

# CORPORATE GOVERNANCE REPORT

**STOCK CODE** : 5243  
**COMPANY NAME** : VELESTO ENERGY BERHAD  
**FINANCIAL YEAR** : December 31, 2020

## OUTLINE:

### **SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE**

*Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.*

### **SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES PURSUANT CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA MALAYSIA**

*Disclosures in this section are pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia. This section is only applicable for financial institutions or any other institutions that are listed on the Exchange that are required to comply with the above Guidelines.*

## SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

*Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.*

### Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

### Practice 1.1

The board should set the company's strategic aims, ensure that the necessary resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards, and ensure that its obligations to its shareholders and other stakeholders are understood and met.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board of Directors (Board) provides leadership of the Group and through the operation of Board Committees exercising delegated authorities, plays an important role in determining strategic directions, which are implemented through its approvals and regular monitoring of business plan and budget. The business plan specifies key developments towards the strategic objectives that are to be achieved by the management within an agreed budget.</p> <p>FY2020 saw unprecedented logistical and business disruptions brought by the pandemic and other socioeconomic and industry developments. During the year, the Board held twelve meetings – a combination of virtual and hybrid - including dedicated meetings to consider the Group's plans and strategies. As a matter of priority, the Board reviewed the Group's business, operational and financial strategies, to enhance, adapt and implement measures to address the changing market, environment, and outlook. The Group's strategic focus involved accelerating key thrusts of maximising returns, driving organic expansion, exploring opportunities, enhancing enablers and Sustainability agendas.</p> <p>At every quarterly Board meeting, the President provided a review of the business, market outlook and how it was performing, and the Chief Financial Officer provided a detailed review of the Group's financial position. During the FY2020, the Board deliberated on a range of subjects including but not limited to the following:</p> <ul style="list-style-type: none"><li>• The economic and industry outlook;</li><li>• The performance of VELESTO's core businesses i.e. Drilling and Oilfield Services;</li><li>• Strategic business plan of the Group, including its People-Focused strategy and Sustainability agendas;</li><li>• Considerations of emerging opportunities and value creation;</li><li>• Setting of corporate key performance indicators and targets;</li></ul>

	<ul style="list-style-type: none"> <li>• The Group's financial results, resources planning and budget;</li> <li>• The Group's Health, Safety and Environmental Performance and associated issues;</li> <li>• Corporate restructuring strategies to streamline reporting lines, financial and operating structure;</li> <li>• Assimilation and oversight over Enterprise Risk Management Framework and practices;</li> <li>• IT and operational platform enabling flexible working arrangements;</li> <li>• Oversight on regulatory compliance and governance;</li> <li>• Comprehensive Integrity Governance Framework that complements the CG Framework;</li> <li>• Enhancements to Financial Limits Authority Governance (FLAG) and Non-Financial Limits Authority Governance (NFLAG);</li> <li>• Evaluate the performance of President and Direct Reports; and</li> <li>• Succession Planning of the Board and President.</li> </ul> <p>As a matter of routine, Directors receive the meeting materials at a reasonable period before the meetings. All proceedings of the Board are duly minuted and circulated to all Directors in timely manner for their perusal prior to the confirmation of the minutes. The proceedings of the meetings are recorded by the Company Secretary, which included pertinent issues, the substance of inquiries, if any, and responses thereto, suggestions, decisions and rationale. Any matters arising from the meetings are updated at the next meeting and decisions or requests made are circulated to the Management for further actions.</p>
<b>Explanation for departure</b> :	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>	
<b>Measure</b> :	
<b>Timeframe</b> :	

### Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

### Practice 1.2

A Chairman of the board who is responsible for instilling good corporate governance practices, leadership and effectiveness of the board is appointed.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Chairman of the Board is Mohd Rashid Mohd Yusof, a Non-Independent Non-Executive Director.</p> <p>The key responsibilities as a Chairman of the Board, among others, include (but are not limited to) the following: -</p> <ul style="list-style-type: none"><li>• Providing leadership for the Board, so that the Board can perform its responsibilities effectively;</li><li>• Setting the Board agenda and ensuring that Board members receive complete and accurate information in a timely manner;</li><li>• Leading Board meetings and discussions;</li><li>• Encouraging active participation and allowing dissenting views to be freely expressed;</li><li>• Managing the interface between the Board and Management;</li><li>• Ensuring appropriate steps are taken to provide effective communication with stakeholders and that their views are communicated to the Board as a whole; and</li><li>• Leading the Board in establishing and monitoring good corporate governance practices in the Company.</li></ul>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

