

# CORPORATE GOVERNANCE REPORT

**STOCK CODE** : Kawan  
**COMPANY NAME** : Kawan Food Berhad  
**FINANCIAL YEAR** : December 31, 2017

## **OUTLINE:**

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

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

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

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

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

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

### Intended Outcome

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

### Practice 1.1

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

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| <b>Application</b>                                | : | Applied  |
| <b>Explanation on application of the practice</b> | : | <p>The Board sets the strategic direction of Kawan Food Berhad ("KAWAN") ensuring that the necessary resources are in place for the Company to meet its objectives and that the Company's strategies are aligned to the interests of our shareholders and other stakeholders.</p> <p>In discharging its roles and responsibilities, the Board is guided by the Board charter and is assisted by the Board Committees which have been established with clear Terms of Reference as stipulated in the Board Charter. The Board is also guided by the key matters reserved for the Board for its deliberation and decision to ensure that the direction and control of the Group's businesses are vested in its hands.</p> <p>The Board delegates the implementation of its strategies to the Company's Management. However, the Board remains ultimately responsible for corporate governance and the affairs of the Company.</p> <p>The Board approved the 2018 business and budget plan during its Board meeting held on 21 November 2017. The financial and operational performance of the businesses are discussed at every quarterly Board meetings as well as through regular updates by the Management where performance is monitored as to whether the business objectives are being met. The Management's performance is benchmarked against its ability to meet the budget.</p> <p>The Board sets KAWAN's values and standards and believes that effective corporate governance is based on honesty, integrity and transparency. The Board has established the Kawan Code and Conduct and Ethics that requires all the Directors, officers and employees of the Group to observe, uphold and maintain high standards of integrity in carrying out their roles and responsibilities and to comply with the relevant laws and regulations as well as the Group's policies.</p> |

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|  | The Board also values dialogue with stakeholders and appreciates the keen interest of shareholders on KAWAN's performance. In this regard, the Board takes effective measures to disseminate timely and relevant information regarding the Company to stakeholders. |  |
| <b>Explanation for departure</b>   | :   |  |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |  |
| <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.

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| <b>Application</b>   | : | Applied   |  |
| <b>Explanation on application of the practice</b>  | : | <p>The Chairman is responsible for instilling, good corporate governance practices, leadership and effectiveness of the Board.</p> <p>KAWAN's Board of Directors is led by Mr Gan Thiam Chai, who is an Executive Chairman. He was appointed to the Board and elected as an Executive Chairman on 1 March 2010. He is the founder of Kawan Food Manufacturing Sdn Bhd and a major shareholder of KAWAN.</p> <p>Mr Gan Thiam Chai provided strong leadership and is responsible for instilling good corporate governance practices, leadership and effectiveness of the Board. He actively seeks the opinion of the Board members during the Board Meetings.</p> <p>The detailed roles and responsibilities of the Chairman are encapsulated in the Board Charter available on the Company's website at <a href="http://www.kawanfood.com">www.kawanfood.com</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 1.3**

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

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| <b>Application</b>   | : | Applied   |  |
| <b>Explanation on application of the practice</b>  | : | The roles of the Chairman and the Managing Director are distinct and separate to engender accountability and facilitate clear division of responsibilities for ensuring there is a balance of power and authority in the Company. The Chairman, Mr Gan Thiam Chai provides strong leadership to the Board in its cohesive oversight of management whilst the Managing Director, Mr Timothy Tan Heng Han is responsible for the running of the Company's operations and implementation of Board's policies and decisions. The respective roles and responsibilities of the Chairman and the MD are clearly articulated in the Board Charter. |  |
| <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.

