

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors (“the Board”) of Hock Seng Lee Berhad (“HSL”) is firmly committed to good corporate governance and recognises that accountability and transparency at every level of the organisation is essential in safeguarding assets, enhancing shareholder value and maintaining strong financial performance.

This Corporate Governance Overview Statement outlines the manner in which HSL Group has applied the principals of the Malaysian Code on Corporate Governance issued in 2017.

BOARD LEADERSHIP AND ITS EFFECTIVENESS

Principal Responsibilities: The Board has formalised a Board Charter which sets out the Board’s strategic intent. It outlines the Board’s roles and responsibilities, composition and operation. The Board Charter serves as a source of reference and primary induction literature, providing insights to prospective and present Board members as well as senior management. The Board Charter is reviewed periodically and at least once annually with the last review undertaken in November 2020. More information on the Board Charter can be found on our Group’s website at www.hsl.com.my. The Board assumes full responsibility for the success of the Group by taking stewardship responsibilities to lead the Group, focusing on a strategic plan, overall management and business performance, management of principal risks and controls, the succession plan and human resources management, investor relations and corporate communications, accountability and audit.

Codes and Policies: The Code of Ethics and Conduct which sets out the principles and corporate ethics of the Group is periodically reviewed and updated and is published on HSL’s corporate website. It outlines the basic policies of compliance and ethics, health and safety and the handling of confidential information.

Strategic Plan: The Board establishes the vision for the Group and sets overall strategies and objectives. The Board is dedicated to a business model that balances growth and profitability with a positive, ongoing, meaningful contribution to our community. The Group has formulated its strategy, entrenching sustainability considerations within all key areas where its impact on society is felt. The Material Sustainability Statement is included on pages 18 to 24 of this Annual Report.

The Board reviews and approves the annual business plan which covers the scope of business activities; government initiatives and policies; industry overview and potential opportunities; risk management; the business model and revenue generators; human resources plan; capital expenditure; finance plan; critical success factors; profit estimates and targets for the year. The Board evaluates business performance and target achievements quarterly.

Overall Management: To facilitate effective management, certain functions have been delegated to various Board Committees in accordance with their respective terms of reference, namely the Management Committee, the Audit Committee, the Remuneration Committee and the Nomination Committee. The minutes of the Board Committee meetings are presented to the Board for information and the chairman of the relevant Board Committees will report to the full Board on the key issues deliberated upon and decided. The key matters reserved specifically for the decision of the Board include the approval of the business plan and annual estimates and targets, substantial transactions that are not of a revenue nature in the ordinary course of business, expenditure and contracts above a certain limit, major investment and financial decisions including key policies and procedures and the chart of authority limit for transactions, all banking facilities and cheque signatories, quarterly reports, announcements to be made to Bursa Malaysia and the annual financial statements. The chart of authority limit is reviewed when required.

The Managing Director, Dato Yu Chee Hoe is the chairman of the Management Committee which comprises all Executive Directors. The Management Committee is primarily responsible for developing the Group’s strategy and business plan including annual estimates for the approval of the Board. It oversees the implementation of the approved strategy and business plan; developing a risk management framework and undertaking an ongoing process to identify, evaluate and manage any financial risks faced by the Group. It also manages operational activities and routine business matters, entering into transactions up to an approved limit. Each quarter, the Management Committee approves the quarterly reports and financial statements before presenting them to the Audit Committee and the Board, together with the financial performance evaluation, for review and approval.

Board Balance: The Board currently has nine members, comprising three Executive Directors and six Non-executive Directors of whom four ie. more than 1/3, are Independent Directors. The profile of each Director is presented on pages 15 to 17.

The Chairman, Dato’ Idris Bin Buang who is an Independent Non-executive Director leads the Board and is responsible for its efficient functioning. The Managing Director, Dato Yu Chee Hoe, holds the executive responsibilities for the Group’s business and manages the Group in accordance with the strategies and policies approved by the Board. The separation of the role of the Chairman and the Managing Director ensures a balance of power and authority.

Dato Yu Chee Hoe, who has extensive experience in the construction industry and renowned business acumen, leads the Executive Directors in taking on the primary responsibility to manage the Group’s business and resources, making and implementing operational business decisions. The Executive Directors are experienced and hands-on and have intimate knowledge of the business of the Group.

The Non-executive Directors have taken on various roles in the Board Committees and contribute significantly, especially in the enhancement of the corporate governance and controls of the Group. They are individuals of high calibre, sound reputation and standing and bring independent judgment to the Board’s decision making. As well as being well qualified in their respective fields, they bring extensive corporate and professional work experience to the Board. Together with the hands-on, in-depth industry knowledge and vast experience of the executive directors, there is a valuable collaboration of expertise and experience, ie business, technical, legal and financial. This range of inputs and views enables the Board to deliberate on issues from varied perspectives and so helps to ensure carefully considered, prudent decision-making at the helm of the Group.