### Practice 1.3

The positions of Chairman and CEO are held by different individuals.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Chairman of the Board is Mohd Rashid Mohd Yusof - a Non-Independent Non-Executive Director, whilst the President is Rohaizad Darus - an Executive Director.</p> <p>The Board recognises the importance of having a clearly accepted division of power and responsibilities at the head of the Company to ensure a balance of power and authority.</p> <p>Separation of the positions of the Chairman and President promotes accountability and facilitates division of responsibilities between them. In this regard, no one individual can influence Board's discussions and decision-making. The role of Chairman as well as the role of President have been clearly outlined in the Board Charter. The Board Charter of the Company is available for viewing at the VELESTO's corporate website at <a href="https://www.velesto.com">https://www.velesto.com</a></p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

### Practice 1.4

The board is supported by a suitably qualified and competent Company Secretary to provide sound governance advice, ensure adherence to rules and procedures, and advocate adoption of corporate governance best practices.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board is supported by two (2) qualified and competent Company Secretaries: -</p> <ul style="list-style-type: none"><li>• Lee Mi Ryoung</li><li>• Sazlyna Sapiee</li></ul> <p>Both Company Secretaries are qualified to act as company secretary under Section 235(2) of the Companies Act 2016.</p> <p>The brief profile of the Company Secretaries are available for viewing under the "Our Leaders" section of the 2020 Annual Report.</p> <p>All Directors have unrestricted access to the advice and support of the Company Secretaries, which include advice on:-</p> <ul style="list-style-type: none"><li>• disclosure of interest in securities;</li><li>• disclosure of any conflict of interest in a transaction involving the Company;</li><li>• prohibition on dealing in securities; and</li><li>• restrictions on disclosure of price-sensitive information.</li></ul> <p>The main roles and responsibilities of the Company Secretaries, include (but are not limited to) the following:-</p> <ul style="list-style-type: none"><li>• Manage all Board and Committee meeting logistics, attend and record minutes of all Board and Board Committee meetings and facilitate communication;</li><li>• Advise the Board on its roles and responsibilities;</li><li>• Facilitate the orientation of new Directors and assist in Director training and development;</li><li>• Advise the Board on corporate disclosures and compliance with company and securities regulations and listing requirements;</li><li>• Manage processes pertaining to the annual shareholder meeting;</li><li>• Monitor corporate governance development and assist the Board in applying governance practices to meet the Board's needs and stakeholders' expectations; and</li><li>• Serve as a focal point for stakeholders' communication and engagement on corporate governance issues.</li></ul>

	For FY2020, the Board is satisfied with the performance and support rendered by the Company Secretaries to the Board in discharging their functions.	
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

### Practice 1.5

Directors receive meeting materials, which are complete and accurate within a reasonable period prior to the meeting. Upon conclusion of the meeting, the minutes are circulated in a timely manner.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>For the FY2020, the notice of the scheduled board meetings and the board papers were circulated electronically via secured cloud sharing application, at least five (5) days prior to the board meetings. The Directors have ample time to review and consider the relevant information.</p> <p>In situation where there is exceptional case for convening of special meeting of the Board to address emergency issue, shorter notice is allowed with the consent of all Directors.</p> <p>All proceedings of the Board meetings are duly recorded as minutes of the proceedings and circulated to all Directors for their perusal prior to the confirmation of the minutes.</p> <p>The Company Secretaries recorded the proceedings of all meetings including pertinent issues, the substance of inquiries, if any, and responses thereto, members' suggestion and the decision made, as well as the rationale for those decisions. By doing so, the Company Secretaries kept the Board updated on the follow-up actions arising from the Board's decisions and/or requests at subsequent meetings. The Board was, therefore able to perform its fiduciary duties and fulfil its oversight role towards instituting a culture of transparency and accountability in the Company.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	



**Intended Outcome**

There is demarcation of responsibilities between the board, board committees and management.

There is clarity in the authority of the board, its committees and individual directors.

