

## CORPORATE GOVERNANCE STATEMENT

The Board of Frontken Corporation Berhad (the “Company”) recognises the importance of adopting high standards of corporate governance in the Company in order to safeguard stakeholders’ interests as well as enhancing shareholders’ value. The Directors consider corporate governance to be synonymous with four key concepts, namely transparency, accountability, integrity as well as corporate performance.

This corporate governance statement (the “Statement”) sets out how the Company has applied the 8 Principles of the Malaysian Code on Corporate Governance 2012 (“MCCG 2012”) and observed the 26 Recommendations supporting the Principles during the financial year. Where a specific Recommendation of the MCCG 2012 has not been observed during the financial year under review, the non-observation, including the reasons thereof and, where appropriate, the alternative practice, if any, is mentioned in the Statement.

### PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES

#### 1.1 The Board should establish clear functions reserved for the Board and those delegated to Management

To enhance accountability, the Board has established clear functions reserved for it and those delegated to Management. There is a formal schedule of matters reserved to the Board for its deliberation and decision to ensure the direction and control of the Group’s operations are in its hands. Key matters reserved for the Board include, inter-alia, the approval of annual budgets, quarterly and annual financial statements for announcement, investment and divestiture, as well as monitoring of the Group’s financial and operating performance. Such delineation of roles is clearly set out in the Board Charter (the “Charter”), which serves as a reference point for Board activities.

To assist the Board in fulfilling its duties and responsibilities, the Board has established the Audit Committee, Nomination Committee and Remuneration Committee. Each Committee is tasked with specific functions to operate within its terms of reference, which are included in the Charter. The ultimate responsibility for decision making, however, lies with the Board.

#### 1.2 Board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions

##### **Reviewing and adopting a strategic plan for the Company**

The strategic initiatives of the Board are deliberated at its scheduled meetings where the goals of the Group are also discussed and formalised, culminating in the development of a comprehensive Group budget for the Board’s approval. Resources are identified and allocated accordingly towards meeting such goals and objectives. In addition, for any new business ventures, a proper and well researched meeting paper is required for tabling at the Board meeting so that the matter can be deliberated and decided without delay.

##### **Overseeing the conduct of the Company’s business**

The Executive Chairman, who is also the Managing Director of the Company, leads the Board and is also involved in the Company’s day-to-day management. He is supported by an Executive Director and a management team in managing the Group’s business. The Board’s role is to oversee the performance of Management to determine whether the business is properly managed. The Board gets updates from Management at the quarterly Board meetings when reviewing the unaudited quarterly results and annual audited financial statements. During such meetings, the Board participates actively in the discussion of the performance of the Company.

## Corporate Governance Statement (cont'd)

### **PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (cont'd)**

#### **1.2 Board should establish clear roles and responsibilities in discharging its fiduciary and leadership functions (cont'd)**

##### **Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures**

The Company engaged an external service provider to assist the Board in establishing an Enterprise Risk Management framework for the Group, formalizing, amongst others, the processes to identify, evaluate, control, report and monitor significant business risks faced by the Group. The Board has approved the Enterprise Risk Management Framework for adoption across the Group. The Board, via its Audit Committee, reviews the outcome of risk assessment, including the implementation of appropriate internal controls and mitigation measures to address the risks identified.

Further details of the Enterprise Risk Management Framework are set out in the Internal Control Statement in this Annual Report.

##### **Succession planning**

The Board views succession planning as important for business continuity. Key positions which are vacated due to retirement and/or resignation are filled quickly to avoid business interruption. The issue of succession planning is deliberated at Board meetings such that pertinent actions are taken to provide for the orderly succession of senior management.

##### **Overseeing the development and implementation of a shareholder communications policy for the Company**

The Company has, on its interactive website, a dedicated Investor Relations section where shareholders can communicate with the Board through the designated Investor Relations officer. The Board has also identified a Senior Independent Director, namely Mr. Aaron Sim Kwee Lein to whom the concerns of stakeholders and shareholders pertaining to the Company may be conveyed.

##### **Reviewing the adequacy and integrity of the management information and internal controls system of the Company**

The Board acknowledges the importance of the adequacy and integrity of the information and internal controls system of the Company. Details of the Group's internal control system, including how the Board reviews its adequacy and operating effectiveness, are set out in the Internal Control Statement in this Annual Report.

#### **1.3 The Board should formalise ethical standards through a code of conduct and ensure its compliance**

The Company has in place a Code of Conduct for its Directors and employees. The Board has taken steps to upload a summary of the Code of Conduct on the Company's website.