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Hock Seng Lee Enterprise Sdn Bhd, a substantial shareholder is represented by four board members while Permodalan Nasional Berhad (PNB), another substantial shareholder is represented by Dato' Jamaludin Bin Osman. There are four Independent Directors representing the interests of minority shareholders. The Nomination Committee reviews the performance of the directors annually and is of the view that the present board is effective and balanced with sufficient members and the right mix of skills and experience appropriate for informed and efficient decision making.

In line with the Malaysian Code on Corporate Governance issued in 2017, the tenure of an Independent Director should not exceed 9 years. Shareholders' approval will be sought at the AGM to retain any Independent Director who has served a consecutive 9-year period with justification. The Nomination Committee has assessed the independence of all Independent Directors including Dato' Haji Idris Bin Buang who has served as Independent Director of the Company for more than nine years. The Board concurred with the recommendation of the Nomination Committee that Dato' Haji Idris Bin Buang can continue to bring independent and objective judgments to board deliberations, without being subjected to undue influence, and recommended him to continue to act as Independent Director of the Company. The Board shall seek shareholders' approval to that effect at the coming AGM but shall not adopt 2 tier voting for the time being. The detailed justification to retain him as Independent Director is included in the Notes to the Notice of AGM.

Meetings: To facilitate time planning for the directors, a meeting calendar for all scheduled Board and Board Committee meetings is circulated to all directors at the beginning of each year. Additional meetings are held when urgent and important decision must be made in between scheduled Board and Board Committee meetings. The attendance details of the directors at Board and Board Committee meetings are as follows:

	Board of Directors	Management Committee	Audit Committee	Remuneration Committee	Nomination Committee
No. of meetings held	4	30	4	1	1
Attendance at Board and Board Committee Meetings					
Executive Directors					
Dato Yu Chee Hoe	4/4	30/30*	n/a	1/1	n/a
Lau Kiing Kang	3/4	30/30	n/a	n/a	n/a
Tony Yu Yuong Wee	4/4	30/30	n/a	n/a	n/a
Non-executive Directors					
Dato' Jamaludin Bin Osman	4/4	n/a	n/a	1/1	n/a
Lau Kiing Yiing	4/4	n/a	4/4	n/a	1/1
Independent Directors					
Dato' Idris Bin Buang	4/4*	n/a	4/4	1/1*	n/a
Wong Siu Hieng	4/4	n/a	3/3*	n/a	n/a*
Datu Sudarsono Bin Osman	4/4	n/a	3/3	n/a	n/a
Datu Laura Lee Ngien Hion	4/4	n/a	n/a	n/a	n/a
Dr Chou Chii Ming (<i>resigned 2.3.2020</i>)	4/4	n/a	1/1	n/a	1/1*
Tuan Abang Kashim Bin Abg Morshidi (<i>resigned 2.3.2020</i>)	4/4	n/a	1/1	n/a	1/1

* chairman of the respective Board and Board committees

Supply of Information: The Directors have unrestricted access to all information within the Group, whether in the capacity as a full Board, Board Committee or in their individual capacity, to enable them to discharge their duties. All directors are provided with notices with agenda and appropriate information 7 days prior to each meeting. This includes appropriate Board papers that identify and fairly address the affairs of the Group and the key issues of the respective meeting. Minutes on deliberations and conclusions on issues brought up are taken for all meetings of the Board and its committees and they are circulated to all directors.

The Board and its Board Committees have access to the senior management and to two experienced Company Secretaries who attend all Board and Board Committee meetings. The Company Secretaries are advisors to the Board ensure that all Board procedures, applicable rules and regulations are complied with. The Company Secretaries also ensure that discussions and deliberations at Board and Board Committee are properly minuted and decisions from the Board or Board Committee meetings are communicated to the management for action. The Company Secretaries keep themselves up to date on regulatory and statutory changes through attending conferences and seminars so that they are able to advise the Board effectively. The Board is satisfied with the performance and support provided by the Company Secretaries. The Board also seeks independent professional advice to discharge its duties effectively as and when necessary.

Re-election of Directors: A director (including the Managing Director) appointed by the Board must submit himself or herself for re-election at the next AGM following his or her appointment and at least every three years thereafter in accordance with the Company's Constitution. At least one-third of the Directors are required to retire by rotation each year.