**Practice 2.1**

The board has a board charter which is periodically reviewed and published on the company's website. The board charter clearly identifies–

- the respective roles and responsibilities of the board, board committees, individual directors and management; and
- issues and decisions reserved for the board.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board Charter serves as a guide to the Board members of their roles and responsibilities in discharging their duties as Directors.</p> <p>The principles of good corporate governance as set out in the Malaysian Code of Corporate Governance 2017 and Main Market Listing Requirements (Main LR) of Bursa Malaysia Securities Berhad (Bursa Securities) were taken into consideration during the process of formalising the Board Charter.</p> <p>The Board Charter serves as a guidance for the Board of their roles and responsibilities in discharging their duties as Directors of VELESTO. Considered as a 'living' charter, aligned with strategic direction of the Group, the charter is reviewed and updated periodically. Being pivotal for shared understanding by all in the Group on the roles of the Board, the Board Committees, and the Management, it is the point of reference and reminder for governance.</p> <p>The Board Charter is subject to review by the Board, as and when necessary, to ensure it complies with all applicable laws, rules and regulations of the regulators and remain consistent with the policies and procedures of the Board.</p> <p>The Board Charter of the Company is available for viewing at the VELESTO's corporate website at <a href="https://www.velesto.com">https://www.velesto.com</a></p>
<b>Explanation for departure</b>	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		

<b>Measure</b>	:		
<b>Timeframe</b>	:		

### Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

### Practice 3.1

The board establishes a Code of Conduct and Ethics for the company, and together with management implements its policies and procedures, which include managing conflicts of interest, preventing the abuse of power, corruption, insider trading and money laundering.

The Code of Conduct and Ethics is published on the company's website.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>All employees endeavour to uphold the Company brand, which in essence is the identity and image of the Company. The Company's brand should be reflected in the way employees conduct themselves at work and permeates at every point of interactions that employees have with each other and the public. The Directors and the employees of the Group are expected to behave ethically and professionally for or on behalf of the Company, comply with the Code of Business Conduct and Ethics (CoBE) of the Company.</p> <p>The CoBE describes measures in place to:-</p> <ul style="list-style-type: none"><li>• handle actual or potential conflict of interests;</li><li>• prevent corrupt practices which include the offering and acceptance of gifts and other form of benefits;</li><li>• encourage the reporting of unlawful or unethical behaviour;</li><li>• protect and ensure the proper usage of the Company's assets; and</li><li>• ensure compliance with laws, rules and regulations.</li></ul> <p>The CoBE is available for viewing at the VELESTO's corporate website at <a href="https://www.velesto.com">https://www.velesto.com</a></p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	

<b>Timeframe</b>	:		
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### Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

### Practice 3.2

The board establishes, reviews and together with management implements policies and procedures on whistleblowing.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>In promoting the highest level of professionalism and ethics in the conduct of the VELESTO Group's businesses, the Whistle-Blowing Policy welcome disclosures of any suspected wrongdoings that include mismanagement, malpractices, corrupt practices, fraud, conflict of interest, money laundering, abuse of authority or breach of any laws and regulations by any staff and management. The Policy serves to provide a formal channel of communication for the employees and any other persons to raise concerns in a responsible and timely manner.</p> <p>Integrity &amp; Governance Unit (IGU) is responsible to ensure that integrity is upheld and dissemination of highest standards of compliance within VELESTO Group. IGU reports to the BWBC and is governed by its Terms of Reference (TOR) and integrity framework approved by the Board.</p> <p>The TOR of the Board Whistle-Blowing (BWBC) is available for viewing at the VELESTO's corporate website at <a href="https://www.velesto.com">https://www.velesto.com</a></p> <p><b>Disclosure Channel</b></p> <p>Should a person wishes to lodge a report on any suspected wrongdoings, they may choose to make disclosures to the Head of IGU via:-</p> <ul style="list-style-type: none"><li>• The Company's intranet called NEST</li><li>• Website: <a href="http://www.velesto.com">www.velesto.com</a></li><li>• Email: <a href="mailto:https://whistleblower@velesto.com">https://whistleblower@velesto.com</a></li><li>• Telephone: +603-2096 8788 direct to Head of IGU</li></ul> <p>The Whistle-blowing Policy is available for viewing at the Company's corporate website at <a href="https://www.velesto.com">https://www.velesto.com</a></p>
<b>Explanation for departure</b>	:	