The Board also has in place Whistle Blowing Policies and Procedures for employees to raise genuine concerns, without fear of reprisal, about possible improprieties on matters pertaining to financial reporting, compliance, malpractices and unethical business conduct within the Group.

#### **1.4 The Board should ensure that the Company's strategies promote sustainability**

The Board considers sustainability in its business operations. As such, it recognises the need for the Company to address sustainability in its business strategy, taking into consideration the governance, social and environmental aspects. The Corporate Sustainability Statement in this Annual Report provides further details on how efforts on sustainability are taken by the Board and Management.

## Corporate Governance Statement (cont'd)

### PRINCIPLE 1 – ESTABLISH CLEAR ROLES AND RESPONSIBILITIES (cont'd)

#### 1.5 The Board should have procedures to allow its members access to information and advice

The Board Charter provides a procedure for Directors to access information and independent advice in the discharge of their stewardship role, for example a Director may seek independent legal, financial or other advice as they consider necessary at the expense of the Company as a full Board or in their individual capacity, in the furtherance of their duties. Management is required to supply the Board and Committees with information in a form, timeframe and quality that enables the Directors to effectively discharge their duties. The Directors are provided with Board papers prior to each meeting to evaluate the proposals and, if necessary, to request for additional information.

#### 1.6 The Board should ensure it is supported by a suitably qualified and competent company secretary

The Company Secretaries of the Company are suitably qualified and competent to support the Board. The Board is regularly updated by the Company Secretaries on the latest regulatory updates. During the financial year, the Board was briefed by the Company Secretaries on the amendments to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The Board has access to the advice and services of the Company Secretaries who are responsible for ensuring that the established procedures and relevant statutes and regulations are complied with.

#### 1.7 The Board should formalise, periodically review and make public its board charter

The Board Charter, which has been uploaded on the Company's website at [www.frontken.com](http://www.frontken.com), sets out the composition of the Board, duties and responsibilities on matters relating to strategy and planning, human resource, remuneration, capital management and financial reporting, performance monitoring, risk management, audit and compliance and board processes and policies, Board Committees, Chairman of the Board, independence of Directors, access to information and independent advice, dealings in securities, orientation and continuing education and Board assessment. The Board reviews the Board Charter on an annual basis to be consistent with the relevant regulatory requirements.

### PRINCIPLE 2 – STRENGTHEN COMPOSITION

#### 2.1 The Board should establish a Nominating Committee which should comprise exclusively non-executive directors, a majority of whom must be independent

The Nomination Committee comprises exclusively Non-Executive Directors with a majority of Independent Directors. The Nomination Committee met twice during the financial year under review to deliberate matters within its terms of reference.

The terms of reference of the Nomination Committee provide that the Nomination Committee shall be appointed by the Board and shall consist of not less than two (2) members, comprising exclusively non-executive Directors, the majority of whom shall be independent Directors. The terms of reference of the Nomination Committee also outline the responsibilities and duties in relation to the selection and assessment of new and existing directors.

## Corporate Governance Statement (cont'd)

### PRINCIPLE 2 – STRENGTHEN COMPOSITION (cont'd)

#### 2.2 The Nominating Committee should develop, maintain and review the criteria to be used in the recruitment process and annual assessment of Directors

The Nomination Committee is responsible for assessing proposed candidates based on selection criteria expected of a Director and makes recommendation to the Board if the proposed candidates are found to be suitable. The decision on new appointment of Directors rests with the Board after considering the recommendation of the Nomination Committee.

The Nomination Committee is also responsible for carrying out an assessment of Board's effectiveness in terms of its composition, roles and responsibilities, and whether the Board Committees discharge their functions and duties in accordance with the terms of reference entrusted by the Board. The assessment of the Board takes into account the character, competence, experience, integrity and time availability of each Director as well as their ability to provide pertinent input at meetings and demonstrate high level of professionalism in decision making process. The Nomination Committee annually reviews the composition of the Board to ensure that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary core competencies for effective functioning and informed decision-making.

Insofar as Board diversity is concerned, the Board does not intend to set out any specific policy on targets for women Director. The Board believes that the on-boarding process of Directors should not be based on any gender discrimination. As such, the evaluation of suitable candidates is solely based on the candidates' competency, character, time availability, integrity and experience in meeting the needs of the Company, including, where appropriate, the ability of the candidates to act as Independent Non-Executive Directors, as the case may be.