At the forthcoming AGM, three directors, namely Dato' Jamaludin Bin Osman, Mr Lau Kiing Kang and Mr Mr Lau Kiing Yiing retire by rotation and are seeking re-election.

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Succession Planning and Human Resources Management: The Nomination Committee comprises three Non-executive Directors. It is led by Mr Wong Siu Hieng, the Senior Independent Non-executive Director identified by the Board. The Nomination Committee reviews the composition of the Board and the Board's Committees annually. The terms of reference of the Nomination Committee include, among others, recommending any new director nominee to the Board and Board Committees, taking into consideration the time commitment of the potential candidate and diversity in gender, ethnicity and age and assessing the performance of the Executive Directors on an on-going basis, both individually and as a Committee and Board based on the Key Performance Indicators ("KPI") set by the Board. This is done annually and examines the mix of skills, core competencies, character, experience, integrity and time commitment of the director concerned. The Nomination Committee also reviews the required skills and core competencies of Non-executive Directors as well as the independence of the Independent Directors annually. Any new nominations received will be reviewed and put to the Board, which makes all decisions on such appointments.

The Remuneration Committee comprises three directors of whom two are Non-executive Directors. It is led by Dato' Idris Bin Buang. The Remuneration Committee reviews the remuneration of the Directors annually and advises the Board accordingly. The determination of the remuneration packages of Executive Directors is approved by the full Board based on an approved remuneration and bonus matrix premised on the KPI set by the Board. The parameters of the KPI include the achievement of financial targets and revenue and profit growth. Individual Directors are required to abstain from deliberating and voting on their own remuneration. The fees and other remuneration for Non-executive Directors are recommended by the Board and approved by the shareholders of the Company at its AGM.

The Managing Director, together with the Executive Directors, ensures management of the highest standard in appointing, training, assessing and providing for succession. The Group maintains a strong organisation structure with a dynamic senior management team. The Group values its employees and strives to foster a caring atmosphere that nurtures career development and balances high expectations for productivity with respect and understanding for each individual.

Director's Remuneration: The remuneration package of each individual Executive Director is structured to reflect his or her experience, performance and scope of responsibilities. The bonuses for Executive Directors are linked to their performances, achievements on group financial targets and the net earnings growth of the Group. The Executive Directors are not paid any directors' fees.

At the last AGM, the shareholders approved the payment of Directors' fees of up to RM297,700 for the year 2020 and other remuneration of up to RM80,000 payable to Non-executive Directors.

Disclosure: The details of remuneration of the Directors for the Group and Company for the financial year ended 31 December 2020 are as follows:-

Aggregate remuneration of Directors categorised into appropriate components:

	Fees RM'000	Salaries RM'000	Bonuses RM'000	Others RM'000	Total Remuneration RM'000
Executive Directors	-	2,419	-	531	2,950
Non-executive Directors	361	-	-	34	395
Total	361	2,419	-	565	3,345

Aggregate remuneration of each Director:

	Remuneration received from the Group
Executive Directors	RM'000
Dato Yu Chee Hoe	1,542
Lau Kiing Kang	781
Tony Yu Yuong Wee	628
Non-executive Directors	
Dato' Idris Bin Buang	77
Dato' Jamaludin Bin Osman	45
Datu Sudarsono Bin Osman	56
Datu Laura Lee Ngien Hion	55
Wong Siu Hieng	59
Lau Kiing Yiing	57
Dr Chou Chii Ming (resigned on 2.3.2020)	21
Tuan Hj Abang Kashim Bin Abang Morshidi (resigned on 2.3.2020)	8
Datu Sarudu Bin Hoklai (vacated on 21.2.2020)	16
Total	3,345

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Training and Development: All Directors have completed the mandatory accreditation programme. All directors are encouraged to keep abreast of trends through general economic, corporate governance, regulatory, industry and technical development seminars.

The Nomination Committee conducts an annual review of the training needs of directors. During the year, the Directors have attended various training programmes to enhance their knowledge and expertise and they are briefed by the management on their respective areas with updates provided on new regulations, changes in laws and accounting standards. Conferences, seminars and training programmes attended by the Directors are as follows:

Training Programmes attended:

