

# **CORPORATE GOVERNANCE OVERVIEW STATEMENT AND OTHER COMPLIANCE INFORMATION**

## **CORPORATE GOVERNANCE OVERVIEW STATEMENT**

The Board of Directors of Federal International Holdings Berhad (“FIHB” or the “Company”) recognises the importance of adopting a good corporate governance and is taking steps to continuously evaluate and improve management practices and systems to enhance the standard of corporate governance applied by the Group. In doing so, the Board has taken guidance from the Malaysian Code on Corporate Governance (“MCCG”) with reference to the three (3) key Principles of good corporate practices as follows:-

- (a) Principle A : Board Leadership and Effectiveness;
- (b) Principle B : Effective Audit and Risk Management; and
- (c) Principle C : Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders.

The Board is pleased to report on the manner which outlines the main corporate governance applied within the Group to the extent of compliance with best practices, pursuant to paragraph 15.25 of the Main Market Listing Requirements (“Main LR”) of Bursa Malaysia Securities Berhad (“Bursa Securities”).

## **PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS**

### **Roles and Responsibilities of Board**

The Board is responsible for the performance and conduct of the Company and the Group. It also provides strategic guidance to the Company and effective oversight of its management for the benefits of shareholders and other stakeholders.

Day-to-day management is delegated to the Executive Directors and Management under the steward of the Group Managing Director. The Independent Non-Executive Directors play a vital check and balance role by challenging and scrutinising Management recommendations and proposals in an objective manner and provide an independent assessment/ judgement to the decision making process at the Board and Board Committee levels.

The Board has assumed the following duties and responsibilities in discharging its fiduciary and leadership functions:-

- (a) to review, evaluate, adopt, approve and monitor corporate performance, strategic plans and policies of the Company and its subsidiaries (the “Group”);

- (b) to comply with ethical standards, principal risks and internal control system appropriate for the size and complexity of the business;
- (c) to oversee the Group's adherence to high standards of conduct or ethics and corporate behavior, including the Code of Ethics for Directors and monitor the conduct of business, financial performance of the Group;
- (d) to review and adopt budgets and financial results of the Group and comply with applicable financial reporting standards and integrity and adequacy of financial information disclosure; and
- (e) ensure the Company has appropriate corporate governance structures in place including standards of ethical behavior and promoting a culture of corporate responsibility.

### **Separation of Position of the Chairman and Group Managing Director**

The positions of Chairman and Group Managing Director ("Group MD") are held by different individuals. Dato' Dr. Choy Fook On is the Non-Independent Non-Executive Chairman while Dato' Choy Wai Hin is the Group MD.

The Board recognises the importance of having a clear and segregated power and responsibilities between the Chairman of the Board and the Group MD to ensure a balance of power and authority. The Chairman acts as the leader of the Board and is responsible for overseeing the effective discharge of the Board's supervisory role and facilitating the effective contribution of all Directors. Although the Chairman is not an Independent Director and the Board does not comprise a majority of Independent Directors, the Board is satisfied that the Independent Directors have the skills and experience to exert their independent judgment to bear on issues of strategy, performance and resources including standards of ethics and conduct.

The Group MD holds the primary executive responsibility for the Group's business performance and manages the Group in accordance with the strategic and policies approved by the Board, leading Executive Directors in making and implementing the day-to-day decisions on the business operations. The Group MD is responsible for the day-to-day management of the Company with all powers and discretion vested in him, from time to time, by the Board. The Group MD also has the responsibility to facilitate business and have a strategic vision to align the Company, both internally and externally.

At present, the Company does not have a Chief Executive Officer but the Group MD to assist in the turnaround of the Company. The current arrangement is to provide strong leadership with the ability to marshal the Board's priorities objectively while keeping a lean Board composition.

## **Company Secretary**

The Board is supported by a suitable qualified and competent Company Secretary and the Company Secretary is a qualified Chartered Secretary under Section 235(2)(a) of the Companies Act 2016 and is a Fellow member of the Malaysian Institute of Chartered Secretaries and Administrators.