<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

### Practice 4.1

At least half of the board comprises independent directors. For Large Companies, the board comprises a majority independent directors.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>Good stewardship emanates from a balanced board, with the Board members composed of complementary yet diverse mix of skills, knowledge, experiences and independent elements that equips the Board with diverse insights and perspectives for better decision making.</p> <p>During the year under review, the Board comprised of Chairman, an Executive Director and seven (7) Non-Executive Directors (NED). The Board took note of the requirement of Practice 4.1 of the MCCG 2017 which requires at least half of the Board comprises Independent Directors, hence, five (5) out of nine (9) or 56% of the Board's composition comprises of Independent Directors.</p> <p>With a composition that gives regard to age, ethnicity, gender, expertise, regional and industry experiences, cultural and geographical background, the Board benefits from diversity, inclusiveness and thought leadership required by the Group. This level of diversity is needed to make sure the decisions made at this level consist of the right input and challenge.</p> <p>Cognisant of the requirements of Practice 4.5 of MCCG 2017, and the Group has a policy on gender diversity by way of inclusion in the Board Charter, to have at least 30% women Directors on the Board. With four (4) women Directors on Board, the VELESTO's Board comprises 40% women Directors.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

### Practice 4.2

The tenure of an independent director does not exceed a cumulative term limit of nine years. Upon completion of the nine years, an independent director may continue to serve on the board as a non-independent director.

If the board intends to retain an independent director beyond nine years, it should justify and seek annual shareholders' approval. If the board continues to retain the independent director after the twelfth year, the board should seek annual shareholders' approval through a two-tier voting process.

Application	:	Not applicable - No independent director(s) serving beyond 9 years	
Explanation on application of the practice	:		
Explanation for departure	:		
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.			
Measure	:		
Timeframe	:		



**Intended Outcome**

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

**Practice 4.3 - Step Up**

The board has a policy which limits the tenure of its independent directors to nine years.

<b>Application</b>	:	Adopted
<b>Explanation on adoption of the practice</b>	:	The Board takes cognisance that Practice 4.3 of MCGG 2017 and has instituted a policy by way of inclusion in the Board Charter, which limits the tenure of its Independent Non-Executive Director (INED) up to nine (9) years. As at FY2020, none of the INEDs have served the Board more than nine years. The Board Charter is available for viewing at the VELESTO's corporate website at <a href="https://www.velesto.com">https://www.velesto.com</a>

### Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

### Practice 4.4

Appointment of board and senior management are based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board Nomination &amp; Remuneration Committee (BNRC) is entrusted to develop the policies and procedures in formalising the approach in the recruitment process and annual assessment of Directors, which serve as guides for the BNRC in discharging its duties in the aspects of nomination, evaluation, selection and appointment process of new Directors.</p> <p><b><u>Appointment of Directors</u></b></p> <p>The appointment of a new Director is a matter for consideration and decision by the full Board upon appropriate recommendation from the BNRC. In making these recommendations, the BNRC will consider the required mix of skills, experiences, core competencies, other qualities and diversity in terms of gender, ethnicity and age, which the Directors bring to the Board.</p> <p>The Board is cognisant of the requirement of Practice 4.5 of the MCCG 2017, has instituted a policy on gender diversity by way of inclusion in the Board Charter, to have at least 30% women Directors on the Board. The Company's Board comprises 40% women Directors, with four (4) women Directors on Board.</p> <p>The Board Charter provides that the selection of candidates may come on recommendations by any existing Board members, management or major shareholders. BNRC may also consider appointing an independent party or source out to third party in identifying suitably qualified candidates. If the selection of candidate is made solely based on recommendations made by existing Board members, Management or major shareholders, BNRC shall explain why other sources are not used.</p> <p>During FY2020, the Board through its BNRC conducted an annual review of its size and composition, to determine if the Board has the right size and adequate diversity with independence elements that fit the Company's objectives and strategic goals.</p> <p><b><u>Appointments to Board Committees</u></b></p> <p>The review is conducted on an annual basis, and as and when the need arises, such as when a new Director is appointed. In determining the</p>

	<p>candidates for appointment to the Board Committees, various factors are considered by the BNRC, including (but are not limited to) the following factors: -</p> <ul style="list-style-type: none"> <li>• The needs of the particular Board Committees;</li> <li>• The results of the Board Effectiveness Evaluation for the Board Committees;</li> <li>• Time commitment and availability;</li> <li>• Regulatory requirements; and</li> <li>• Best practices or governance practices.</li> </ul> <p><b><u>Appointments to Senior Management</u></b></p> <p>The Human Resources Department is responsible for selection and appointment of candidates for senior management position based on selection criteria which best matches the requirements of the open position.</p> <p>The selection criteria include (but are not limited to) diversity in skills, experience, age, cultural background and gender.</p>	
<b>Explanation for departure</b>	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