During the financial year under review, the Nomination Committee assessed the effectiveness of the Board, as a whole, Board Committees and contribution of each individual Director, including those Directors who are subject to retirement at the forthcoming Annual General Meeting in accordance with the Articles of Association of the Company.

Details of attendance of the Board Committee members for the financial year ended 31 December 2013 are as follows:

Directors	Audit Committee	Nomination Committee	Remuneration Committee
Ng Wai Pin	N/A	N/A	1/1
Dato' Haji Johar bin Murat @ Murad	5/5	2/2	1/1
Aaron Sim Kwee Lein	5/5	2/2	1/1
Dr Jorg Helmut Hohnloser	3/5	1/2	N/A

#### 2.3 The Board should establish formal and transparent remuneration policies and procedures to attract and retain directors

The Remuneration Committee, which comprises three (3) Directors, a majority of whom are Independent Directors, met once during the financial year under review to deliberate matters within its terms of reference. Its key function is to ensure that the Company is able to attract and retain Directors of the calibre and quality required to manage the business of the Group.

## Corporate Governance Statement (cont'd)

### PRINCIPLE 2 – STRENGTHEN COMPOSITION (cont'd)

#### 2.3 The Board should establish formal and transparent remuneration policies and procedures to attract and retain directors (cont'd)

As such, the Remuneration Committee is tasked to review the remuneration of Directors and Senior Management to ensure that they are remunerated at competitive levels in relation to the achievement of goals and the performance of the Group. The remuneration packages of the Executive Directors and Senior Management are then recommended to the Board for approval.

The Board recommends the fees payable to Directors on a yearly basis to the shareholders for approval at the Annual General Meeting in line with the provision of its Articles of Association.

The aggregate remuneration of the directors for the financial year ended 31 December 2013 is as follows:

	Executive Directors RM'000	Non-Executive Directors RM'000
Salaries	2,395	–
Fees	30	130
Bonuses	62	–
Other emoluments	168	–
	2,655	130

The number of Directors whose remuneration falls within the respective bands is as follows:

	Executive Directors	Non-Executive Directors
Below RM50,000	–	2
RM50,001 to RM100,000	–	1
RM1,050,001 to RM1,100,000	1	–
RM1,550,001 to RM1,600,000	1	–
	2	3

### PRINCIPLE 3 – REINFORCE INDEPENDENCE

#### 3.1 The Board should undertake an assessment of its Independent Directors annually

On an annual basis, the Board through the Nomination Committee assesses the Independent Directors, adopting the criteria as set out in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, and reports to the Board the outcome of its findings.

#### 3.2 & 3.3 Tenure of independent director exceeding cumulative term of 9 years and must justify and seek shareholders' approval in retaining independent Directors (serving more than 9 years)

The Board does not have any Independent Director who has served the Board more than 9 years at the end of the financial year under review.

## Corporate Governance Statement (cont'd)

### PRINCIPLE 3 – REINFORCE INDEPENDENCE (cont'd)

#### 3.4 The positions of Chairman and Chief Executive Officer should be held by different individuals and the Chairman must be a non-executive member of the Board

The Board is mindful of the dual role held by Mr. Ng Wai Pin as the Executive Chairman and Managing Director which deviates from the Recommendation of the MCCG 2012. The Board is of the view that there is no concentration of power and authority, and that no one individual has unfettered powers for decision making. Furthermore, there are sufficient independent Directors on the Board who are individuals of calibre, credibility and are free from any business or other relationship which could materially interfere with the exercise of their independent judgment. These Independent Directors are capable of exercising independent judgment to ensure fair and objective deliberations at Board meetings.

#### 3.5 Board must comprise a majority of independent Directors if Chairman is not an independent Director

As the size of the Board is small, the Board is of the view that the composition of the Board meets with the minimum requirements of the Main Market Listing Requirements. Moreover, the non-executive Directors, which consist of the majority of Board members, provide a check in the balance of power vested in the Executive Chairman.

### PRINCIPLE 4 – FOSTER COMMITMENT

#### 4.1 The Board should set expectations on time commitment for its members and protocols for accepting new directorships

The Board, on an annual basis, sets out the meeting dates for the whole financial year so that each member of the Board is able to plan his schedule accordingly. This helps to ensure that the Board is committed to meet when the time arises.

The Board has also established a guideline on the acceptance of new directorship by Board members. Any Director intending to take on new directorship is required to notify the Board Chairman before accepting the new directorship and also to confirm his commitment that the new directorship will not impair his time commitment to the Company.