The Company Secretary plays an advisory role to the Board in relation to the Company's constitution, Board's policies and procedures and compliance with the relevant regulatory requirements, codes or guidance and legislations. The Company Secretary supports the Board in managing the Company's governance model, ensuring it is effective and relevant. The Company Secretary also ensures that deliberations at the Board meetings are well captured and minute.

For the financial year ended 30 June 2019, the Company Secretary had discharged her duties and responsibilities accordingly, and had and will continue to constantly keep themselves abreast on matters concerning company law, the capital market, corporate governance, and other pertinent matters, and with changes in the regulatory environment through continuous training and industry updates.

The Board is satisfied with the performance and support rendered by the Company Secretary in the discharge of its duties.

## **Supply of and Access to Information**

The Directors have full and unrestricted access to all information pertaining to the Group's affairs. All Directors receive relevant board papers in sufficient time prior to the meeting to ensure that the Directors are given sufficient time to read and understand the Board papers and seek any clarification that they may need from Management or to consult the Company Secretary or independent advisers before the Board Meetings, if necessary. The board papers include reports on the performance of key operating units, Group's financial, operating and corporate development.

All Directors have access to the advice and services of the Company Secretary and the advice of such other independent professional as may be deemed necessary at the Company's expense in furtherance of their duties.

## **Board Charter**

The Board has adopted a Board Charter, which provide guidance and clarity on the Board's roles and responsibilities as well as the powers between the Board and the Management as well as the different committees established by Board. The Board will periodically review the Board Charter to ensure it remains consistent with the Board's objectives and responsibilities and any new regulations that may have an impact on the discharge of the Board's responsibilities. The Board Charter is available at the Company's website at [www.fihb.my](http://www.fihb.my).

The Board has established a formal schedule of matters reserved to the Board for its deliberation and decision in order to enhance the delineation of roles between the Board and the Management, as well as to ensure the direction and control of the Group's operations.

### **Code of Conduct and Ethics**

The Company has adopted a Code of Conduct & Ethics ("the Code") based on the code of conduct expected of Directors of companies as set out in the Company Director's Code of Ethics established by the Companies Commission of Malaysia, and implemented appropriate internal systems to support, promote and ensure the compliance of the Code, which sets out among others, the standard of business conduct and ethical behavior for Directors and employees in the performance and exercise of their responsibilities as Directors and employees respectively of the Company or when representing the Company.

The Board will periodically review and reassess the adequacy of the Code and make such amendments to the Code as the Board may deem appropriate. The Code is available at the Company's website at [www.fihb.my](http://www.fihb.my).

### **Whistleblowing**

The Company has yet to have a whistle-blowing policy to provide an avenue for all employees and members of the public to disclose any improper conduct or any action that could be harmful to the Group. Nevertheless, the Code contains provisions which encourage all employees to report any genuine concern without fear of intimidation and reprisal. The Company also has a strong corporate culture which prizes team spirit, integrity, commitment and accountability.

### **Promote Sustainability**

The Board is mindful of the important of business sustainability and ensures that there is a plan for promoting sustainability embedded in the development of the Group's strategies, taking into account the environmental, social, culture and governance aspects of business operations. These strategies seek to meet the expectation of stakeholders such as customers, shareholders, regulators, bankers, and the communities in which the Group operates.

The Sustainability Statement is set out in this Annual Report.

### **Board Composition and Balance**

The current Board comprises seven (7) Directors, out of which, one (1) Non-Independent Non-Executive Chairman, one (1) Group Managing Director, two (2) Executive Directors and three (3) Independent Non-Executive Directors, thus, fulfilling the requirement of at

least one-third of the Board comprises independent directors. The profiles of the Directors are set out in this Annual Report.

The Board is satisfied that having regard to the nature, complexity and scale of the existing business, the interests of the minority shareholders are adequately represented and protected with the current composition of the Board. The Board recognises that independent directors bring independent and objective judgment to the Board and play a critical role in any situation where a conflict of interest may arise. The Board has assessed the independence of the Independent Non-Executive Directors, who constitute one third (1/3) of the Board, and are satisfied that they have provided objective and independent judgment at Board deliberations.