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| <b>Application</b>   | : | Applied   |
| <b>Explanation on application of the practice</b>  | : | <p>The Company Secretaries, Ms Tai Yit Chan and Ms Tai Yuen Ling, both from Boardroom Corporate Services (KL) Sdn Bhd who have been appointed by the Board and each has more than 20 years of experience as Company Secretaries and are qualified under The Malaysian Institute of Chartered Secretaries and Administrators ("MAICSA") and Licensed Company Secretary ("LS") respectively.</p> <p>The Directors have ready and unrestricted access to the advice and services of the Company Secretaries to enable them to discharge their duties effectively. The Board is regularly updated and advised by the Company Secretaries who are professionally qualified, experienced and knowledgeable on new or revised regulatory requirements as well as corporate governance best practice. In this respect, the Company Secretaries play an advisory role to the Board, particularly with regard to the Company's Constitution, Board policies and procedures, and its compliance with regulatory requirements, and advocate adoption of corporate governance best practices. The Company Secretaries have conducted training to the Board on Companies Act 2016 &amp; Malaysian Code on Corporate Governance ("MCCG 2017") on 30 May 2017.</p> <p>The Company Secretaries constantly keep themselves abreast of changes in the realm of corporate governance through continuous professional development. During the year 2017, they attended pertinent internal and external trainings on changes in regulatory requirements and corporate governance.</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 1.5**

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

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| <b>Application</b>   | : | Applied  |  |
| <b>Explanation on application of the practice</b>  | : | <p>All Board members are furnished with proper agenda (including minutes) together with due notice, Board papers and reports prepared by the Management to provide information/updates on financial, operational, legal are circulated at least 5 business days prior to the meetings to allow the Directors with sufficient time to review the materials for effective discussions and decision making during the meetings. Exceptions may be made for certain ad hoc or urgent instances when Directors unanimously consent to short notice.</p> <p>All pertinent issue\`s discussed at the Board meetings in arriving at the decisions and conclusions are properly recorded by the Company Secretaries. The minutes of meetings of Board and Committees are circulated to all Directors.</p> |  |
| <b>Explanation for departure</b>   | : |  |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |  |  |
| <b>Measure</b>   | : |  |  |
| <b>Timeframe</b>   | : |  |  |



**Intended Outcome**

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

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

**Practice 2.1**

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

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

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| <b>Application</b>  | : | Applied  |
| <b>Explanation on application of the practice</b>   | : | <p>The Board has adopted a Board Charter which clearly sets out the roles, functions, composition and operation of the Board, Board Committees and Management, having regard to the principles of good corporate governance and requirements of Main Market Listing Requirements (“MMLR”) of Bursa Malaysia Securities Berhad (“Bursa Securities”).</p> <p>The Board Charter further defines matters that are reserved for the Board and its committees as well as the roles and responsibilities of the Chairman and the Managing Director. Key matters reserved for the Board includes approval of corporate strategic plans and capital budgets, material acquisitions and disposals of undertakings and properties, quarterly and annual financial statements for announcement, monitoring of operating performance and review of the Financial Authority Approving Limits.</p> <p>The Board Charter and Terms of References (“TOR”) of Board Committees were recently reviewed in February and April 2018 respectively and will be periodically reviewed and updated in accordance with the needs of the Company and any new / revised regulations that may have an impact on the discharge of the Board's Directors. The Board Charter is available on our Company's website <a href="http://www.kawanfood.com.my">www.kawanfood.com.my</a>.</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>  | : |  |

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### Intended Outcome

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

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

### Practice 3.1

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

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

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| <b>Application</b>                                | : | Applied  |
| <b>Explanation on application of the practice</b> | : | <p>In tandem with the Board's aspiration to ingrain and engender appropriate standards of conduct and ethical practices, the Board has established a code of conduct and Ethics ("COCE") that are to be strictly complied with by the Directors and members of the Management and all employees of the Company including its subsidiaries.</p> <p>The COCE covers the following overarching areas:</p> <ul style="list-style-type: none"><li>• Equal treatment of all employees;</li><li>• Ensure a safe and secure working environment;</li><li>• Environmental protection;</li><li>• Avoidance of accepting gifts and business courtesies;</li><li>• Maintain complete and accurate business records;</li><li>• Ensure high integrity and professionalism;</li><li>• Ensure protection of confidential information; and</li><li>• Compliance with laws including abuse of power, corruption, insider trading and money laundering.</li><li>• Corporate Governance; and</li><li>• Conflict of interest.</li></ul> <p>The COCE is available on the Company's website at <a href="http://www.kawanfood.com">www.kawanfood.com</a> and is subject to review from time to time to ensure it is kept up-to-date.</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.*

