

## **CORPORATE GOVERNANCE OVERVIEW STATEMENT**

The Board believes that good corporate governance enhances the confidence placed in the Company by its shareholders, business partners and employees. This statement on corporate governance gives an overview of how the Board has been able to operate within the principles of corporate governance expounded in the Malaysian Code on Corporate Governance 2017 ('Code') which came into effect on 26 April 2017. The application of each Code practice relevant to the Company during the financial year ended 31 December 2017 ('financial year') is set out in the Corporate Governance Report published in the Company's website at [www.tasekcement.com](http://www.tasekcement.com). The following overview statement, approved by the Board, should be read together with the Company's Sustainability Report on page 25, Statement on Risk Management and Internal Control on page 16, and the Board Audit and Risk Management Committee Report on page 12.

### **Board Leadership and Effectiveness –**

#### **Board Responsibilities**

The Board is helmed by a non-executive Chairman and supported by an Executive Director and three independent Directors. The profile and experience of each Director are set out on page 4. The Board leads and directs the Company. It establishes the broad corporate policies and strategy for the Company and provides direction to management, oversees executive management, monitors performance and ensures that an effective risk management and internal controls are maintained to sustain long term success of the Company. The independent Directors have responsibility for challenging the Company's strategy and monitoring the performance of the executive management against goals and objectives.

The Chairman leads the board, ensures it has a common purpose and is effective and productive collectively and at each individual director's level. The Chairman ensures the Board upholds and promotes high standards of integrity, probity and governance in the Company. The effective operation of the Board relies on clarity of the separate roles of the Chairman and the Executive Director/ Group Chief Executive Officer whose roles are set out in the Board's Charter. The role of the Chairman is to head and lead the Board. The Executive Director/ Group Chief Executive Officer, as executive management, leads the management team and is primarily responsible for the day-to-day management of the overall performance and operations of the Company. He is assisted by the Group Chief Operating Officer/ Chief Financial Officer. The Board in carrying out its roles and responsibilities is supported by a competent company secretary who is legally qualified, both as a chartered secretary and in law with many years of experience in a listed environment.

The Board meetings are planned ahead and fixed for the financial year. A structured schedule of matters reserved for consideration and decision of the Board has been established in the agenda for the meetings. To the extent practicable, the members of the Board are provided with appropriate information and materials in advance for each meeting to permit prior review by the members of the Board. Meeting materials and papers reserved for the Board are provided in advance of at least five clear days before the meeting. All members of the Board have access to information and materials of the Company and to the advice and services of the Company Secretary for any further information that they may require and, if need be, the Board can obtain independent professional or other advice from external resources at the cost of the Company.

The Board's stewardship has been formalised into a board charter. The Charter sets out the responsibilities of the members as a board which among others clearly separates the role of the Chairman of the Board from the Executive Director/ Group Chief Executive Officer. It periodically reviews and updates its Charter, and makes amendments when necessary and appropriate. The Charter is available for viewing on the Company's website.

To sustain good governance, the Board has in place a whistleblowing policy and a code of ethics and conduct. The Company's Code of Ethics and Conduct applies to all Directors, management and staff of the Company. The Whistleblowing Policy complements the Code of Ethics and Conduct, both of which are available on the Company's website.

### **Board Composition**

The composition of the board includes the Chairman as a non-executive director, an executive director and three independent directors. The majority of the members of the Board are independent Directors. The Company is a 74.28% owned subsidiary of HL Cement (Malaysia) Sdn Bhd which is indirectly wholly-owned by Hong Leong Asia Ltd. As a member of the Hong Leong Asia Ltd Group, the Board operates with a balanced mix of non-executive, executive (representing the interest of the controlling shareholder) and a majority of independent directors. Being a nominee director of the holding company, the Chairman is non-independent and non-executive.

The Board does not have a policy which limits the tenure of its Directors as independent Directors to nine years. For any of its independent Directors nearing the nine-year term limit as prescribed under the Code, the Board will undertake a review to justify to shareholders to retain the Director as an independent director beyond the nine years and seek annual shareholders' approval. The Board recognises that a director's independence should not be determined solely based on tenure of service and that a continued tenure of directorship for an independent director brings considerable stability to the Board and the Company. The Company benefits from

Directors who have, over time, gained valuable insight into the Company, its market and the industry.