To assist the Board in carrying out its duties and responsibilities, the Board has established the following Committee, each with clearly defined Terms of Reference in order to enhance corporate efficiency and effectiveness:-

- (a) Audit and Risk Management Committee;
- (b) Nomination Committee; and
- (c) Remuneration Committee.

### **Tenure of Independent Directors**

Presently, Tuan Haji Hussein Bin Hamzah is the Independent Non-Executive Director of the Company who has served the Board for a cumulative term of more than twelve (12) years, while Encik Mohd Arif Bin Mastol is the Independent Non-Executive Director of the Company who has served the Board for a cumulative term of more than nine (9) years.

The retention of Tuan Haji Hussein Bin Hamzah and Encik Mohd Arif Bin Mastol as Independent Non-Executive Directors of the Company shall be tabled to the shareholders for approval at the forthcoming Annual General Meeting of the Company.

The Nomination Committee and the Board of the Company have assessed the independent of Tuan Haji Hussein Bin Hamzah and Encik Mohd Arif Bin Mastol, and have recommended that they are to be retained as Independent Directors of the Company as they continue to bring independent and objective judgement to Board deliberations and continue to meet the following criteria for independence in discharging their roles and functions as Independent Directors of the Company:-

- fulfilled the criteria under the definition of Independent Director pursuant to the Paragraph 1.01 of the Main LR;
- not been involved in any business or other relationship which could hinder the exercise of independent judgement, objectivity or his ability to act in the best interests of the Company;
- no potential conflict of interest, whether business or non-business related with the Company;

- not established or maintained any significant personal or social relationship, whether direct or indirect, with the Group MD and Executive Directors, major shareholders or Management of the Company (including their family members) other than normal engagements and interactions on a professional level consistent with his duties and expected of him to carry out his duties as an independent director; and
- not derived any remuneration and other benefits apart from Directors' fees that are approved by shareholders.

### **Appointment of Directors**

The Nomination Committee is tasked to oversee the selection process and assessment of the performance of the Directors for the Board with the objective of securing the best composition to meet the diverse objectives of the Company.

The review process by the Nomination Committee and the Board on an annual basis is based on the competencies, commitment, contribution and performance of the candidates/Board members as well as the required mix of skills, experiences, and other qualities of the Directors to ensure that the Board continues to function effectively and efficiently.

With respect to nomination and election process of new Directors, the responsibilities of the Nomination Committee shall include:-

- Gathering the nomination and selection of Directors for members of the Board.
- Reviewing the competencies, commitment, contribution and performance of the candidates/Board members and the required mix of skills, experiences and gender and other qualities of the Directors.
- Making recommendations to the Board on candidates for appointment.
- Facilitate the relevant orientation and training programme for the new Board member.

In the selection process, the Nomination Committee and the Board does not set any target on race, religion or gender diversity but endeavor to include any member who will improve the Board's overall compositional balance.

All newly appointed Directors will go through a Board induction, followed by a series of the necessary training programmes, including Mandatory Accreditation Programme mandated by Bursa Securities.

### **Gender, Ethnicity and Age Diversity**

The Board takes cognizance of gender diversity in the boardroom as recommended by the MCCG to promote the representation of women in the composition of the Board. Presently, there is one (1) female director on the Board of the Company.

The Board does not have any gender, ethnicity and age diversity policies and targets or set any measures to meet any target. Nevertheless, the Group is an equal opportunity employer and all appointments and employments are strictly based on merits and are not driven by any gender, ethnicity or age bias.

The Board will consider establishing a policy formalising its approach to boardroom diversity to ensure that women candidates are sought as part of its recruitment exercise for the future.

### **Board Meetings**

The Board meets at least four (4) times in each financial year and will hold additional meetings if the situation requires. Sufficient notices were given to the Board prior to each meeting. At each meeting, the Board will consider: -

- an operational report from the Group MD;
- a report on the financial performance;
- specific proposals for capital expenditure and acquisitions, if any;
- major issues and business opportunities for the Company; and
- approve the Interim Financial Reports for announcement to relevant authorities.