Details of the Directors' attendance at Board meetings for the financial year ended 31 December 2013 are set out below:

Directors	Designations	Attendance	%
Ng Wai Pin	Executive Chairman and Managing Director	5/5	100
Dr Tay Kiang Meng	Executive Director / Chief Scientist	5/5	100
Dato' Haji Johar bin Murat @ Murad	Independent Non-Executive Director	5/5	100
Aaron Sim Kwee Lein	Independent Non-Executive Director	5/5	100
Dr Jorg Helmut Hohnloser	Non-Independent Non-Executive Director	3/5	60

Mr Timo Fabian Seeberger, the Alternate Director to Dr Jorg Helmut Hohnloser, attended all the five (5) Board meetings by invitation

## Corporate Governance Statement (cont'd)

### PRINCIPLE 4 – FOSTER COMMITMENT (cont'd)

#### 4.2 The Board should ensure members have access to appropriate continuing education programme

The Board encourages its members to enrol in appropriate continuing education programme to equip them to serve the interests of the Company.

The Directors were updated on an ongoing basis by way of circulars on matters relating to changes to the Listing Requirements. Courses and forums attended by the Directors during the financial year under review are as follows:

Ng Wai Pin	<ul style="list-style-type: none"> <li>Malaysian Code on Corporate Governance 2012 &amp; Updates on listing requirements of Bursa Malaysia Securities Berhad</li> <li>Singapore semicon. Semicon Materials Market Outlook - Semi industry outlook: growth or consolidation</li> <li>Managing Uncertainties and Aligning Risks (Morison AAC Corporate Solutions Sdn Bhd)</li> <li>Bursa Malaysia's Advocacy Sessions on Corporate Disclosure for Directors</li> <li>Risk Management and Internal Control as part of Ecosystem of Good Governance</li> </ul>
Dr Tay Kiang Meng	<ul style="list-style-type: none"> <li>Singapore semicon. Semicon Materials Market Outlook - Semi industry outlook: growth or consolidation</li> <li>Malaysian Code on Corporate Governance 2012 &amp; Updates on listing requirements of Bursa Malaysia Securities Berhad</li> </ul>
Dato' Haji Johar bin Murat @ Murad	<ul style="list-style-type: none"> <li>Bursa Malaysia's Advocacy Sessions on Corporate Disclosure for Directors</li> <li>Malaysian Code on Corporate Governance 2012 &amp; Updates on listing requirements of Bursa Malaysia Securities Berhad</li> </ul>
Aaron Sim Kwee Lien	<ul style="list-style-type: none"> <li>Risk management &amp; internal control workshops</li> <li>Bursa Malaysia's Advocacy Sessions on Corporate Disclosure for Directors</li> <li>Malaysian Code on Corporate Governance 2012 &amp; Updates on listing requirements of Bursa Malaysia Securities Berhad</li> </ul>
Dr Jorg Helmut Hohnloser	<ul style="list-style-type: none"> <li>Printed Electronics Europe 2013, Annual Conference and Tradeshow, Berlin ICC</li> <li>Cleaning Management Services, CMS 2013 International Trade Fair and Congress</li> <li>CeBit 2013 Trade Fair</li> </ul>
Timo Fabian Seeberger	<ul style="list-style-type: none"> <li>Hannover Trade Fair</li> <li>CeBit 2013 Trade Fair</li> </ul>

## Corporate Governance Statement (cont'd)

### **PRINCIPLE 5 – UPHOLD INTEGRITY IN FINANCIAL REPORTING**

#### **5.1 The Audit Committee should ensure financial statements comply with applicable financial reporting standards**

The Board, through the Audit Committee, endeavours to provide and present a balanced and meaningful assessment of the Group's financial performance and prospects to shareholders, primarily through the Annual Reports and quarterly announcements of the Group's results to the regulators. The Board is assisted by the Audit Committee in overseeing the Group's financial reporting process and the accuracy, consistency and appropriateness of the use and application of accounting policies and standards.

On a yearly basis, the Audit Committee meets with the External Auditors to go through the Audit Planning Memorandum prior to commencement of the audit. In addition, the Audit Committee also meets with the External Auditors to discuss their report to the Audit Committee following completion of their audit. The External Auditors share with the Audit Committee any significant issues on the financial statements and regulatory updates. The Audit Committee obtains assurance from the External Auditors on the Company's compliance with the applicable financial reporting standards.

