

Statement on Corporate Governance

The Board of Directors of BHS Industries Berhad (“the Board”) recognises the importance of corporate governance. Towards this end, the Board is pleased to report the manner in which the Company has applied the principles of the corporate governance and the extent of its compliance with the recommendations set out in the Malaysian Code on Corporate Governance 2012 (“the Code”) during the financial year ended 30 June 2015. The objective is to protect and enhance shareholders’ value and the financial performance of the Group.

Board Roles and Responsibilities

The objective of the principles stated in the Code is to establish the fundamental structures for effective functioning of the board.

Principally, the responsibilities of the Board cover the areas of strategic plan, risk management, succession planning, investor relation and system of internal control of the Group. Within its areas of responsibilities, the Board ensures the Group is properly managed and continuously improves in its performance.

The Board has formalised its ethical standards through a code of conduct and implemented whistle blowing policy to facilitate feedback and to monitor its compliance. Among others, these code and policy address:

- Fraud;
- Conflict of interest;
- Insider trading;
- Sexual harassment;
- Misuse of confidential information;
- Non-compliance of regulatory requirements; and
- Concealment of any or a combination of the above.

The Group is committed to sustainability development. The sustainability objective of the Group is to balance the shareholders’ value, the welfare of employees, community and environment in which it operates. Employees’ welfare and community services were carried out and organised in several occasions during the financial year. Further details of CSR and sustainability initiatives and activities are set out in Corporate Social Responsibility Statement on page 22 of this Annual Report.

The Board Charter, Code of Conduct, Whistle blowing Policy and Sustainability Policy (ie. Corporate Social

Responsibility Policy) are also available in the company’s website at www.bhs.my

Board Composition and Independence

Independence is important for ensuring objectivity and fairness in board’s decision making. Currently, the Board had seven (7) directors with more than 1/3 of independent directors and chaired by a non-executive and non-independent Chairman. The profiles of the members of the Board, as set out on Pages 10 to 13 of this Annual Report.

In order to provide further avenue to the shareholders to convey their concerns, the Board has identified Madam Chew Yuit Yoo to act as the Senior Independent Non-Executive Director, serving as an alternative for shareholders to convey their concerns and seek clarifications from the Board.

The tenure of all Independent Director is within 9 years.

The Board supports gender diversity in the board and encourages female participation in the board. Presently, out of the seven (7) board members, two of the board members are female.

Board Commitment

The underlying factors of directors’ commitment to the Group are devotion of time and continuous improvement of knowledge and skill sets.

The Board meets at least every quarter and on other occasions, as and when necessary, to approve quarterly financial results, statutory financial statements, the Annual Report as well as to review the performance of the company and its operating subsidiaries, governance matters, related party transactions, major acquisition or disposal of assets and other business development matters. Board papers are circulated to the Board members prior to the Board meetings so as to provide the Directors with relevant and timely information to enable them to deliberate issues raised during Board meetings more effectively.

The Board maintains specific Board committees namely Audit Committee, Nominating Committee and Remuneration Committee. These Committees ensure objectivity is provided to the specific Board agenda. However, in order to ensure the direction and control of the Group is firmly within the Board, the Board has defined the terms of reference for each Committee.

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The Board has access to the advice and services of the Company Secretary and the Company Secretary had attended all the Board and Board Committees' meetings. During the financial year ended 30 June 2015, eight (8)

Board meetings were held. The details of attendance by the Board members during their tenure of office are as below.

Directors	No. of Board meetings attended by Directors
Dato' Sohaimi Bin Shahadan (Appointed on 8.8.14)	8/8
Dato' Lim Thiam Huat (Appointed on 17.12.14)	4/4
Koo Thiam Yoong	8/8
Datuk Lee Hwa Cheng (Appointed on 10.9.15)	N/A
Dato' Dr. Koe Seng Kheng	8/8
Chew Yuit Yoo	8/8
Thiang Chew Lan	8/8

Matters requiring Board decisions during the intervals between the Board meetings are circulated and approved through circular resolutions.

The Directors recognise the needs to attend training to enable them to discharge their duties effectively. The training needs of the directors would be assessed and proposed by individual directors. Each director

determines the areas of training that he/she may require for personal development as a director or as a member of the Board Committees. During the year, the Directors have participated in relevant training programmes to enhance their skills and knowledge and to keep abreast with the relevant change in laws, regulations and business environment. The trainings attended by the Directors during the financial year are listed below:

Director	Training Attended	Date	Duration
Dato' Sohaimi Bin Shahadan	Roles & Responsibilities of directors in relation to financial statements	15 Sept 15	1 day
Dato' Lim Thiam Huat	Mandatory Accreditation Programme for Directors of Public Listed Companies	11 & 12 Feb 15	2 days
Koo Thiam Yoong	Frankfurt Book Fair	8 – 12 Oct 14	5 days
	5 th All in Print China, Shanghai	15 – 17 Nov 14	3 days
	World Book Fair 2015, New Delhi	13 – 17 Feb 15	5 days
	Print China 2015, Dongguan	6 – 9 Apr 15	4 days
Dato' Dr. Koe Seng Kheng	Understanding GST for Trading & Manufacturing Industries	6 & 9 Feb 15	2 days
Chew Yuit Yoo	Product Centric Workshop	14 Mar 15	1 day
	Malaysian Anti-Money Laundering, Anti-Terrorism Financing & Proceeds of Unlawful Activities Act 2001 : The Law & Policy from A Capital Market Perspective	15 Aug 15	1 day
Thiang Chew Lan	Enhancing Internal Audit Practice	13 Aug 14	half day

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The Board is provided with and has access to all company's information to enable it to discharge its duties. The management is invited to attend the Board and Audit Committee meetings and to brief and provide explanation to the directors on the operations in the Group. The Board is also briefed progressively by the Company Secretary, External Auditors and the Internal Auditors on the changes in corporate regulatory requirements. In addition, the Board collectively could engage independent professionals when necessary to seek their advices in furtherance their duties.

Board Committees

The Board maintains specific Board Committees namely Audit Committee, Nomination Committee and Remuneration Committee. These Committees ensure greater attention, objectivity and independence are provided in the deliberations of specific board agenda. However, in order to ensure the direction and control of the Group is firmly within the Board, the Board has defined the terms of reference for each Committee. The Chairman of the respective Board Committees would report to the Board during the Board meetings on significant matters and salient matters deliberated in the Committees.

Audit Committee

The composition requirement of the Audit Committee members is in accordance with the regulatory requirements. The Audit Committee Chairman has access to all the Executive Directors, senior management, External and Internal Auditors. The detailed information on the composition of the Audit Committee, its terms of reference and a summary of its activities are set out on pages 25 to 27 of this Annual Report.

Nominating Committee

The Nominating Committee is established and maintained to ensure that there are formal and transparent procedures for the appointment of new directors to the Board and for the performance appraisal of directors. The current members of the Nominating Committee are:

Chairperson : **Chew Yuit Yoo**
(Senior Independent Non-Executive Director)

Member : **Dato' Dr. Koe Seng Kheng**
(Independent Non-Executive Director)

: **Thiang Chew Lan**
(Independent Non-Executive Director)

During the financial year the Nomination Committee conducted **three (3)** meetings. At these meetings, the Nomination Committee:

- i. Deliberated the performance of the board and contribution of each individual director;
- ii. Reviewed the current composition of the Board and Board Committees and their required mix of skills, integrity, knowledge, expertise and experience to function effectively under the current size of operations of the Group;
- iii. Reviewed and recommended to the Board for re-election of retiring directors in AGM;
- iv. Reviewed and proposed to the Board for the appointment of new directors and members to the Board Committee.

Remuneration Committee

The present members of the Remuneration Committee are:

Chairperson : **Thiang Chew Lan**
(Independent Non-Executive Director)

Member : **Chew Yuit Yoo** (Senior Independent Non-Executive Director)

Dato' Dr. Koe Seng Kheng
(Independent Non-Executive Director)

The Committee considers the principles recommended by the Code in determining the directors' remuneration, whereby, the executive remuneration is designed to link rewards to the Group's performance whilst the remuneration of the non-executive directors is determined in accordance with their experience and the level of responsibilities assumed.

Remuneration Committee meeting is held at least once a year. During the financial year, three (3) meetings were held which were attended by all members of the Remuneration Committee.

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The number of Directors whose annual income falls within the following bands is set out as follows:

Remuneration Bands	Executive Directors	Non-Executive
RM50,000 and below	2*	3
RM100,000 – RM150,000	–	1
RM150,001 – RM200,000	1	–
RM200,001 – RM250,000	1	–

* The executive directors resigned in July 2014.

The aggregated annual remuneration paid or payable to all Directors of the Company are further categorised into the following components:

	Fees RM	Salaries and other emoluments RM	Benefit-in- kind RM	EPF RM	Total RM
Executive Directors	–	386,100	6,250	46,332	438,682
Non-Executive Directors	235,740*	–	–	3,840	239,580

* included meeting allowances of RM27,000.

Financial Reporting

The Audit Committee has the responsibility to ensure the Group's financial statements comply with applicable financial reporting standards. The integrity of financial reporting are influenced by the competency, quality and integrity of the management in charge of the preparation of financial reports and the competency, suitability and independence of external auditors.

As part of the Audit Committee review processes, the Audit Committee has obtained written assurance from the External auditors confirming that they are, and have been, independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements. Annually, the Audit Committee also reviews the appointment, performance and remuneration of the External Auditors before recommending them to the shareholders for re-appointment in the AGM.