The Company Secretary record minutes of meetings and conclusion by the Board in the discharge of their duties and responsibilities.

### **Nomination Committee**

The Nomination Committee comprises exclusively of three (3) Non-Executive Directors, a majority of whom are independent. The Chairman of the Nomination Committee is an Independent Director.

The role of the Nomination Committee is to ensure that the members of the Board reflect a broad range of experience, skills and knowledge required to successfully direct and supervise the Group's business activities as well as to ensure a proper balance between Executive Directors and Independent Non-Executive Directors.

The Terms of Reference of the Nomination Committee and the names of members are available at the Company's website at [www.fihb.my](http://www.fihb.my).

### **Summary of Activities of the Nomination Committee**

A summary of the activities undertaken by the Nomination Committee in the discharge of its duty for the financial year ended 30 June 2019 are as follows:-

1. Examined the composition of the Board and Board Committee;

2. Recommended the re-election of retiring Directors and retention of Independent Directors at the Annual General Meeting;
3. Reviewed the term of office of the Audit and Risk Management Committee and assessed its effectiveness as a whole;
4. Evaluated the effectiveness of the Board as a whole and of the Committees of the Board and the contributions and performance of each individual Directors; and
5. Reviewed the independence of the Independent Directors and assessed their ability according to the following criteria:-
  - the Independent Directors fulfil the definition of an independent Director as set out under Paragraph 1.01 of Main LR of Bursa Securities.
  - the Independent Directors are able to exercise independent judgement and act in the best interest of the Company.
  - there must be no potential conflict of interest that the Independent Directors could have with the Company as they had not entered into any contract or transaction with the Company and/or its subsidiaries within the scope and meaning as set forth under Paragraph 5 of Practice Note 13 of the Main LR of Bursa Securities.
  - the Independent Directors have not developed, established or maintained any significant personal or social relationship, whether direct or indirect, with the Non-Executive Chairman and Executive Directors, major shareholders or Management of the Company (including their family members) other than normal engagements and interactions on a professional level consistent with their duties expected of them to carry out their duties as an Independent Director.
  - the Independent Directors do not derive any remuneration and benefits apart from Directors' fees and meeting allowances.

### **Directors' Training**

All the Directors have attended and successfully completed the Bursa Securities' Mandatory Accreditation Program ("MAP") and are encouraged to attend training program from time to time to keep abreast with the relevant development in laws and regulations as well as the business development.

In addition, the company secretary and the external auditors update the Board on a regular basis the respective changes and amendments to regulatory requirements and laws and accounting standards to help Directors keep abreast of such developments. Details of training attended by directors are disclosed in the annual reports.

## **Annual Assessment of the Board**

A formal performance assessment of the Board, Board Committees and individual Directors enables the Board to assess its performance and identify areas for improvement. Such a formal assessment has been conducted for the financial year ended 30 June 2019, and the assessment was taking into consideration the following key elements for assessment:

- appropriate size, composition, independence, mix of skills and experience within the Board and the Board Committees;
- clear definition of the Board and Board Committees' roles and responsibilities;
- effectiveness of the Board and Board Committees in carrying out their roles and responsibilities as stipulated in the Board Charter and/ or Terms of Reference;
- sufficiency and relevance of knowledge and expertise of individual Directors in their respective capacity as members of the Board and Board Committees; and
- directors' character, experience, competency, integrity, and time commitment to effectively discharge their roles as Directors, including willingness to devote time in performing their roles, apart from attending Board meetings.

## **Annual Assessment of Independence**

The Board assessed the independence of the Independent Non-Executive Directors taking into account the individual Director's ability to exercise independent judgement at all times and their contribution to the effective functioning of the Board. All Non-Executive Directors are independent of management and free from any relationship. The Board is of the view that the current composition of independent directors fairly reflects the interest of minority shareholders in the Company through the Board representation.

The Board is satisfied with the level of independence demonstrated by all the Independent Non-Executive Directors and their ability to act in best interest of the Company.