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| <b>Measure</b> :   |  |  |
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**Intended Outcome**

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

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

**Practice 3.2**

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

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| <b>Application</b>   | : | Applied  |  |
| <b>Explanation on application of the practice</b>  | : | <p>The Board has formalised a Whistleblowing Policy and accompanying procedures that are applicable to all employees of the Company. The Whistleblowing Policy outlines avenues for employees of the Company to raise legitimate concerns relating to potential breaches of business conduct, non-compliance with legal and regulatory requirements as well as other malpractices. The Board vide the Whistleblowing Policy emphasises good faith in reporting, protection from reprisal as well as anonymity of the whistleblower’s identity.</p> <p>The Whistleblowing Policy and the relevant procedures are reviewed periodically by the Board. A copy of the whistleblowing policy is available on the Company’s website at <a href="http://www.kawanfood.com">www.kawanfood.com</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.

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| <b>Application</b>                                | : | Departure   |
| <b>Explanation on application of the practice</b> | : |   |
| <b>Explanation for departure</b>                  | : | <p>The Board has ten (10) members, comprising an Executive Chairman, a Senior Independent Non-Executive Director, three (3) Executive Directors, two (2) Non-Independent Non-Executive Directors and three (3) Independent Non-Executive Directors.</p> <p>The present composition of the Board has complied with the Main Market Listing Requirements (“Listing Requirements”) of Bursa Malaysia Securities Berhad (“Bursa Securities”) which requires that at least two Directors or one-third (1/3) of the Board members of the Company, whichever is higher, are independent.</p> <p>The 4 independent Directors in essence, represent the interests of the minority shareholders and other stakeholders on all material Group corporate matters.</p> <p>a) With the current composition, the Board believes that its members have the necessary knowledge, experience, requisite range of skills and competence to enable them to discharge their duties and responsibilities effectively, objectively and independently as follows:-</p> <ul style="list-style-type: none"> <li>i) The Board believes the current composition with 4 independent directors is sufficient as they contribute to Board’s deliberations objectively and independently.</li> <li>ii) There are robust deliberations during Board and Committee meetings as they do not shy away from asking hard questions or request more information where necessary.</li> <li>iii) All Directors on the Board have gained extensive experience with their many years of experience on boards of other companies and/or also as professionals in their respective fields of expertise.</li> </ul> |

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|   | <p>b) The Directors also bring external perspectives to the Board's deliberation through their diverse backgrounds and experiences, enabling them to put in place necessary checks and balances, contributing to Board decision making.</p> <p>KAWAN intends to maintain current Board composition.</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 4.2

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

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

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| <b>Application</b>                                | : | Departure  |
| <b>Explanation on application of the practice</b> | : |  |
| <b>Explanation for departure</b>                  | : | <p>At the upcoming Fourteenth Annual General Meeting to be held on 31 May 2018 ("AGM"), Mr Chen Seng Chong and Mr Lim Peng @ Lim Pang Tun have served the Board for more than twelve years. The Company had sought shareholders' approval at the last annual general meeting for both to continue to serve as Independent Directors on the Board.</p> <p>Mr Chen Seng Chong who retires pursuant to Article 80 of the Articles of Association of the Company and has expressed his intention not to seek re-election at the forthcoming AGM of the Company.</p> <p>The Board, via Nomination Committee, has assessed and recommended Mr Lim Peng @ Lim Pang Tun to remain as an Independent Director of the Company based on the following justifications:-</p> <ol style="list-style-type: none"><li>he fulfilled the criteria under the definition of Independent Director as stated in the MMLR of Bursa Securities, and therefore is able to bring independent and objective judgment to Board's deliberations;</li><li>his experience enable him to provide the Board with a diverse set of experience, expertise, skills and competence;</li><li>he has been with the Company for long and therefore understand the Company's business operations which enable him to participate actively and contribute during deliberations or discussions at Remuneration Committee, Nomination Committee, Audit Committee and Board meetings;</li><li>he has contributed sufficient time and efforts and attended all the Nomination Committee, Audit Committee and Board meetings for informed and balanced decision making; and</li></ol> |



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|   | <p>e. he has exercised due care during his tenure as Independent Non-Executive Director of the Company and carried out his professional duties in the interest of the Company and shareholders.</p>  |  |
|   | <p>Mr Lim has continuously exercise independent and objective judgement on all Board matters. In view thereof, the Board recommends that shareholders' approval be sought at the upcoming AGM for Mr Lim Peng @ Lim Pang Tun to continue to act as Independent Director.</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.

