

AUDIT COMMITTEE REPORT

The Audit Committee (“AC”) of Top Glove Corporation Bhd (“the Company”) is pleased to present the AC Report for the financial year ended 31 August 2018 (“FY2018”).

AC COMPOSITION AND ATTENDANCE

The AC comprises four (4) members and all of whom are Independent Non-Executive Directors, which meets the requirements of paragraphs 15.09(1)(a) and (b) of Bursa Malaysia Securities Berhad (“Bursa Securities”) Main Market Listing Requirements (“Main LR”).

Tan Sri Dato’ Seri Utama Arshad Bin Ayub (“Tan Sri Arshad”), Chairman of AC, had a distinguished career in the Malaysian Civil Service, held various positions, including Deputy Governor of Bank Negara Malaysia and Deputy Director General in the Economics Planning Unit of the Prime Minister’s Department. Nevertheless, Tan Sri Arshad has other directorships in several public listed companies where he is also the member of AC.

Dato’ Lim Han Boon, member of AC, is a member of the Malaysian Institute of Accountants, the Chartered Management Institute, United Kingdom (“UK”) and fellow of the Association of Chartered Certified Accountants, UK, fulfills the financial expertise as required by Bursa Securities Main LR. He also has vast working experience in areas of corporate finance.

Datuk Noripah Binti Kamso, member of AC, has vast experience in the Banking and Investment industry. She was the former Advisor of CIMB Islamic and the founding Chief Executive Officer of CIMB-Principal Islamic Asset Management Sdn Bhd. She was also the Past President of the Malaysian Futures Brokers Association (MFBA). She was formerly a Global Practitioner in Residence in Principal Financial Group Centre for Global Citizenship, United States of America.

Ms. Sharmila Sekarajasekaran, member of AC, was in legal practice for many years, and joined the RIM Group in year 2005 and held various positions in the RIM Group.

In FY2018, the AC had met eight (8) times, two (2) of which were meeting with the External Auditors, without Executive Directors’ and Management’s presence and one (1) of which was meeting with the Internal Auditors, without Executive Directors’ and Management’s presence. The Executive Director, Head of Internal Audit, Senior Management, External Auditors, other Board members and the Company Secretary will attend the AC meetings upon invitation, as and when necessary. The attendance record of AC members was as follows:

Members	Directorship	Meeting Attendance
Tan Sri Dato’ Seri Utama Arshad Bin Ayub (Chairman)	Senior Independent Non-Executive Director	7/8 (87.5%)
Dato’ Lim Han Boon	Independent Non-Executive Director	8/8 (100%)
Datuk Noripah Binti Kamso	Independent Non-Executive Director	7/8 (87.5%)
Sharmila Sekarajasekaran	Independent Non-Executive Director	8/8 (100%)

During the FY2018, the AC had constantly engaged with the External Auditors and the Head of Internal Audit to keep abreast with the key audit issues and audit concerns affecting the Company.

Minutes of each AC meeting are noted by the Board via distribution to each Board member and the Chairman of the AC highlights on key issues discussed in the AC meeting at each Board meeting.

The performance and effectiveness of AC would be assessed annually through AC evaluation and AC members’ self and peer evaluation conducted by the AC, and the Nomination and Remuneration Committee (“NRC”) reviewed the results of such assessments. The NRC reviews the term of office and performance of the AC members annually. During the FY2018, the Board is satisfied that the AC and its members have been able to discharge their functions, duties and responsibilities in accordance with the terms of reference (“TOR”) of the AC.

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TOR OF THE AC

The AC had discharged its functions and carried out its duties as set out in the TOR of the AC.

The TOR of the AC is available for reference on the Company's website at <http://www.topglove.com/corporate-governance/>

SUMMARY OF ACTIVITIES FOR THE FY2018

1. Financial Reporting

- (a) Reviewed all the four (4) Quarter's Financial Statements and the annual Audited Financial Statements of the Company and recommended the same for the Board's approval. Discussions focused particularly on any change in the accounting policies and its implementation; significant and unusual events arising from the audit; the going concern assumption; compliance with accounting standards and other legal requirements; significant matters highlighted in the financial statements; and significant judgements made by Management.
- (b) Reported its findings on the financial and Management performance, and other material matters to the Board.

2. Internal Audit

- (a) Reviewed and approved the three years Internal Audit Plan for FY2018, FY2019 and FY2020 proposed by the Internal Auditors to ensure the adequacy of the scope, coverage of works and that it has the necessary authority to carry out its works.
- (b) Reviewed the Internal Audit programme and results of Internal Audit together with the recommendations from the Internal Auditors. The AC considered the Internal Auditors' recommendations taken into account Management's responses and upon which approved the Internal Auditors' proposals for rectification and implementation of the agreed remedial actions for improvement.
- (c) Undertook assessment of the performance of the Internal Audit function and reviewed its effectiveness of the audit processes and assessed the performance of the overall Internal Audit Department ("IAD").
- (d) Held separate meetings to discuss the result of assessment with the Internal Auditors and other areas of Internal Audit's concern, without the presence of Executive Directors and Management.
- (e) Conducted interviews with the potential candidates to fill the vacancy as the Head of Internal Audit.