Directors	Conferences/Seminars/Training Programme attended
Dato' Haji Idris Bin Buang	- Cyber Intelligence Asia 2020
Dato Yu Chee Hoe	- Briefing on the new Section 17A Mandatory Accreditation Programme (MAP) for Directors of PLCs
Lau Kiing Kang	- What every contractor should consider before giving Notice of Arbitration - Practical drone technique training
Tony Yu Yuong Wee	- What every contractor should consider before giving Notice of Arbitration
Dato' Jamaludin Bin Osman	- No formal seminars attended but Dato' keeps himself up to-date through reading and research
Datu Sudarsono Bin Osman	- No formal seminars attended but Datu keeps himself up to-date through reading and research
Datu Laura Lee Ngien Hion	- No formal seminars attended but Datu keeps himself up to-date through reading and research
Wong Siu Hieng	- No formal seminars attended but Mr Wong keeps himself up to-date through reading and research
Lau Kiing Yiing	- Tax budget seminar 2021

AUDITS AND RISK MANAGEMENT

Financial Reporting: In presenting the annual audited financial statements and the quarterly reports to shareholders, the Board aims to present a balanced and understandable assessment of the Group's financial position and prospects and ensures that the financial results are released to Bursa Malaysia Securities Berhad within the required timeframe.

Statement on Directors' Responsibility for Preparing the Annual Audited Financial Statements: The Directors are responsible for and ensure that the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at the end of the accounting period and of the results of their operations and of their cash flows for the financial year ending on that date.

The Directors are responsible and took reasonable steps to ensure the maintenance of proper accounting and other records and internal controls, the application of appropriate accounting policies and the safeguarding of the assets of the Group. The Directors are of the opinion that in preparing the financial statements for the year ended 31 December 2020, the Company has adopted appropriate accounting policies in accordance with the applicable financial reporting standards in Malaysia and the provision of the Companies Act, 2016 and that these are applied consistently and are supported by reasonable and prudent judgments and estimates.

Audit Committee: The Audit Committee assists the Board in the effective discharge of its responsibilities relating to financial reporting, corporate governance and corporate control. The composition of the Audit Committee meets the Main Market Listing Requirements whereby all members of the Audit Committee are Non-executive Directors, the majority of whom are Independent Directors and one member is a qualified accountant. The report of the Audit Committee is set out on pages 30 to 31.

External Auditors: The Audit Committee carries out assessment on the performance and remuneration of the external auditor before recommending their appointment to the Board. The Audit Committee as well as the Board has maintained a transparent, objective and professional relationship with the external auditors.

The Audit Committee reviews with the external auditors, their audit plan and the results of the audit including any recommendations arising. The report of the external auditors to members is set out on pages 91 to 94.

Risks Management and Internal Control System: The Managing Director, with the support of the risk managers who are various department heads, reviews the risks and exposures and the internal controls that are in place to mitigate such risks, at least annually. In the current economic climate, conscientious monitoring of market indicators, the industry climate and financial management issues is vital. Further details on risk management are set out in the Statement on Risk Management and Internal Control on page 32 of this Annual Report.

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CORPORATE REPORTING AND RELATIONSHIP WITH STAKEHOLDERS

The Board is committed to providing timely, complete, and accurate disclosure of material information pertaining to the Group's performance and operations and to ensuring equal access to such material information, avoiding individual or selective disclosure. The Board has formalised the Corporate Disclosure Policy to outline the Group's approach toward the formulation, determination and dissemination of material information and the internal procedural guidelines to facilitate consistent disclosure practices across the Group.

The Board places great importance in ensuring the highest standards of transparency and accountability in the disclosure of information to shareholders, potential investors and the public. The Board endeavours to provide shareholders and the public with a balanced assessment of the Group's performance, position and prospects on a quarterly basis via the quarterly reports and press releases and to provide timely and adequate disclosure of information on matters of material impact to the public. The Board values the opportunity to provide an annual report to shareholders and to meet them annually.

The Managing Director and senior management of the Company frequently meets with investors, analysts and institutional shareholders to discuss the Group's strategies, performance, general market conditions relevant to the business of the Group and new developments as well as explaining the Group's business and financial objectives. The Group also participated in road shows, analyst briefings and investor conferences during the year.

The Board recognises that the Annual General Meeting (AGM) provides an important opportunity to meet shareholders and it welcomes shareholders to ask questions and share a dialogue on the performance of the Group. All directors attended the AGM in 2020 and all resolutions were voted by poll.

For the 2021 AGM, a 28 days' notice period has been allowed to give more time for shareholders to prepare for the AGM. The Group maintains a corporate web-site including a dedicated Investor Relations section where shareholders and the general public can access the latest information of the Group including annual reports, quarterly reports and other corporate announcements made to Bursa Malaysia.

The Company has implemented e-dividends to promote greater efficiency of the dividend payment system. All shareholders who have not registered for e-dividends are strongly encouraged to do so through their stock brokers' offices where the CDS accounts of the shareholders are maintained.

The Annual Report 2021 will be made available on the Company website and emailed to all shareholders. Hard copies are available on request.