### Practice 4.5

The board discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board, through its diversity policy, has identified and based on merit, appointed suitable women directors. The Board's commitment to gender diversity is clearly demonstrated by the representation four (4) women directors on the Board of Directors of the Company, which is in compliance with Paragraph 4.5 of the Principle A of the MCCG 2017.</p> <p>The following women Directors, represents 40% of the Board's composition:-</p> <ul style="list-style-type: none"><li>• Haida Shenny Hazri,</li><li>• Rowina Ghazali Seth;</li><li>• Dato' Dayang Fatimah Johari;</li><li>• Datuk Tong Poh Keow</li></ul> <p>The Company has exceeded the target of having at least 30% women directors on the Board.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

### Practice 4.6

In identifying candidates for appointment of directors, the board does not solely rely on recommendations from existing board members, management or major shareholders. The board utilises independent sources to identify suitably qualified candidates.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The BNRC is responsible for identifying, evaluating and recommending to the Board, suitable candidates to fill board vacancies at the Company level as well as within the Group.</p> <p>The appointment of a new Director is a matter for consideration and decision by the Board upon recommendation from the BNRC. In making recommendation, BNRC considers Board balance, right composition as required by the Group. In accordance with the Board Charter, the following process of appointment of Directors is applied:-</p> <ul style="list-style-type: none"><li>• Identification of skills/gaps, additional attributes, capabilities or qualifications;</li><li>• Identifying candidates from existing Board, Management, major shareholder or independent sources externally;</li><li>• Shortlisted candidates referred to BNRC for consideration and recommendation to Board;</li><li>• BNRC decide on appropriate means for review and approval of individual candidates;</li><li>• BNRC will consider findings of evaluation process &amp; current composition, attributes and qualifications that should represent at Board;</li><li>• The Board will approve the appointment of selected candidate.</li></ul> <p>In respect of the above, the Board had in February 2021 established a pool of potential Directors/Committee members of the Company (Talent Pool), for its reference when considering new appointments, in line with the sourcing process and criteria for potential candidates as set out in the Board Charter.</p> <p>As part of the Board succession planning process, the Talent Pool is also maintained and updated from time to time. The BNRC reviews the profiles of the potential candidates in the Talent Pool which are obtained from various sources including recommendation made by from the members of the Board, major shareholders and other independent sources, for example, Institute of Corporate Directors Malaysia. This is to ensure that the BNRC is able to identify the most suitable and qualified candidate.</p>

<b>Explanation for departure</b> :		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b> :		
<b>Timeframe</b> :		

**Intended Outcome**

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

**Practice 4.7**

The Nominating Committee is chaired by an Independent Director or the Senior Independent Director.

Application	:	Applied	
Explanation on application of the practice	:	The Chairman of the BNRC, Dato’ Ibrahim Marsidi, is an Independent Non-Executive Director (INED) of the Company.	
Explanation for departure	:		
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.			
Measure	:		
Timeframe	:		

### Intended Outcome

Stakeholders are able to form an opinion on the overall effectiveness of the board and individual directors.

### Practice 5.1

The board should undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committees and each individual director. The board should disclose how the assessment was carried out and its outcome.

For Large Companies, the board engages independent experts periodically to facilitate objective and candid board evaluations.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The BNRC was tasked to carry out the annual process for evaluating the effectiveness of the Board as a whole, the performance and contribution of the Chairman and individual Directors, including INEDs, as well as the President of the Company, and to identify areas for improvement.</p> <p>The Board Effectiveness Evaluation is conducted annually and composed of assessment of performances of the Board, Board Committees, individual Directors including assessment of independency by Independent Directors and the Executive Director.</p> <p>All the Directors of the Board had completed and submitted the written questionnaires:-</p> <ol style="list-style-type: none"><li>1. Board of Directors Assessment</li></ol> <p>In conducting the assessment, the following main criteria were adopted: -</p> <ul style="list-style-type: none"><li>• Board mix and composition</li><li>• Quality of information and decision-making</li><li>• Boardroom activities</li><li>• Board Chairman's role</li></ul> <ol style="list-style-type: none"><li>2. Directors' Skill Sets Assessment</li></ol> <p>In conducting the assessment, the following main criteria were adopted: -</p> <ul style="list-style-type: none"><li>• Leadership and strategy</li><li>• Legal and regulatory requirements</li><li>• Corporate governance, risk management and internal controls</li><li>• Accounting and financial reporting</li><li>• Industry experience</li><li>• Operations and quality management</li></ul>