The Board takes cognisance of the importance of boardroom diversity. Its selection and appointment of members are based on qualifications, skills, experience, knowledge and capabilities in areas identified by the Board and that such criteria should remain a priority so as not to compromise on the selection and appointment. The Board's Remuneration and Nomination Committee periodically reviews and assess the mix of skills and diversity of the composition of the Board to meet the needs of the Company. Currently, the Board is satisfied with its composition in terms of numbers, qualification, skills, experience, knowledge and capabilities, diversity, ethnicity mix and age.

The Board extends its recognition of diversity in its workplace as an essential measure for the sustainable growth and development of the Company, and it not only includes gender, but also age and ethnicity. However, the Company's recruitment and selection of employees will be based on qualifications, skills, experience, knowledge and capabilities in areas identified and required by the Company, and such criteria should remain a priority to avoid any compromise for good governance. At the end of the 2017 financial year, the gender, ethnicity and age mix of the Company's employees were as follows:-

Ethnicity			
Malay	Chinese	Indian	Others
52.62%	21.87%	24.6%	0.91%

Gender	
Male	Female
90.89%	9.11

Age				
Below 20	21 – 30	31 – 40	41 – 50	Above 50
0%	20.96%	28.7%	26.88%	23.46%

Due to its size, the Company is not required to comply with Code practice 4.5 requirement to have at least 30% women directors. Nevertheless, the Board has taken steps to identify and propose a woman candidate as an additional independent director by end of 2020. In identifying candidates for appointment as directors, the Board's Remuneration and Nomination Committee, in addition to relying on recommendations from existing Board members, management or the controlling shareholder, the Committee do engage external independent resources to identify suitable qualified candidates for directorship according to the criteria set by the Board.

## **Remuneration**

The Remuneration and Nomination Committee is made up of three non-executive Directors, a majority of whom are independent Directors and the Chairman of the Committee is an independent Director. The terms of reference of the Committee is made available on the Company's website. On the recommendation of the Committee, and endorsed by the Board, assessment and evaluation of each individual Director and of the Board as a whole are conducted every two years. Due to the size of its Board, the Board is of the view that a two-year period before the next evaluation would provide a fairer and more effective, more meaningful and substantial assessment to the evaluation process. The term of office and performance of the Board Audit and Risk Management Committee and each of its members are periodically reviewed and the Committee found that each member and the Board Audit and Risk Management Committee have carried out their duties outlined in its terms of reference.

The Board has in place a remuneration policy and procedure for Directors to ensure that the remuneration is appropriately prudent and commercially sensible. For the senior management, the policy is governed by the Staff Code. The remuneration is periodically reviewed against the industry in which the Company operates taking into account the appropriateness of the form and amount of remuneration with a view towards attracting and retaining qualified Directors and or senior management. Determination of remuneration of non-executive directors is a matter for the Board as a whole with the member of the board concerned abstaining from deliberation and voting in respect of his own remuneration where applicable. The policy and procedure is periodically reviewed and made available on the Company's website.

The Remuneration and Nomination Committee met twice during the year to evaluate and review management's recommendation to remuneration of non-unionised employees, review the performance of the Executive Director/ Group Chief Executive Officer and the Group Chief Operating Officer/ Chief Financial Officer. The Committee sourced and recommended for appointment a new independent Director Dato' Mohammed Hussein to replace the outgoing independent Director Tan Sri Ir (Dr) Mohamed Al Amin. Other activities of the Committee for the year include reviewing the Board's gender diversity, setting targets and measures to meet those targets; and reviewing the independence of a director who will be reaching the nine-year tenure for independent directors under the Code.

The detailed breakdown of the respective Directors' remuneration are disclosed on page 71 of the audited financial statements. The remuneration of the Company's top management comprising the Executive Director/ Group Chief Executive Officer and the Group Chief Operating Officer/ Chief Financial Officer are disclosed on page 89 of the audited financial statements. Since the Group Chief Executive Officer is also a

board member of the company, his disclosure will not be replicated under the top management category.

