

LAY HONG BERHAD BOARD OF DIRECTORS CHARTER

1. THE PURPOSE OF THE CHARTER

The charter is the key corporate governance policy and procedures of Lay Hong Berhad (LHB) which defines the roles, responsibilities and authorities of the board in discharging its function setting the direction in the management and control of the company. The charter shall be used as reference for directors in discharging their duties.

The charter also serves as a document dedicated to the compliance of the Malaysian Code of Good Governance of a Public Listed Company (CG)

2. THE BOARD OF DIRECTORS

2.1) COMPOSITION OF THE BOARD

- a) Under the Articles of Association of Lay Hong Berhad the Board's member shall not be more than 15. The board shall be composed of Executives and Non Independent Non-Executive and the Independent and Non-executives-Directors. The independent non-executive directors at any time shall make up at least one-third of the total number of directors in the board.
- b) The Board shall be under the leadership of a chairman who is elected by the board. The Chairman and The Group Managing Director (GMD) shall be of separate person.
- c) The Group Managing Director shall be a member of the board. The Board may appoint senior member of the management to join the board as executive director.
- d) The board member shall consist of individuals who have experiences and knowledge that are required by and relevant to the business of the company.
- e) Non Independent non-executive director shall be appointed from the nominees of the major shareholders.
- f) Independent Non-executive Directors shall be persons of caliber, credibility and have the necessary skill and experience to bring an independent judgement on the issues on development and sustainability of the company and the business.

- g) The tenure of an independent non-executive director shall not exceed a cumulative term of nine years. The approval of the shareholders shall be obtained if the board has a strong justification that the independent director should continue as an independent director or be redesigned as a non-independent director.
- h) The appointment of a director shall follow written procedures and criteria developed by the Nomination Committee and approved by the board. Upon appointment, each director shall be provided with a formal letter setting out the director's duties, obligations, expected commitment, remuneration package and other entitlement. The letter shall signed by Group Managing Director on behalf of The Company.

2.2) **PRINCIPLE ROLES AND RESPONSIBILITIES OF THE BOARD**

The Board recognized the overall function and the powers of the Board of Directors as required by The Companies Act, 1965 (amendments 2007)

- Section 131B (1) - *The business and affairs of a company must be managed by or under the direction of the board of directors.*
- Section 131B (2) - *The board of directors has all the powers necessary for managing and directing and supervising the management of the business and affairs of the company*

2.3) **SPECIFIC ROLES AND RESPONSIBILITIES OF THE BOARD**

The board recognized the following specific roles and responsibilities

- a) Reviews and adopts a strategic plan for the company;
- b) Oversee the conduct of the company's business to evaluate whether the business is being properly managed;
- c) Identify principal risks and ensuring the implementation of appropriate systems to manage these risks;
- d) Ensure that there is an appropriate succession plan for member of the Board and senior management;
- e) Develop and implement an investor relations programme or shareholder communications policy for the company;

- f) Reviews the adequacy and the integrity of the company's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

2.4) **ACTIVITIES OF THE BOARD**

In exercising the specific roles and responsibilities the Board shall have the following activities:

- a) The Board reviews and adopts the Company's strategic direction and objectives, taking into account (among other considerations) the Company's risk profile and exposures. The management of the company prepares medium and long term corporate plan clearly indicating the vision and objectives and strategies for the approval of the board. In approving the strategies, the board shall ensure the sustainability of the business and address issues such as environment, corporate responsibilities, business ethics and animal welfare.
- b) The Board approves annual budget presented by the management. The budget shall include analysis of the performance achieved, the projection of the revenue, profit and loss, expenditure and allocations, proposal on investment funding. The budget shall be presented on timely basis and the budget shall be approved before the new financial year begin.
- c) The Board reviews and approves the organisation structure and reviews the structure periodically to ensure effectiveness of the organization.
- d) The Board ensures that there is a proper succession plan of The GMD and Directors such as Finance and Production and other Senior Management positions.
- e) Review and approve all financial statements for declaration to Bursa and stakeholders quarterly and annually and on timely basis. The Audit Committee reviews and recommends the financial statement prior to presentation to the board.
- f) Oversee the Company's compliance with applicable laws and regulations. Annually review the compliance. The Company Secretary advises any non-compliance to the Companies Act and laws related to the listing and any amendment to the laws. The GMD is responsible to ensure compliance to all laws and regulation related to business of the company.
- g) Identifies risk profile of the company and measures in managing risk to an acceptable level. In this regard, the Board delegates the task to The Risk Management Committee under the stewardship of GMD to identify and

manage the risk. The GMD reports to the board on the measure taken mitigate the risk.