	<ul style="list-style-type: none"> <li>Information Technology</li> </ul> <p>3. Directors' Self and Peer Evaluation</p> <p>In conducting the assessment, the following main criteria were adopted: -</p> <ul style="list-style-type: none"> <li>Contribution and performance</li> <li>Calibre and personality</li> </ul> <p>4. Independent Directors' Self-Assessment</p> <p>Based on the responses received, INEDs have declared compliance for all assessment criteria relating to background, economic relationship, family relationship and tenure.</p> <p>The Board is satisfied with the level of independence demonstrated by the INEDs and their ability to act in the best interest of the Company.</p> <p>5. Consolidated Board Committee Assessment.</p> <p>An independent expert was also engaged periodically to facilitate objective board evaluations. For FY2020, the Board Effectiveness Evaluation was conducted internally. The Company Secretary collated and considered the evaluation results. The insights and findings from the evaluation results were discussed collectively by BNRC and subsequently tabled for deliberations by the Board.</p>	
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

### Practice 6.1

The board has in place policies and procedures to determine the remuneration of directors and senior management, which takes into account the demands, complexities and performance of the company as well as skills and experience required. The policies and procedures are periodically reviewed and made available on the company's website.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board is mindful that fair remuneration for Directors is important in attracting, retaining and motivating knowledgeable and experienced individuals of the calibre needed to manage the business of the Company.</p> <p>The BNRC is responsible for recommending to the Board for approval on the remuneration packages of the Executive Director and Non-Executive Director, taking into consideration individual Director's performance, time commitment, experience, level of responsibilities, as well as the performance of the VELESTO Group and market conditions.</p> <p>On 25 February 2020 the Board reviewed and approved the revised Remuneration Policy and Procedures for Non-Executive Directors. The policy sets out the remuneration structure, which includes fixed components (such as board fees and meeting allowances) as well as variable components (benefit-in-kind, insurance coverage, medical as well as other reimbursable claims).</p> <p>The remuneration practices of VELESTO's Non-Executive Directors are anchored on the following overarching objectives: -</p> <ul style="list-style-type: none"><li>• Drive behaviour that is consistent with VELESTO's iLEAP values;</li><li>• Promote symmetric outcomes with the risk appetite of VELESTO by encouraging prudent risk taking in decision-making;</li><li>• Deliver a total reward proposition that is affordable yet fair, so as to incentivise actions towards the value accretion of VELESTO;</li><li>• Attract and retain high-quality individuals with the optimum mixture of competencies, ability, experience and skill to deliver on strategy; and</li><li>• Encourage a culture of collective and individual performance that is in line with the strategic goals of VELESTO.</li></ul>

	<p>The following are the responsibilities of BNRC in setting remuneration and reward propositions as set forth in its TOR:-</p> <ul style="list-style-type: none"> <li>• Review and recommend to the Board, the remuneration of the President and all his direct reports for the position holding job grade 20 and above and the Company Secretaries, including the extension of service, compensation and benefits package of such executives who have attained the retirement age of 60 years;</li> <li>• Ensure that a strong link is maintained between the level of remuneration and individual performance against the performance of the Group, the achievement of the organisation's targets as the performance related elements of remuneration setting forms a significant proportion of the total remuneration package of the Executive Director;</li> <li>• Ensure that the remuneration for Independent Directors do not conflict with their obligation to bring objectivity and independent judgement;</li> <li>• Recommend to the Board after reviewing the proposals on the following:- <ul style="list-style-type: none"> <li>○ Framework of remuneration of Directors, covering fees, allowances and benefits for the Board and Board Committees;</li> <li>○ Salary increment, bonus and/or ex-gratia payments guidelines/limits for deserving staff, if any; and</li> <li>○ Remuneration benefits and other terms and conditions of employment, being part of human resources development plan; including benchmarking VELESTO's remuneration in line with industry standards and major changes in benefits.</li> </ul> </li> </ul> <p>The Remuneration Policy and Procedures for Non-Executive Directors, and BNRC TOR are available on the Company's website at <a href="https://www.velesto.com">https://www.velesto.com</a></p>
<b>Explanation for departure</b> :	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>	
<b>Measure</b> :	
<b>Timeframe</b> :	

### Intended Outcome

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

### Practice 6.2

The board has a Remuneration Committee to implement its policies and procedures on remuneration including reviewing and recommending matters relating to the remuneration of board and senior management.