#### **5.2 The Audit Committee should have policies and procedures to assess the suitability and independence of external auditors**

The Audit Committee assesses the performance of the External Auditors on an annual basis and reports to the Board its recommendation for the reappointment of the External Auditors at the Annual General Meeting.

In addition, the Audit Committee has in place a policy on the provision of non-audit services by the External Auditors. During the financial year ended 31 December 2013, the fees for non-audit services rendered by the External Auditors to the Group amounted to approximately RM15,000.

The External Auditors had provided a written assurance to the Audit Committee that they were independent throughout the conduct of the audit engagement based on the independence criteria of relevant professional and regulatory requirements.

### **PRINCIPLE 6 – RECOGNISE AND MANAGE RISKS**

#### **6.1 The Board should establish a sound framework to manage risks**

The Board had established an Enterprise Risk Management framework to identify, evaluate, control, report and monitor significant risks faced by the Group. Such a framework also includes pertinent risk management policies and guidelines to provide structured guidance to personnel across the Group in addressing risk management. The risk appetite of the Group is articulated via the use of risk parameters in the framework, covering financial and non-financial metrics, to assess the likelihood of risks occurring and the impact thereof should the risks crystallise. Internal controls deployed by Management are linked to, and mitigate, the business risks identified.

The Audit Committee works with the Internal Auditors to ensure that the Internal Audit Annual Plan encompasses the audit of areas with higher vulnerability. The Internal Auditors are also required to perform periodic testing of the internal control systems to ensure that the system is robust, including follow-up on the status of Management's implementation of action plans to address issues raised by the Internal Auditors.

Further details of the Enterprise Risk Management framework and the system of internal control of the Group are set out in the Internal Control Statement in this Annual Report.

#### **6.2 The Board should establish an internal audit function which reports directly to Audit Committee**

The Group outsources its internal audit function to an independent professional firm, with the objective of conducting systematic testing and assessment of the Group's internal control system based on an internal audit plan approved by the Audit Committee. Its responsibilities include providing independent and objective reports on the state of internal controls of the significant operating units in the Group to the Audit Committee, with recommendations for improvement to the control procedures, so that remedial actions can be taken in relation to weaknesses noted in the system. In carrying out its work, the internal audit function deployed standards promulgated by the International Professional Practices Framework of the Institute of Internal Auditors, a global professional body for internal auditors.



## Corporate Governance Statement (cont'd)

### **PRINCIPLE 7 – ENSURE TIMELY AND HIGH QUALITY DISCLOSURE**

#### **7.1 The Board should ensure Company has appropriate disclosure policies and procedures**

The Board has established an internal Corporate Disclosure Policy in compliance with the disclosure requirements as set out in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The Board delegated the authority to the Executive Chairman of the Company to ensure that the Corporate Disclosure Policy is adhered to by Senior Management and the Company Secretaries with respect to disclosure obligations.

#### **7.2 The Board should encourage the Company to leverage on information technology for effective dissemination of information**

The Company's website has a section dedicated to shareholders under Investor Relations where shareholders can check on the latest announcements of the Company, press release, media news, share and warrant prices and also to contact the designated person on investor relations matters. The shareholders are also encouraged to subscribe for any news alert of the Company.

### **PRINCIPLE 8 – STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS**

#### **8.1 The Board should take reasonable steps to encourage shareholder participation at general meetings**

The Board encourages the attendance of shareholders at the Company's Annual General Meeting. The notice period of the annual general meeting is given to the shareholders slightly longer than the minimum of 21 clear days. With a slightly longer time, the shareholders are provided with ample time to review the annual report, to appoint proxies and to collate questions to be asked at the Annual General Meeting.

#### **8.2 Board should encourage poll voting**

At the commencement of the Annual General Meeting after the calling of meeting to order, the Chairman would remind shareholders, proxies and corporate representatives on their rights to demand for a poll in accordance with the provisions of the Articles of Association of the Company for any resolutions. The Chairman is also aware that he could demand for a poll for substantive resolution to be tabled at the shareholders' meetings.

The Company's share registrar is well equipped to facilitate the conduct a poll should the need arise.

#### **8.3 Board should promote effective communication and proactive engagements with shareholders**

Shareholders' meetings are important events for the Board to meet the shareholders. The Chairman would allot sufficient time to encourage the shareholders, proxies and the corporate representatives to ask questions pertaining to the matters tabled at the general meetings. The Senior Management and External Auditors are present at the shareholders' meetings to answer any query that the shareholders, proxies and corporate representatives may ask.

This statement is made in accordance with the resolution of the Board dated 22 April 2014.