- h) Approves and oversees the system of internal control and periodically review the internal control system. In this regard the Board delegates the Audit Committee to oversee and periodically review the internal control system and activities and report to the board. The GMD shall ensure internal control system which includes among others of written procedures with regard to safeguarding company asset, preventing fraud, misuse and unauthorized expenditure.

3. ROLES AND RESPONSIBILITIES OF THE CHAIRMAN OF THE BOARD

The chairman is responsible for leadership of the board to ensure efficiency of the organisation and function of the board. The chairman facilitates the effective contribution of all directors and promotes constructive and respectful relations between board members and between board and management.

In order to fulfil the roles, the Chairman shall:

- a) Monitor the workings of the board, especially the conduct of board meetings;
- b) Ensure that all relevant issues for the effective running of the company's business are on the agenda;
- c) Ensure that information to facilitate decision-making is delivered to board members on a timely basis;
- d) Facilitate the deliberation and discussion to enable the board to arrive a clear and quality decision on issues discussed;
- e) Chair the Annual and Extraordinary General Meetings of shareholders;
- f) Liaise with the GMD and the company secretary on the agenda for board meetings;
- g) Facilitate the deliberation and discussion to enable the board to arrive at clear and quality decisions on issues discussed;

4. ROLES AND RESPONSIBILITIES OF THE GROUP MANAGING DIRECTOR

The Group Managing Director is mandated to be overall in charge of the management of the company. He shall contribute to the leadership, vision, direction and sustainability and profitability of the company. The GMD shall be:

- a) Fully responsible for day to day management of the company and answerable to the Board.
- b) Provide leadership and strategic vision and provide high-level business judgement and wisdom.
- c) Develop the corporate objective, strategic short term and long term plan for which the GMD agreed to achieve for approval of the board.
- d) To ensure the Company meets short term performance targets and laying down longer-term growth opportunities for the company.

5. BOARD COMMITTEES

5.1) THE NOMINATING COMMITTEE

The Board shall appoint at least 3 non-executive directors to sit in the committee and the majority shall be independent non-executive directors. The Board shall appoint The Chairman and members of the committee.

The committee shall establish its own charter for approval of the board and the charter shall cover the purpose, scope, function, program and activities

Terms of reference of Nominating Committee

- a) Develop criteria for assessment of candidates for all directorships in the board, taking into consideration the candidates relevant skills, knowledge, expertise and experience, professionalism, integrity that may enhance the board effectiveness and recommend to the board. Set out orientation and training program for new directors to enable that director to discharge their duties;
- b) In the case of candidates for the position of independent non-executive directors, the nominating committee shall evaluate the candidates' ability to discharge such responsibilities/functions as expected from independent non-executive directors;
- c) The committee may consider candidates proposed by the GMD, senior management or any director or major shareholder;
- d) Recommend to the board, candidates to fill the seats on board Committees;
- e) Assist the board in an annual review of the required mix of skills and experience and other qualities including core competencies which non-executive directors should bring to the board; and

- f) Annually assess the effectiveness of the board as a whole, the board committees and the contribution of each individual director, including independent non-executive directors and GMD. All assessments and evaluations carried out by the nominating committee in the discharge of all its functions should be properly documented. With regard to the independent directors, the nominating committee shall be responsible to assess the level of independence of the independent directors annually and report to the board;
- g) Carry out annual review of the Board Charter and recommend to board any amendment to the charter.

5.2) **AUDIT COMMITTEE**

The Audit Committee shall have at least 3 members comprising of Independent Non-Executive Directors. The members shall elect a Chairman among their number who shall be an independent Director.