## **Effective Audit and Risk Management –**

### **Audit Committee**

The members of the Board Audit and Risk Management Committee are all independent Directors. The Chairman of the Committee is an independent Director and not the Chairman of the Board. The Committee do not have a policy prescribed in Code practice 8.2 that requires a former key audit partner for the Company to observe a cooling-off period of at least two years before being appointed as a member of its audit committee. There is no necessity to have such a practice formalised as a policy as it may imply that former key audit partners will be potential candidates for the Company's audit committee and may be misleading. Similarly, it is provided in the Main Market Listing Requirements that a cooling period of two years is required before an officer of a listed issuer can be considered for appointment as an independent director. If the Board so decides to consider appointing a former key audit partner as an independent director and audit committee member, it will abide with the cooling-off period in Code practice 8.2.

The members of the Board Audit and Risk Management Committee have a mix of commercial, banking and financial skills and accounting experience. The Chairman is a member of the Chartered Accountants Australia and New Zealand and is qualified under Part II of the First Schedule of the Accountants Act 1967. Arrangements will be made by the Company for the members of the Committee to attend seminars to continue to keep abreast of relevant developments in accounting and auditing standards, practices and rules. The Committee's terms of reference has been updated to include assessment of the suitability, objectivity and independence of the external auditor. The Committee will evaluate and assess the external auditor on completion of the audit for each financial year.

### **Risk Management and Internal Control Framework**

The Board has ultimate responsibility to establish, monitor and maintain the Company and Group's risk management and internal control systems. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can provide only reasonable and not absolute assurance against material misstatement or loss. It has in place the enterprise wide risk management framework and internal controls as ongoing processes to identify, evaluate and manage the key financial, operating and compliance risks and for determining the appropriate course of action to manage and mitigate those risks. The Board delegates the monitoring of these risk management processes and internal control to the Board Audit and Risk Management Committee. An Enterprise Risk Management Committee, comprising the internal auditor and

relevant management personnel, and chaired by the Executive Director/ Group Chief Executive Officer, conducts review, mitigate or eliminate and update the significant risks of the Company, report and make recommendations to the Board Audit and Risk Management Committee. The Statement on Risk Management and Internal Control, set out on page 16 provides an overview of the Company's state of risk management and internal control, its effectiveness and adequacy.

The Company has its own in-house internal audit function. The internal audit department is headed by a qualified accountant with more than 20 years relevant experience and who is a member of The Institute of Internal Auditors Malaysia. The present resources of internal audit comprise three permanent staff – one head and two executives – and an intern. The internal audit is independent of the activities it audits as it reports to the Board Audit and Risk Management Committee. The internal audit carries out the audit in accordance with the principles of the international professional practices framework on internal auditing. The internal audit in its reports to the Committee provides the Board with the assurance on effectiveness, adequacy and integrity of the Company's risk management and internal controls. A summary of work of the Board Audit and Risk Management Committee and a summary of the work of the Company's internal audit function are in the Committee's Report on page 12.

## **Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders –**

### **Communication with Stakeholders**

The Board recognises the importance of communication with shareholders of the Company. Shareholders play an essential part in corporate governance and the Board ensures that shareholders are kept informed and notified of the Company's disclosures through timely releases to Bursa Malaysia. The Executive Director /Group Chief Executive Officer and the Company Secretary oversee investor relations and where it deems it practicable to do so, will engage with institutional shareholders based on mutual understanding of objectives and entertains visits from such institutional shareholders or other fund managers representing shareholders. The Company also participates in the Mid and Small Cap Research Scheme (MidS) mooted by Bursa Malaysia. During the year, the Company met with two research houses under MidS. It also entertains visits from other fund managers representing substantial shareholders of the Company. The Company's annual report is integrated with all the required information such as the audited financial statements, governance and sustainability reports. The Sustainability Report is prepared in accordance with the internationally recognised global reporting initiative (GRI) G4 sustainability reporting core option. It focuses on the sustainability performance of the Company's cement production and ready-mixed concrete operations. The Board will continue to assess and improve on the reporting and disclosure. The Company further ensures that shareholders are kept fully informed through information provided on the Company's website at [www.tasekcement.com](http://www.tasekcement.com).

## **Conduct of General Meetings**

The Board advocates attendance and participation of shareholders at the Company's annual general meetings. The meetings are held at a centralised venue with access to public transportation and parking. Due to the Company's relatively small number of shareholders, the Board considers the annual general meeting as an open forum for the Board and shareholders to meet and communicate with each other. This presents an opportunity for shareholders to ask questions or seek clarification on the performance of the Company. The notice of meeting together with the Company's annual report is circulated to all shareholders at least 21 clear days before the meeting.