## **Re-election**

In accordance to the Article 98 of the Company's Articles of Association, all Directors, including the Managing Director, shall retire from office once at least in each three-year period but shall be eligible for re-election. Additionally, where the Group MD is appointed for a fixed term that term shall not exceed three years.

Upon the recommendation of the Nomination Committee and the Board of the Company, the Directors due for retirement by rotation pursuant to Article 98 of the Articles of Association at the forthcoming Annual General Meeting are Datin Tan Geok Foong and Dato' Dr. Hj. Abdul Rasid Bin Ab. Malik. All the retiring Directors being eligible, had offered themselves for re-election. The profiles of the retiring Directors are set on Profile of Directors section of this Annual Report.

## **Remuneration Committee**

The Remuneration Committee comprises wholly of Non-Executive Directors, and is tasked with ensuring that the remuneration package is competitive to attract and retain the Executive Directors. The Remuneration Committee has a policy to review, assess and recommend to the Board, the remuneration packages of the Executive Directors. The Executive Directors play no part in making the decisions on their own remuneration.

The remuneration packages of Non-Executive Directors are determined by the Board as a whole with the individuals concerned abstaining from discussion on their own remuneration.

The Terms of Reference of the Remuneration Committee and the names of members are available at the Company's website at [www.fihb.my](http://www.fihb.my).

### **Directors' Remuneration**

The Directors remuneration scheme is linked to service seniority, experience, scope of responsibilities and performance. The remuneration of directors are disclosed in the annual report on names basis with breakdown including fees, salary, bonus, benefits –in-kind and other emoluments.

## **PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT**

### **Audit and Risk Committee**

The Audit and Risk Management Committee (“ARMC”) comprises wholly of three (3) non-executive directors, a majority of whom are independent directors. The present Chairman of the ARMC is Encik Mohd Arif Bin Mastol whilst the Chairman of the Board is Dato’ Dr. Choy Fook On.

Having the positions of the Board Chairman and ARMC Chairman assumed by different individuals allows the Board to objectively review the ARMC’s findings and recommendations.

None of the ARMC members were former key audit partners within the cooling-off period of at least two (2) years before being appointed as a member of the ARMC.

### **Assessment of External Auditors**

The ARMC does not have a specific policies and procedure to assess the suitability, objectivity and independence of the external auditor.

However, the ARMC undertakes an annual assessment of the suitability and independence of the external auditors. The ARMC meets with the external auditors to discuss their audit plan, audit findings and the Company's financial statements.

The ARMC has obtained confirmation from the external auditors, Messrs. Baker Tilly Monteiro Heng that they are independent in accordance with By-laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants.

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

The Board is responsible for the Group's risk management framework and system of internal control and for reviewing their adequacy and integrity. Accordingly, the Directors are required to ensure that an effective system of internal control, 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 are in place within the Group.

To assist the Board in maintaining a sound system of internal control for the purposes of safeguarding the Company's assets and the shareholders' investments, the Group has in place, an adequately resourced internal audit department. The activities of this department which reports regularly to the ARMC provides the Board with much of the assurance it requires regarding the adequacy and integrity of the system of internal control. As proper risk management is a significant component of a sound system of internal control, the Group has also put in place risk management process to help the Board in identifying, evaluating and managing risks. The implementation and maintenance of the risk management process is carried out by the ARMC of the Group.

### **Internal Control**

The Board acknowledges its overall responsibility for maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets. An integral part of this system of internal control is the establishment of an internal audit department that is independent of the activities they audit and is able to exercise due professional care.

Further elaboration on the above can be found on the Statement on Risk Management and Internal Control in this Annual Report.

### **Internal Audit Function**

The Directors acknowledged their responsibility in managing a reasonable sound system of internal controls covers financial, operational and compliance and risk management. The principal aim of the system of internal controls is the management of financial and business risks that are significant to the fulfilment of the Company's business objectives,

which is to enhance the value of shareholders' investment and safeguarding the Group's assets.