The committee shall establish its own charter for approval of the board and the charter shall cover purpose, scope, function, program and activities of the committee

Terms of Reference

- a) To consider the appointment of the external auditor, the audit fee and any question of resignation or dismissal;
- b) To discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- c) To review the quarterly and year-end financial statements of the board, focusing particularly on:
 - * Any change in accounting policies and practices;
 - * Significant adjustments arising from the audit; the going concern assumption; and
 - * Compliance with accounting standards and other legal requirements.
- d) In absence of any management staff, to discuss problems and reservations arising from the interim and final audits, and any matter the external auditor may wish to discuss;
- e) To review the external auditor's management letter and management's response;

- f) In relation to the internal audit function:
- g) Review the adequacy of the scope, functions and resources of the internal audit function, and that it has the necessary authority to carry out its work;
- h) Review the internal audit programmes and results of the internal audit process and ensure that appropriate actions are taken on the recommendations of the internal audit function;
- i) Review any appraisal or assessment of the performance of members of the internal audit function;
- j) Approve any appointment or termination of senior staff members of the internal audit function, take cognizance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning;
- k) To consider any related-party transactions that may arise within the company or group;
- l) To consider the major findings of internal investigations and management's response.

5.3) THE REMUNERATION COMMITTEE

The Remuneration Committee shall have at least 3 of Non-Executive Directors and the Board shall appoint the chairman and member of the committee. The committee shall establish its own charter for approval of the board and the charter shall cover purpose, scope, function, program and activities of the committee

The growth of the company to certain extent depends on how the company is able to attract and retain the people of quality required by the company. The board recognized the important of the quality of people as the member board and top management. The remuneration committee shall ensure that the remuneration package is attractive enough to attract and retain dedicated and high achievers.

Terms of reference of The Remuneration Committee

- a) To develop and recommend to the board a framework on the fee structure and level of remuneration for GMD and directors of the board taking into consideration;

- b) Attracting and retaining top executives quality that increases productivity and profitability in the long run;
- c) A performing base which motivate and create incentives for directors to perform at their best focusing attention on the achievement of desired goals and objectives;
- d) To review and restructure the fees for non-executive directors taking into account the additional responsibilities the director has such as the chairman of the board or Audit Committee.

6. CODES OF CONDUCTS OF THE BOARD

6.1) Commitment to Rules of Law

The Board is committed to take necessary actions to ensure that Lay Hong BHD and the subsidiary companies comply with all relevant laws and regulations. In this respect the Company's Secretary shall advise the board on any violation or potential violation or non-compliance to the existing companies laws.

6.2) Commitment to the Principles of Good Governance

The Board recognizes the value of good governance and commits to promoting and sustaining a strong culture of corporate governance. We are fully committed to the principles of good governance as stipulated in the Code of Corporate Governance and has established structures and procedures for effective governance of the Company.

6.3) Commitment to Accurate and Timely Disclosure

Disclosure and transparency are essential to the Company stakeholders and potential investors for a decision-making process. The Company recognises that timely availability of quality and accurate information including the reporting of financial performance are key facets of investor protection and market confidence.

The Board shall commit at all times to fully disclose material information dealings and it shall cause the filing of all required information for the interest of the stakeholders and potential investors.

The company is committed to produce and disclose report and corporate information in transparent and timely manner. The GMD and Senior Management appointed by GMD disclose all material information that could potentially affect share price such as earnings results, acquisition or disposal of assets on a regular and timely basis, Board changes, related party transactions, shareholdings of directors and changes to ownership, other information that shall always be disclosed including remuneration (including stock options) of all

directors and senior Management, corporate strategy, and off balance sheet transactions.

All disclosed information shall be released through approved stock exchange procedures for corporation announcements as well as through the annual report.