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| <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.

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| <b>Application</b>   | : | Applied   |  |
| <b>Explanation on application of the practice</b>  | : | <p>The Board is committed to provide fair and equal opportunities and to nurture diversity (including gender, age and ethnicity) within the Group. The candidates for Board appointments will be considered, taking into account, a range of diversity perspectives, including gender, cultural, competency, skills, character, time commitment, integrity and experience that the selected candidates will bring to the Board.</p> <p>The Diversity Policy is available on the Company's website at <a href="http://www.kawanfood.com">www.kawanfood.com</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 4.5**

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

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| <b>Application</b>  | : | Applied  |
| <b>Explanation on application of the practice</b>   | : | <p>The Board acknowledges the importance of gender diversity. Currently, the Board has one female Non-Independent Executive Director which accounts for 10% of the Board members.</p> <p>The Board also values the diversity of perspectives and experience at Senior Management level.</p> <p>The NC will take steps to include, where appropriate, women candidates as part of the Board's recruitment exercise when there is any vacant position.</p> <p>The Board via the Nomination Committee had established and reviewed the Diversity Policy on 23 February 2018.</p> <p>The Diversity Policy is available on the Company's website at <a href="http://www.kawanfood.com">www.kawanfood.com</a>.</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**

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

**Practice 4.6**

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

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| <b>Application</b>   | : | Departure   |  |
| <b>Explanation on application of the practice</b>  | : |   |  |
| <b>Explanation for departure</b>   | : | Currently, the Board relies on recommendations from the Nomination Committee and existing Board members, management or major shareholders.  |  |
|  |   | The Nomination Committee is currently responsible for making recommendations to the Board on the most appropriate Board size and composition. The Nomination Committee will determine certain criteria used in the recruitment process based on annual assessment of Directors. Candidates are thoroughly assessed based on their competence, integrity, character, time commitment and experience as stated in paragraph 2.20A of the MMLR by Bursa Securities. This has enable the Company to source for high calibre Directors with a sound understanding of the business imperative.<br><br>When necessary, the Board will consider utilising independent sources to identify qualified candidates. |  |
| <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.

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| <b>Application</b>   | : | Applied  |  |
| <b>Explanation on application of the practice</b>  | : | Mr. Lim Peng @ Lim Pang Tun, an Independent Non-Executive Director of the Company is the Chairman of Nomination Committee. |  |
| <b>Explanation for departure</b>   | : |  |  |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |  |  |
| <b>Measure</b>   | : |  |  |
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**Intended Outcome**

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

**Practice 5.1**

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

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

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| <b>Application</b>  | : | Applied  |
| <b>Explanation on application of the practice</b>   | : | <p>The Board has adopted a formal and objective annual evaluation of the Board, Board Committees and Directors' performance. The assessment took into account the contribution and performance of the Directors in relation to their competencies, time commitment, experience in meeting the needs of the Company.</p> <p>The Board engages the Company Secretaries from an independent external secretarial firm to facilitate the Board evaluation via evaluation forms and informal discussion with the Nomination Committee and Directors.</p> <p>The evaluation process was based on a self-review assessment whereby the Directors assessed themselves, the Board as a whole as well as the performance of the Board Committees. The criteria and outcome of the assessment were properly documented.</p> <p>Based on the recent assessment, the Nomination Committee was satisfied that the Board size and its composition are optimum as the Board comprises individuals with the requisite skills, knowledge, experience, characteristics and competencies to effectively discharge their roles. The Directors, Board Committees and key officers had also discharged their responsibilities in a commendable manner and contributed to the overall effectiveness of the Board and Company. The Directors had also committed the time necessary to responsibly fulfil their commitment to the Company during the year.</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> |   |  |

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| <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.