Although the Code practice 12.1 advocates notice for annual general meeting of at least 28 days, the present practice by the Company for notice of its Annual General Meeting is 21 clear days, which is the notice prescribed in the Main Market Listing Requirements, the Companies Act 2016 and the Company's Constitution, is adequate and reasonable by prescribed standards. Shareholders still receive their Annual Report on time ahead of the Annual General Meeting. All the members of the Board attend the Annual General Meetings and including the Chairman of the Board, they provide response to questions from shareholders. The Company's external auditor attends these Annual General Meetings and is available to answer any shareholder's query on the Company's financial statements. Electronic poll voting is conducted at the Company's Annual General Meetings and announcement will be made of the detailed results showing the number of votes cast for and against each resolution. Due to the Company having a relatively small number of shareholders and that the Company's Annual General Meetings are not held in remote areas, voting in absentia and remote shareholders' participation are not facilitated as advocated in Code practice 12.3.

## **Directors Training**

Newly appointed Directors who have not undergone the Mandatory Accreditation Programme as prescribed and conducted by Bursa Malaysia are arranged by the Company Secretary for the Director to attend as soon as practicable. On joining the Board, the Director(s) will receive an induction or orientation covering the Company's businesses, given plant tours and on-site briefings and updated on such matters on a continuing basis. The Directors are encouraged to attend appropriate training programmes, seminars, forums or talks or any other courses which they feel relevant as part of their professional development to enable them to develop and maintain their skills and knowledge at the Company's cost. The Company Secretary ensures that the Directors are kept informed and updated on changes in relevant regulations or law, as circumstances require and informs the Directors of seminars, training programmes, forums, talks and others for their participation and monitors their attendance. During the year, the Directors have attended the following training:-

Kwek Leng Peck	"Standard Chartered Bank's H2 Market Outlook 2017", Singapore.
Ting Sii Tien	<p>"HSBC Asian Outlook 2017"</p> <p>"SID AC Chapter Pit-Stop Series: Relevance of the Enhanced Auditor's Report to Directors, Audit Committees and Management"</p> <p>"Director's In-House Training - Grappling with data protection and cybersecurity in the context of an organisation's embracement of innovation, the Internet of Things, Disruptive Technology and Cloud of Things"</p> <p>"SID Directors Conference 2017 - The Sustainability Imperative @ Suntec Convention Centre"</p> <p>"4th Annual Sustainability Forum for CDL &amp; Hong Leong Group – Emerging Trends in Sustainability"</p> <p>"Ernst &amp; Young Seminar - Dealing in a Digital Economy"</p>
Dato' Chong Pah Aung	<p>"What Makes A Development Feasible by RICS (Royal Institution of Chartered Surveyor)"</p> <p>"Case Study Workshop for Independent Directors" by Securities Industry Development Corporation and Bursa Malaysia</p>
Lim Eng Khoon	"The New Enhanced Auditor's Report" by Chartered Accountants Australia and New Zealand.
Dato' Mohammed Hussein	<p>"Audit Committee Seminar 2017 ACRA-SGX-SID Directors Training"</p> <p>"Bank Negara Malaysia Compliance Conference 2017"</p> <p>"Reshaping The Board's Expectation in Evaluating Opportunities When Executing Overseas Investments"</p> <p>"Fintech Opportunities for the Financial Services Industry in Malaysia"</p>



	<p>“AICB (Asian Institute of Chartered Bankers) - Global Banking Conference”</p> <p>“Pangkor Dialogue - Making the Future Innovative Pathways to Sustainable Development”</p>
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### **Preparation of the Annual Financial Statements**

The Board is responsible and required by law to prepare annual financial statements that gives a true and fair view of the financial position of the Company as at the end of each financial year and of their financial performance and cash flows for the year then ended. It is also responsible for ensuring proper accounting records are kept, which disclose with reasonable accuracy at any time, the financial position of the Company and to enable them to ensure that the financial statements comply with the relevant laws and regulations. The Board is further responsible for taking reasonable steps to safeguard the assets of the Company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Material Contracts**

The Company has not entered into any contract which is or may be material involving the interests of the Directors, its chief officers who are not directors or major shareholders during the 2017 financial year.

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