3. External Audit

- (a) Discussed with the External Auditors before the audit commences, the audit plan, nature and scope of the audit, areas of audit emphasis, and ensured co-ordination where more than one (1) audit firms are involved; as well as the External Auditors' evaluation of the system of internal controls and audit reports.
- (b) Discussed and deliberated on the External Auditors' reports and recommendations regarding opportunities for improvement to the significant risk areas, internal controls and financial matters areas based on observations made in the course of interim and final audits.
- (c) Held two (2) private meetings with the External Auditors without the presence of the Executive Directors and Management to discuss on the areas of audit concern.
- (d) Discussed the results of annual assessment on the suitability and the independence of the External Auditors pursuant to the Company's External Auditors' Assessment Policy.
- (e) Reviewed the performance of the External Auditors and recommended its re-appointment and remuneration to the Board.
- (f) Reviewed and approved the provision of non-audit services rendered by the External Auditors.

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4. Related Party Transactions

- (a) Reviewed and recommended on quarterly basis the related party transactions presented by Management to the Board for approval, to ensure that these transactions are undertaken in the best interest of the Company, fair, reasonable and on normal commercial terms as well as not detrimental to the interest of the minority shareholders.
- (b) Monitored the thresholds of the related party transactions and recurrent related party transactions to ensure compliance with Bursa Securities Main LR.

5. Annual Reporting

Reviewed the AC Report, Statement on Risk Management and Internal Control and Corporate Governance Statement to ensure adherence to legal and regulatory reporting requirements and appropriate resolution of all accounting matters requiring significant judgement and recommended the same to the Board for approval.

6. Others

- (a) Reviewed the progress of all investment projects of the Company.
- (b) Reviewed the Investment Portfolios of the Company.
- (c) Deliberated the emerging financial reporting issues pursuant to the introduction of new accounting standards and additional statutory/regulatory disclosure requirements.
- (d) Considered and discussed new business ventures of the Company for the Board's approval.
- (e) Verified the share buy-back of the Company.
- (f) Verified the allocation of Employees' Share Option Scheme ("ESOS") and Employees Share Grant Plan ("ESGP") complied with the criteria as stipulated in the by-laws of ESOS and ESGP of the Company, respectively.
- (g) Reviewed Whistle-Blowing Policy and cases of the Company.
- (h) Reviewed the term of office of the AC members.

TRAINING

During the FY2018, all of the AC members have attended various seminars, training programme and conferences. The list of trainings attended is disclosed in the Corporate Governance Overview Statement on pages 70 to 72 of this Annual Report.

INTERNAL AUDIT FUNCTION

The IAD is led by Lim Lung Fui @ Jack, a member of Malaysian Institute of Accountants who reports directly to the AC. The principal objective of IAD is to undertake regular reviews of the systems of controls, procedures and operations so as to provide reasonable assurance that the internal control system is sound, adequate and satisfactory. The function of the IAD is to provide the AC with independent and objective reports on the state of internal controls of the operating units within the Group and the extent of compliance by such units with the Group's established policies and procedures and the regulatory requirements of the relevant authorities. The AC reviews and approves the Internal Audit plan of the Group submitted by the Head of Internal Audit.

During the FY2018, the areas audited included audits of the various departments covering all the factories and subsidiaries within the Group. Internal Audit reports were issued to the AC regularly and tabled in the AC meetings. The reports are also issued to the respective operations management, incorporating audit recommendations and Management's responses with regards to any audit finding on the weaknesses in the systems and controls of the operations. The IAD conducted follow-up audit to ensure the agreed audit recommendations were implemented appropriately.

The total costs incurred for the in-house Internal Audit function for the FY2018 was RM605,096.48 (2017: RM522,156.00).

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RISK MANAGEMENT

The Board and Management have embarked on the risk management culture and endeavour to ensure that the Group's employees have a good understanding and application of risk management principles towards cultivating a sustainable risk management culture. The Board undertakes to conduct regular risk awareness sessions at the operational level to promote the understanding of risk management principles and practices across different functions within the Group.

RISK MANAGEMENT COMMITTEE ("RMC") COMPOSITION AND ATTENDANCE

In FY2018, the RMC had met four (4) times. The composition and the attendance record of the RMC members were as follows:

Directors	Directorship	Meeting Attendance
Dato' Lim Han Boon (Chairman of RMC)	Independent Non-Executive Director	4/4 (100%)
Tan Sri Rainer Althoff	Independent Non-Executive Director	4/4 (100%)
Dato' Lee Kim Meow	Managing Director	4/4 (100%)
Lim Cheong Guan	Executive Director	4/4 (100%)
Datuk Dr. Norma Mansor	Independent Non-Executive Director	4/4 (100%)

TOR OF THE RMC

The RMC had discharged its functions and carried out its duties as set out in the TOR of the RMC.

The TOR of the RMC is available for reference on the Company's website at <http://www.topglove.com/corporate-governance/>

The aforesaid matter is further elaborated in details under a separate statement known as "Statement on Risk Management and Internal Control" on pages 86 to 88 of this Annual Report.



Top Glove's condom factory commenced operations in July 2018