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| <b>Application</b>   | : | Departure   |  |
| <b>Explanation on application of the practice</b>  | : |   |  |
| <b>Explanation for departure</b>   | : | The Company does not have a single consolidated policy to determine the remuneration of Directors and Senior Management. The Board is guided by the present practices and the existing stipulations on remuneration that are contained in the various promulgations such as Companies Act 2016 and the MMLR by Bursa Securities.  |  |
|  |   | However, we have separate guideline for Directors and Senior Management and will codify a corporate policy for Senior Management and Directors as a whole.<br><br>The remuneration of Non-Executive Directors is linked to their contributions to the Board and their level of responsibilities.<br><br>The Remuneration Committee also evaluates the MD's remuneration package based on his performance and ability to meet the Key Performance Indicators. The remuneration for Senior Management is based on performance, experience, expertise, skills and industry benchmarks. |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |  |
| <b>Measure</b>   | : |   |  |
| <b>Timeframe</b>   | : |   |  |

**Intended Outcome**

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

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

**Practice 6.2**

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

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

|  |   |   |
|--|---|---|
| <b>Application</b>   | : | Applied   |
| <b>Explanation on application of the practice</b>  | : | <p>The Board has established a Remuneration Committee to assist in developing and administrating a fair and transparent procedure for setting the remuneration of Directors and Senior Management.</p> <p>The Remuneration Committee reviews and recommends the remuneration of the Managing Director and Executive Directors of the Company for Board's approval pursuant to the TOR of Remuneration Committee as well as the remuneration of Non-Executive Directors for shareholders' approval.</p> <p>The revised TOR of the Remuneration Committee which clearly sets out its duties and functions is approved by the Board. The TOR of the Remuneration Committee is disclosed on the Company's website at <a href="http://www.kawanfood.com">www.kawanfood.com</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**

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 Board ensures that information relating to Directors' remuneration is made transparent to all shareholders. The detailed disclosure on Directors' remuneration for the financial year 2017 are disclosed on named basis in the Corporate Governance Overview Statement of the Annual Report. |  |
| <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 remuneration of the top 5 senior management are not disclosed on named basis for confidentiality reason as it may be detrimental to the interest of the Company and individuals. Nevertheless, the Company will disclose all the senior management's remuneration on aggregate basis.      |  |
|  |   | The Board wishes to give assurance that the remuneration of directors and senior management commensurate with their individual performance, taking into consideration of Company's performance. The remuneration packages of Senior Management are based on experience, expertise, and skills. |  |
| <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>  | : | The Chairman of the Audit Committee (AC) who is an Independent Non-Executive Director is not the Chairman of the Board. The Chairman of the AC is a member of the Malaysian Institute of Certified Public Accountants (MICPA) and Malaysian Institute of Accountants (MIA). He has had an extensive career serving as an Audit Partner at KPMG, spanning 33 years. He leads the discussions and deliberations of the AC. The AC comprises three members, all of whom are Independent Non-Executive Directors. The Board is therefore able to objectively review the AC's findings and recommendations. |  |
| <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>  | : | Currently, the AC does not have any former key audit partner as a member of the AC. However, the AC has included the cooling off period of at least two years for a former key audit partner before being appointed as a member of the AC in its revised Terms of Reference of the Audit Committee in 2018.<br><br>The revised TOR of the AC is available on the Company's website at <a href="http://www.kawanfood.com">www.kawanfood.com</a> . |  |
| <b>Explanation for departure</b>   | : |  |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |  |  |
| <b>Measure</b>   | : |  |  |
| <b>Timeframe</b>   | : |  |  |

**Intended Outcome**

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 AC is responsible for assessing the suitability, objectivity and independence of the External Auditors and to make recommendations to the Board on the appointment of the External Auditors. On 27 February 2018, the AC has established an External Auditors Assessment Policy which was approved by the Board.</p> <p>Under its TOR, the AC reviews annually the appointment of its external audit. The review process covers the assessment of the independence of the external auditors.</p> <p>During the financial year ended 2017, the AC met with the External Auditors twice, in the absence of the management.</p> <p>The AC also reviewed and monitored the fee of the total non-audit work carried out by the auditor to ensure there was no impairment of independency and objectivity. The AC has further obtained written confirmation from its external auditors, Messrs Cheng &amp; Co on its independence.</p> |
| <b>Explanation for departure</b>   | : |   |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |
| <b>Measure</b>   | : |   |
| <b>Timeframe</b>   | : |   |



**Intended Outcome**

There is an effective and independent Audit Committee.