6.4) Commitment Share Holder Right and Protection

The Board is committed to respect the rights of the shareholders and minority interests by adopting the following procedures:

- a) Shareholders shall have the right to elect, remove and replace directors where voting shall be used in the election of directors. A director shall not be removed without cause if it will deny minority shareholders representation in the Board.
- b) The Board shall be transparent and fair in the conduct of the annual and special shareholders' meetings of the company. The shareholders shall be encouraged to personally attend such meetings. If they cannot attend, they shall be apprised ahead of time of their right to appoint a proxy.
- c) All shareholders shall be allowed to inspect corporate books and records including minutes of Board meetings and stock registries and shall be furnished with annual reports, including financial statements, without cost or restrictions.
- d) The shareholders of the Company shall be provided, upon request, with periodic reports which disclose relevant personal and professional information about the directors and Officers and certain other matters such as their holdings of the Company's shares, dealings with the Company, relationships among directors and key Officers, and the aggregate compensation of directors and Officers.
- e) The minority shareholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes, and in accordance with law, jurisprudence and best practice.
- f) The minority shareholders shall have access to any and all information relating to matters for which the Management is accountable for and to those relating to matters for which the Management shall include such information and, if not included, then the minority shareholders shall be allowed to propose to include such matters in the agenda of shareholders' meetings, being within the definition of "legitimate purposes", and in accordance with law, jurisprudence and best Practice.

- g) Accurate and timely information shall be made available to the shareholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.
- h) The Company shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock, except:
 - i) When justified by definite corporate expansion projects or programs approved by the Board; or
 - ii) When the Corporation is prohibited under any loan agreement with any financial institution or creditor whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or
 - iii) When it can be clearly shown that such retention is necessary under special circumstances obtaining in the Company, such as when there is a need for special reserve for probable contingencies.

7) **CODE OF CONDUCT DIRECTORS**

All directors are aware of their scope of duty covering legal and non legal.

a) **Fiduciary duty**

The members acknowledged and accepted that although boards act collectively, the fiduciary duties are owed individually to each director. The directors are expected to act in good faith, exercise power for a proper purpose, exercise discretion properly; and avoid conflict and self-dealing.

b) **Use of reasonable care, skill and diligence**

Directors have understood and agreed to carry out their duty with care, skill and diligence in a conscientious manner and agreed to exercise the following broad guidelines:

- i) To ensure that effective governance system and process has been in place;
- ii) To provide adequate time for deliberations and evaluations of transactional and financial matters, refrain from rushing into decision-making;

- iii) Request for sufficient notice and early distribution of board papers and explanatory appendices prior to board meetings;
- iv) Convene supplemental meetings in response to requests for further information before the final decision;
- v) Make informed decisions based on the information provided, analysis and recommendations of the company's independent professional advisers;
- vi) The Directors are expected to adhere to the standards of loyalty, good faith, and the avoidance of conflict of interest that follow Board Members shall:
 - a) Act in the best interests of, and fulfil their fiduciary obligations to shareholders;
 - b) Act honestly, fairly, ethically and with integrity;
 - c) Conduct themselves in a professional, courteous and respectful manner;
 - d) Comply with all applicable laws, rules and regulations;
 - e) Act in good faith, responsibly, with due care, competence and diligence, without allowing their independent judgment to be subordinated;
 - f) Act in a manner to enhance and maintain the reputation of Lay Hong Bhd;
 - g) Disclose any potential conflicts of interest, including those that they may have regarding any matters that may come before the Board, and abstain from discussion and voting on any matter in which they have or may have a conflict of interest;
 - h) Make available to and share with fellow Directors information as may be appropriate to ensure proper conduct and sound operation of LHB and its Board of Directors;
 - i) Respect the confidentiality of information relating to the affairs of the Company acquired in the course of their service as Directors, except when authorized or legally required to disclose such information; and
 - j) Not use confidential information acquired in the course of their service as Directors for their personal advantage;

- k) The director shall acknowledge and sign these declarations when he accept his appointment as a director.

