report 2019.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**Intended Outcome**

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>	:	

### 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 performed by the in-house internal audit team which provides the Board with much of the assurance it requires regarding the adequacy and integrity of the systems of internal control put in place This function adopts a systematic risk-based approach and independently reviews on the risk exposures and control processes on governance, risk management and internal control processes implemented by the Management and reports directly to the Audit Committee.</p> <p>The Audit Committee conducts periodically review on the adequacy of the scope, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work. Any appointment or termination of senior staff members of the internal audit function shall be approved by the Audit Committee. The Audit Committee is responsible to review and assess the performance and effectiveness of members of the internal audit function.</p> <p>Further, the Audit Committee also review the annual internal audit plan of the Group with clear scope of audit and instruct the internal auditor to carry out the audits according to the plan.</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>	:	<p>The Group’s in-house internal audit team is currently headed by Ms Wong Huey Mei (“Ms Wong”). The internal audit team comprised of three members. The Internal Audit team was led by Ms Lock Sin Fei who had resigned in end December 2019. Ms Wong was appointed on 24 February 2020.</p> <p>All the internal audit personnel are free from any family relationship with the Directors and/or major shareholder or conflict of interest which could impair their objectives and independence.</p> <p>The Audit Committee would facilitate the internal auditor with appropriate authority and resources to carry out the role effectively. The Audit Committee would review quarterly the internal audit reports presented by the internal auditor and take appropriate actions including making suggestions and remedial measures to the Board to enhance any weakness in the internal controls and risk management.</p> <p>The internal auditor would continue with professional developments to keep abreast with the development in the relevant internal audit and risk management fields.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	



## Intended Outcome

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

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

### Practice 11.1

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board is mindful on the disclosure requirements of Bursa Malaysia Securities Berhad in relation to the proper and timely dissemination of information to the shareholders and recognises the importance of an effective communications channel between the Board, stakeholders, institutional investors and the investing public at large, with the objective of providing a clear and complete picture of the Group's performance and position as much as possible.</p> <p>The Company has established an official website at <a href="http://www.lsk.com.my">www.lsk.com.my</a> which channels the updates of official announcements, Annual Reports and other corporate information. There is also a link to the Group's marketing website showing portfolio of international brands.</p> <p>In addition, the Company also announce its quarterly financial results via Bursa LINK immediately after the financial results are approved at the Board Meetings. This is important in ensuring equal and fair access to information is provided to the public investors, so that the investors are able to make informed decisions.</p> <p>The Annual General Meeting ("AGM") is the principal forum for dialogue with shareholders for effective communications with the Company. The Company makes every effort to encourage maximum participation of shareholders at the AGM.</p> <p>The Managing Director is the Group's spokesperson for the Investor Relation ("IR") of the Group. The Group welcomes the visit and interview of financial reporters and investment analysts from investment house as well as fund managers. The Group has started a social media page to improve the disseminations of news as well as developments of the Group.</p> <p>The Group plans to participate in investor and analyst briefings to improve the profile of the Group and attract fund managers to strengthen the shareholder profile of 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

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>	:	Not applicable to the Company as the Company is not under the category of large companies as defined in the Malaysian Code of Corporate Governance 2017.	
<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>	:	<p>The Company's 16<sup>th</sup> Annual General Meeting ("AGM") was held on 27 May 2019 and the Notice of the 16<sup>th</sup> AGM along with accompanying Annual Report was issued on 26 April 2019.</p> <p>The Company gave at least twenty-eight (28) days' notice to the shareholders before the meeting to ensure that shareholders are given sufficient time to consider the resolutions that will be discussed and decided at the 16th AGM.</p> <p>Each item of special business included in the notice of meeting will be accompanied by a full explanation on the effects of a proposed resolution.</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**

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>	:	<p>All the Directors attended the Company's 16<sup>th</sup> Annual General Meeting ("AGM") held on 27 May 2019.</p> <p>All directors, including the Chair of the Audit Committee and Nomination and Remuneration Committee were present at the AGM to provide meaningful responses to any relevant questions addressed to them.</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

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 Company does not have large number of shareholders, i.e. the number of shareholders of the Company as at 17 May 2019 was only 6,009 shareholders with majority of which are residing in Klang Valley. Further, the Company's Annual General Meetings have always been held in the Klang Valley which is easily accessible by most shareholders of the Company by public transport and not in remote location.</p> <p>The Company's 16th Annual General Meeting was held on 27 May 2019 at Function Room 7, Setia City Convention Centre, No. 1, Jalan Setia Dagang AG U13/AG, Setia Alam Seksyen U13, 40170 Shah Alam, Selangor Darul Ehsan.</p> <p>Shareholders of the Company can vote in person or appoint not more than two proxies to attend and vote on his/her behalf.</p> <p>The Company had adopted a new Constitution which allow the Company to leverage on technology to enhance the communication with shareholders such as issuing and transmitting documents to the shareholders using technology means. The Company will consider leverage technology to facilitate the conduct of meetings and voting in absentia in accordance to the best practice.</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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