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

**Practice 8.4 - Step Up**

The Audit Committee should comprise solely of Independent Directors.

|  |   |   |
|--|---|---|
| <b>Application</b>                             | : | Adopted   |
| <b>Explanation on adoption of the practice</b> | : | The AC comprises three members, all of whom are Independent Non-Executive Directors. This enables the AC to exercise their independent judgement objectively in the best interest of the Company. |

**Intended Outcome**

There is an effective and independent Audit Committee.

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

**Practice 8.5**

Collectively, the Audit Committee should possess a wide range of necessary skills to discharge its duties. All members should be financially literate and are able to understand matters under the purview of the Audit Committee including the financial reporting process.

All members of the Audit Committee should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.

|  |   |  |
|--|---|--|
| <b>Application</b>   | : | Applied  |
| <b>Explanation on application of the practice</b>  | : | <p>The AC assists the Board to review the integrity of the Company's financial statements. The AC further reviews the adequacy and effectiveness of the system of internal controls as well as risk management framework of the Company.</p> <p>All the AC members have the relevant financial knowledge and commercial expertise skills required to discharge their roles and responsibilities effectively. The composition of AC is set out in Audit Committee Report in page 66 while the members' profiles are disclosed in the Directors' Profiles from page 38 to page 44 of the Annual Report.</p> <p>The AC ensures that the financial reports of the Company comply with applicable financial reporting standards in Malaysia.</p> <p>The members of AC keep themselves abreast by attending trainings as set out in Corporate Governance Overview Statement on page 58 to 59 of the Annual Report.</p> |
| <b>Explanation for departure</b>   | : |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |  |
| <b>Measure</b>   | : |  |
| <b>Timeframe</b>   | : |  |

**Intended Outcome**

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

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

**Practice 9.1**

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 acknowledges its overall responsibilities for establishing and maintaining a sound risk management and internal control systems, and for reviewing its adequacy and integrity.</p> <p>The Board has an established on-going process for identifying, evaluating and managing significant risks which may affect the Company's business objectives. The Board through its AC regularly reviews this process to ensure the internal control and risk management frameworks are adequate and effective.</p> <p>Details of the Group's risk management and internal control system are disclosed in the Statement on Risk Management and Internal Control on page 70 to 76 of the Annual Report.</p> |
| <b>Explanation for departure</b>   | : |   |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |
| <b>Measure</b>   | : |   |
| <b>Timeframe</b>   | : |   |

**Intended Outcome**

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

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

**Practice 9.2**

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

|  |   |   |
|--|---|---|
| <b>Application</b>   | : | Applied   |
| <b>Explanation on application of the practice</b>  | : | <p>The Board is responsible for managing the key business risks of the Group and implementing appropriate internal control system to manage those risks. The Board via the AC reviews the adequacy and effectiveness of the system of internal controls framework and risk management framework.</p> <p>Key features of its risk management framework and internal control framework are disclosed in the Statement of Risk Management and Internal Control of the Annual Report.</p> |
| <b>Explanation for departure</b>   | : |   |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |
| <b>Measure</b>   | : |   |
| <b>Timeframe</b>   | : |   |