8) DUTIES OF COMPANY SECRETARY

i) Management of Board Meeting

- a) Prepare the agenda after consultation with the chairman and GMD and notification to all directors of board meetings;
- b) Record all discussions leading to decision and decisions of the board, ensuring that the decisions are relayed to management to act upon and circulated amongst the directors;
- c) Filing and safekeeping of corporate documentation such minutes, papers and to ensure that all documents are stored in a such way that they are easily traceable and retrievable.

ii) Administration and Legal Requirement

- a) Assisting the board with interpreting legal and regulatory acts related to the CG Code, listing rules and international regulations and developments;
- b) Advising the board on its obligatory requirements to disclose material information to the shareholders and financial markets on a timely basis;
- c) Advising the board and chairman on the implementation of the CG Code;
- d) Notifying the chairman of any possible violations of legal and regulatory acts;
- e) Providing advice to the chairman and directors as to their duties and responsibilities;
- f) Monitoring compliance with these principles and best practices and informing the board of any breaches;
- g) Assisting the board in ensuring a smooth administration of the appointment of new directors;
- h) Briefing new directors on organizational structure of the company and procedures that regulate the operations of the board;
- i) Ensuring availability of information required by new directors for the proper discharge of their duties.

9. BOARD MEETING

Process of Board Meeting

i) Frequency and Location of meeting

There shall be a minimum of 4 meetings in one financial year. Additional meeting shall be conducted as when necessary to discuss urgent issue and this respect any member has the right to call provided that a sufficient notice is given, to discuss a specific agenda of urgent and important, agreed by a majority of directors.

The meeting shall be held at the board room at Wisma Lay Hong or any place in Malaysia as decided by the board.

The board meeting by way of teleconferencing is allowable but subject to Chairman's approval.

The schedules of meetings for the year shall be circulated to all members for endorsement of the board on the last meeting of the preceding year.

ii) Quorum

Notwithstanding the minimum allowable by the articles of association, the quorum shall be three members inclusive of chairman and the majority is Independent members

iii) Roles or Chairman

The chairman shall play a mediator's role to maintain the order of the proceedings in a constructive, productive and effective manner. The Chairman shall encourage all members to participate in discussion and shall allow each member sufficient time to speak his opinion without any interference or disturbance such as interjecting while talking, ringing or talking over hand phone.

The chairman, assisted by the company secretary, shall monitor technical matters which include:

- a) Timely circulation of proper notice of meetings together with the agenda;
- b) Punctuality of directors for board meetings;
- c) Presence of a quorum;
- d) Accuracy of the agenda content;
- (e) Reasonable time for directors to consider board papers prior to the board

meeting;

- (f) Adherence to the company's Memorandum and Articles of Association;
- (g) Applicable provisions of the CA, the Listing Requirements and other regulatory requirements.

iv) **Conduct**

Each member is expected to speak in orderly manner and refrain from using of hand phone in the meeting room while the meeting in progress.

v) **Papers presented**

Paper presented shall be in a proper format and state clearly the purpose, issues and recommendation. All papers shall be circulated to all members 1 week prior to board meeting. A hard copy of the paper shall be made available to the secretary to be attached to minute of the meeting for filing.

vi) **Agenda**

The board has decided that the following agenda shall be included in every meeting:

- a) Confirmation of the minutes of the previous meeting
- b) Matters arising
- c) Group Managing Director Report
- d) Financial statement quarterly or annual
- e) Chairman of Audit Committee Report
- f) Other matters

Other agenda to be included if and when necessary and to be decided by The Chairman in consultation with GMD:

- * Business plan
- * Direction and strategy formulation, including review
- * Risk management issues and resolution
- * Budget, approval and monitoring against actual performance, including variance reporting
- * Funding requirements
- * Formulation and monitoring of key company policies
- * Evaluation of management's performance
- * Corporate exercises, e.g. acquisitions, mergers, divestments and takeovers

The member of the board shall be notified on the agenda of the meeting at least one week before the schedule of the meeting.

vii) **Minutes of the meeting**

The revised CG Code requires the board to properly record not only decisions made but also all the issues discussed in arriving at the decisions. This serves to provide a historical record and insight into those decisions.

In this regard the chairman of the meeting shall ensure that all issues pertaining to the decision that are discussed in the meeting are stated clearly in the minutes before the minutes are distributed to the directors. The secretary consults the Chairman prior to distribution of the minutes.

7) **ENDORSEMENT AND REVIEW OF CHARTER**

The Charter is endorsed by the Board of Lay Hong Berhad and shall be subject to annual review by the Board. The charter shall be posted at Lay Hong Bhd website.

The Charter approved by the Board on 27 May 2013