The Group has an internal audit department to provide the Board and management with the desired level of assurance that the governance, risk management and internal control system are adequate and effective in mitigating organizational risks to achieve the Group's corporate objectives. The internal audit department reports to the Audit and Risk Management Committee ("Committee") and one of the agenda of each Committee meeting is to receive and review the Internal Audit report. More information on the Internal Audit function can be found on the Audit and Risk Management Committee Report in this Annual Report

## **PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS**

### **Communicate with Stakeholders**

The Board believes in maintaining an effective communication policy that encourages feedback and comments from shareholders during the Annual General Meeting. Each item of special business included in the notice is accompanied by full explanation of the effects of a proposed resolution. In case of re-election of Directors, the relevant particulars relating to the Directors are stated to assist shareholders in making an informed decision. Communication with shareholders and the general public is also maintained through various announcements released to Bursa Securities including the mandatory announcement of interim financial reports.

All resolutions tabled at general meetings are voted by way of poll and voting procedures are briefed to the shareholders present at the commencement of each general meeting.

The Company has also maintained a website for shareholders and the public to access inter-alia corporate information, financial statements, and announcements released to Bursa Securities.

The Board has designated Tuan Haji Hussein Bin Hamzah as the Independent Non-Executive Director to receive, examine and respond to shareholders' enquiries and the general public.

### **Financial Reporting**

The Board endeavours to present a balanced and understandable assessment of the Group's position and prospects when releasing the annual financial statements and quarterly interim reports on consolidated results. The Board has responsibilities to ensure that the annual financial statements are prepared in accordance with the Companies Act 2016 and applicable financial reporting standards for listed entities in Malaysia. All

financial reports are reviewed by the ARMC before approval by the Board. One of the members of the ARMC is a qualified accountant and a member of the Malaysian Institute of Accountants. The responsibility of the ARMC in relation to the financial reporting is detailed in the ARMC Report.

### **Relationship with External Auditors**

The duties of the Audit and Risk Management Committee include keeping under review the scope and results of the external audit and its effectiveness and the independence and objectivity of the auditors. The external auditors have unrestricted access to the Audit and Risk Management Committee and the findings of the external auditors are reported to the Audit and Risk Management Committee at least twice a year.

The Audit and Risk Management Committee will meet the External Auditors at least once a year without the presence of the Executive Directors and Management. This allows the Audit and Risk Management Committee and the External Auditors the exchange of free and honest views and opinions in matters related to External Auditors' audit and findings.

### **Corporate Disclosure Policies and Procedures**

The Board acknowledges the importance of timely and accurate dissemination of material information equally to all stakeholders and avoid selective disclosure of information to specific groups or individuals. The Board also observes the disclosure requirements under the Main LR, statutes and the Corporate Disclosure Guide issued by Bursa Securities.

### **Leverage on Information Technology for Effective Dissemination of Information**

The Company maintains a website where shareholders and the general public can access the latest information and announcements made to Bursa Securities. The website contains information on the core business activities of the Group, the members of the Board, corporate information, and an investors section on financial results, Bursa announcements and contact person.

The quarterly financial results were announced via BURSA LINK immediately after the Board's approval. This is important in ensuring equal and fair access to information by the investing public.

### **Conduct of General Meetings**

The Company provides information to the shareholders with regard to, amongst others, details of the AGM, their entitlement to attend the AGM, the right to appoint a proxy and also the qualifications of a proxy.

All shareholders are encouraged to attend the Company's AGM and participate in the proceedings. The shareholders are given the opportunities to raise questions and seek clarification on the business and performance of the Group. The Board members, Senior Management and External Auditors are present at the Company's AGM to respond to shareholders queries.

### **Notice of AGM**

The Notice of Annual General Meeting is circulated to shareholders at least twenty-eight (28) days before the date of the meeting to enable them to go through the Annual Report and papers supporting the resolutions proposed. In addition to the explanatory notes to the special business as stated in the Notice of Annual General Meeting, the Company takes extra steps to also include explanatory notes to the ordinary business of the Annual General Meeting, facilitating full understanding and evaluation of issues involved in the proposed resolutions.