**Intended Outcome**

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

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

**Practice 9.3 - Step Up**

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

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

**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 which reports directly to the Audit Committee is outsourced to a professional service firm, Axcelasia Columbus Sdn Bhd. The internal audit function provides the Audit Committee with an independent assessment on the adequacy and effectiveness of the Group's system of internal control.</p> <p>The Audit Committee reviews the following and report the same to the Board:</p> <ol style="list-style-type: none"> <li>a. Adequacy of the scope, competency and resources of the internal audit function and that it has necessary authority to carry out its work; and</li> <li>b. The internal audit plan, processes, the results of internal audit assessments and investigations and that actions are taken on the recommendation.</li> </ol> <p>Assessment on internal audit function is conducted annually by the Audit Committee ensuring that internal audit function is effective and functioned independently.</p> <p>The Audit Committee Report of the Annual report provides detailed explanation on internal audit function.</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 internal audit function, which reports directly to the Audit Committee, is outsourced to Axcelasia Columbus Sdn Bhd. The Engagement Director is Mr Mah Siew Hoong who has diverse professional experience in internal audit, risk management and corporate governance advisory. He is a Chartered Member of the Institute of Internal Auditors Malaysia, a member of the Malaysian Institute of Accountants and a Fellow Member of the Association of Chartered Certified Accountants, United Kingdom. Mr. Mah is also a Certified Internal Auditor (USA) and has a Certification in Risk Management Assurance (USA).</p> <p>The number of staff deployed for the internal audit reviews ranges from 4 to 5 staff per visit including the Engagement Director. The staff involved in the internal audit reviews possesses professional qualifications and/or a university degree. Certain staff are members of the Institute of Internal Auditors Malaysia. The internal audit staff on the engagement are free from any relationships or conflict of interest, which could impair their objectivity and independence, and the internal audit reviews were conducted using a risk based approach and were guided by the International Professional Practice Framework.</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>It has always been the Company's practice to maintain good relationship with its shareholders. Major corporate developments and activities in the Company have always been duly and promptly announced to all shareholders, in line with Bursa Securities' objectives of ensuring transparency and good corporate governance practices.</p> <p>During the Annual General Meeting ("AGM"), there is a presentation on the Company's performance and major activities which were carried out by the Company during the financial year under review. During the meeting, shareholders have the opportunities to enquire and comment on the Company's performance and operations. Same or similar information are also shared in the event of press conferences or press release being held throughout the year.</p> <p>Mr Timothy Tan, the Managing Director, also holds regular analyst briefings and investor relations meetings as parts of the Company's investor relations initiatives.</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>   | : | Applied  |  |
| <b>Explanation on application of the practice</b>  | : | Not applicable as the Company is not a Large Company as defined by the Malaysian Code on Corporate Governance. |  |
| <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 12.1**

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

|  |   |   |  |
|--|---|---|--|
| <b>Application</b>   | : | Applied   |  |
| <b>Explanation on application of the practice</b>  | : | The Notice of AGM is circulated at least twenty eight (28) days before the date of the meeting to enable shareholders to go through the Annual Report and papers supporting the proposed resolutions. |  |
| <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 directors including the Chair of all the respective Board Committees attended the last AGM. At the last AGM, The Managing Director provided shareholders with a brief review on the Group’s financial performance and operations. The Chairman also responded to questions posted by the Shareholders’.</p> <p>Shareholders are invited to ask questions regarding the proposed resolutions and matters relating to the Company’s operations in general before voting and meaningful response were given to the questions raised.</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>All the resolutions set out in the Notice of the Thirteenth AGM were put to vote by poll and duly passed. The outcome of the AGM was announced to Bursa Securities on the same meeting day.</p> <p>Currently, the Company is implementing an electronic voting system which encourages and facilitate greater shareholder participation. During the AGM, the shareholders, upon the instruction given by the Chairman, lined up and cast their votes via an electronic screen. Each shareholder would be provided with a wrist board upon registration which would be scanned during the voting process. The scanned code allows the shareholders to access the voting page and register their votes. The process would then be completed and the results would be announced later.</p> <p>Shareholders may appoint Chairman as their proxies if they are unable to attend the meeting.</p> <p>The Board has always given foremost consideration to the location of its general meeting to ensure it is easy to reach or easily accessible by the shareholders. The AGM of the Company has always been held in Klang Valley. The existing registration and e-poll systems are sufficient to encourage shareholders' participation at general meeting last year. The upcoming Company's AGM will be held at Topas Room, The Saujana Hotel, Jalan Lapangan Terbang SAAS, 40150 Selangor Darul Ehsan.</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>   | : |   |