Risk Management

Board acknowledges that risk management is an integral part of good governance. Risk is inherent in all business activities. It is however, not the Group's objective to

eliminate risk totally but to provide structural means to identify, prioritize and manage the risks involved in all the Group's activities and to balance between the cost and benefits of managing and treating risks, and the anticipated returns that will be derived from.

Further details of the Group's systems of risk management and internal control and the function of the internal auditors are reported in the Statement on Risk Management and Internal Control on pages 20 to 21.

Corporate Disclosure

Communication with shareholders and investors on all material business and corporate matters of the Group is important. The results of Group are published quarterly via the website of Bursa Malaysia Securities Berhad at <http://announcements.bursamalaysia.com>. The Company also maintains its website at www.bhs.my containing essential corporate information of the Group for the interest of the general public. It is believed that clear and consistent communication with investors promotes better appreciation of the Company's business and activities, reduces share price volatility, and allows the Company's business and prospects to be evaluated fairly.

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The Group would leverage on its corporate website to communicate, disseminate and add depth to the governance reporting. Pursuant to Para 9.25 those principal and static governance information such as charter, board committees' terms of reference, policies and codes could be separately published in the website to avoid dilution of issues in the annual report.

Shareholders' Right

The Board recognises the need for transparency and accountability to the Company's shareholders and regular communication with its shareholders, stakeholders and investors on the performance and major developments in the Group. This is achieved through timely releases of quarterly financial results, circulars, Annual Reports, corporate announcement and press releases. In addition to the various announcements made during the period, information on the Company is available on the Company's website.

The Company would respond to meetings with institutional shareholders, analysts and members of the press to convey information regarding the Group's performance and strategic direction as and when requested. General meetings are an important avenue through which shareholders can exercise their rights. The Board would ensure suitability of venue and timing of meeting and undertake other measures to encourage Shareholders' participation in the meetings. Shareholders are reminded that they have the right to demand a poll vote at general meetings. Also, poll voting is mandated for related party transactions that require specific shareholders' approval.

Directors' Responsibility Statement

The Directors are responsible for ensuring that:

- I. The annual audited financial statements of the Group and of the Company are drawn up in accordance with applicable Financial Reporting Standards, the provisions of the Companies Act, 1965 and the Main Market Listing Requirements so as to give a true and fair view of the state of affairs of the Group and of the Company for the financial year, and
 - II. Proper accounting and other records are kept which enable the preparation of the financial statements with reasonable accuracy and taking reasonable steps to ensure that appropriate systems are in place to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.
- In the preparation of the financial statements for the financial year ended 30 June 2015, the Directors have adopted appropriate accounting policies and have applied them consistently in the financial statements with reasonable and prudent judgments and estimates. The Directors are also satisfied that all relevant approved accounting standards have been followed in the preparation of the financial statements.

Other Compliance Information

1. Imposition of sanctions and/or penalties

During the financial year, there were no sanctions or penalties imposed on the Company and its subsidiaries, the Directors or the Management by the relevant regulatory bodies.

2. Non-audit Fees

The amount of the non-audit fees payable to the external auditors by the Group for the financial year ended 30 June 2015 amounted to RM47,000.

3. Material contracts

There is no material contract entered into by the Company or its subsidiaries involving directors' and major shareholders' interest except for the announcement which was made on 10 November 2014 in relation to a Master License Agreement between System Publishing House Sdn. Bhd, a wholly-owned subsidiary of the Company and Green Patent Technologies Sdn. Bhd, a company in which a major shareholder has a 67% interest in its shares.

4. Share Buy-backs

On 1 July 2014, the Company retained as Treasury Shares a total of 7,900,000 ordinary shares for a consideration of RM4,223,922 with an average price of RM0.535. These shares were either sold or distributed to shareholders as share dividend as follows:

2014	Description	Unit	Average price RM	Sales Proceeds RM
October	Disposal	4,425,000	3.0621	13,549,998
December	Disposal	74,374	2.9263	217,641
		<u>4,499,374</u>	3.0599	<u>13,767,639</u>
2014	Distribution to Shareholders			
November	- Share dividend	3,400,626		
		<u>7,900,000</u>		

For the Financial year ended 30 June 2015, the Company repurchased 7,351,000 shares at an average cost of RM0.5790 totalling RM4,256,378 as follows:

2015		Unit	Average price RM	Cost RM
May	Purchase	1,909,200	0.5830	1,113,154
June	Purchase	5,441,800	0.5776	3,143,224
		<u>7,351,000</u>	0.5790	<u>4,256,378</u>

These shares were retained as Treasury Shares. The company did not made any cancellation of its Treasury Shares.