The Committee has written Terms of Reference which deals with its authority and duties and these Terms are disclosed on the company's website.

<b>Application</b>	:	Applied															
<b>Explanation on application of the practice</b>	:	<div>BNRC is responsible to implement the Group's policies and procedures on remuneration, approved by the Board, based on its TOR. The BNRC currently comprises exclusively of INEDs:-</div> <table><tr><th>COMMITTEE MEMBERS</th><th>DESIGNATION</th><th>DIRECTORSHIP</th></tr><tr><td>Dato' Ibrahim Marsidi</td><td>Chairman</td><td>INED</td></tr><tr><td>Rowina Ghazali Seth</td><td>Member</td><td>INED</td></tr><tr><td>Dato' Dayang Fatimah Johari</td><td>Member</td><td>INED</td></tr><tr><td>Rizal Rickman Ramli</td><td>Member</td><td>Non-Independent Non-Executive Director (NINED)</td></tr></table> <div>A copy of the TOR of the BNRC is available for viewing at the Company's corporate website at <a href="https://www.velesto.com">https://www.velesto.com</a></div>	COMMITTEE MEMBERS	DESIGNATION	DIRECTORSHIP	Dato' Ibrahim Marsidi	Chairman	INED	Rowina Ghazali Seth	Member	INED	Dato' Dayang Fatimah Johari	Member	INED	Rizal Rickman Ramli	Member	Non-Independent Non-Executive Director (NINED)
COMMITTEE MEMBERS	DESIGNATION	DIRECTORSHIP															
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Rowina Ghazali Seth	Member	INED															
Dato' Dayang Fatimah Johari	Member	INED															
Rizal Rickman Ramli	Member	Non-Independent Non-Executive Director (NINED)															
<b>Explanation for departure</b>	:																
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>																	
<b>Measure</b>	:																
<b>Timeframe</b>	:																

## Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

## Practice 7.1

There is detailed disclosure on named basis for the remuneration of individual directors. The remuneration breakdown of individual directors includes fees, salary, bonus, benefits in-kind and other emoluments.

<b>Application</b>	:	Applied																																										
<b>Explanation on application of the practice</b>	:	<p>For FY2020, the remuneration breakdown of Directors is as follows:-</p> <table> <tr> <th>Group and Company</th><th>Directors' fees (RM'000)</th><th><sup>(1)</sup> Other emoluments (RM'000)</th></tr> <tr> <td colspan="3"><b>Non-executive Directors:</b></td></tr> <tr> <td>Dato' Abdul Rahman Ahmad<sup>(3)</sup></td><td>53</td><td>8</td></tr> <tr> <td>Mohd Rashid Mohd Yusof</td><td>109</td><td>24</td></tr> <tr> <td>Razalee Amin</td><td>107</td><td>36</td></tr> <tr> <td>Dato' Ibrahim Marsidi</td><td>105</td><td>37</td></tr> <tr> <td>Haida Shenny Hazri</td><td>91</td><td>24</td></tr> <tr> <td>Rowina Ghazali Seth</td><td>102</td><td>33</td></tr> <tr> <td>Rizal Rickman Ramli<sup>(4)</sup></td><td>95</td><td>25</td></tr> <tr> <td>Dato' Dayang Fatimah Johari</td><td>100</td><td>33</td></tr> <tr> <td>Datuk Tong Poh Keow</td><td>98</td><td>31</td></tr> <tr> <td colspan="3"><b>Executive Director:</b></td></tr> <tr> <td>Rohaizad Darus<sup>(2)</sup></td><td></td><td>1,831</td></tr> <tr> <td><b>TOTAL</b></td><td><b>860</b></td><td><b>2,082</b></td></tr> </table> <p><sup>(1)</sup> Included in the other emoluments are meeting allowances, per diem allowance, mobile phone allowances, car including driver (for Chairman of the Board only), and other claimable expenses.</p> <p><sup>(2)</sup> Included in the other emoluments are salary, gratuity, employer's statutory contribution, car and petrol, leave passage, allowances, telephone expenses and club subscriptions.</p> <p><sup>(3)</sup> Resigned as Chairman/NED of VELESTO on 10 June 2020.</p> <p><sup>(4)</sup> Fees as nominee Director paid to Permodalan Nasional Berhad.</p>	Group and Company	Directors' fees (RM'000)	<sup>(1)</sup> Other emoluments (RM'000)	<b>Non-executive Directors:</b>			Dato' Abdul Rahman Ahmad <sup>(3)</sup>	53	8	Mohd Rashid Mohd Yusof	109	24	Razalee Amin	107	36	Dato' Ibrahim Marsidi	105	37	Haida Shenny Hazri	91	24	Rowina Ghazali Seth	102	33	Rizal Rickman Ramli <sup>(4)</sup>	95	25	Dato' Dayang Fatimah Johari	100	33	Datuk Tong Poh Keow	98	31	<b>Executive Director:</b>			Rohaizad Darus <sup>(2)</sup>		1,831	<b>TOTAL</b>	<b>860</b>	<b>2,082</b>
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<b>Measure</b>	:		
<b>Timeframe</b>	:		

### Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

### Practice 7.2

The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

Application	:	Departure				
Explanation on application of the practice	:					
Explanation for departure	:	While the Board is cognisant on the importance of transparency, the Board is of the view that the disclosure of the top five senior management’s remuneration would be unfavourable to the Group due to the intense competition, scarcity for talents and to safeguard its senior management retention efforts. The Group has robust internal process to review and assess the remuneration of Senior Management and always subject to the performances of the Group. The Board believes that the interest of the shareholders will not be prejudiced due to non-disclosure of the remuneration of the Company’s top five senior management.				
		In order to achieve the intended outcome, as an alternative to the recommended practice, the Board has opted to disclose the remuneration of Senior Management on a group basis for FY2020 as follows:-				
		<table><tr><th>Remuneration Top 5 Senior Management</th><th>RM</th></tr><tr><td>Salary, benefits in-kind and other emoluments*</td><td>3,761,468.17</td></tr></table>	Remuneration Top 5 Senior Management	RM	Salary, benefits in-kind and other emoluments*	3,761,468.17
	Remuneration Top 5 Senior Management	RM				
Salary, benefits in-kind and other emoluments*	3,761,468.17					
	* Excluding President’s remuneration					
		The remuneration of the President who is also the Executive Director of the Company is disclosed under the Statement on Corporate Governance in page 121 of Annual Report.				
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.						
Measure	:	The Board will continue to re-visit this matter on a periodic basis, including the possible implications to the senior management personnel if such disclosure is made, as well as whether such disclosure would provide any value to the stakeholders.				

<b>Timeframe</b>	:	Others	Not Applicable
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**Intended Outcome**

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

**Practice 7.3 - Step Up**

Companies are encouraged to fully disclose the detailed remuneration of each member of senior management on a named basis.

<b>Application</b>	:	Not Adopted
<b>Explanation on adoption of the practice</b>	:	

**Intended Outcome**

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.  
The company's financial statement is a reliable source of information.

**Practice 8.1**

The Chairman of the Audit Committee is not the Chairman of the board.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	The BAC is chaired by Razalee Amin, who is also the Senior Independent Director, which is separated from the Chairman of the Board, Mohd Rashid Mohd Yusof. Comprised of fully independent Directors, BAC is positioned to rigorously challenge and ask probing questions on the Group's financial reporting process, internal controls, risk management and governance. Further information on the composition, roles and responsibilities of BAC and activities during the FY2020 are available in BAC Report on pages 133 till 136 of the Annual Report.
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**Intended Outcome**

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.  
The company's financial statement is a reliable source of information.

**Practice 8.2**

The Audit Committee has a policy that requires a former key audit partner to observe a cooling-off period of at least two years before being appointed as a member of the Audit Committee.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The BAC has instituted a policy by way of inclusion in the TOR of the BAC that requires a former key audit partner to observe a cooling-off period of at least two (2) years before being appointed as a member of the BAC. This requirement is also affirmed in the Company’s External Auditors Assessment Policy Statement.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

### Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.  
The company's financial statement is a reliable source of information.

### Practice 8.3

The Audit Committee has policies and procedures to assess the suitability, objectivity and independence of the external auditor.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>BAC is tasked to assess and monitor the performance, suitability, objectivity and independence of the External Auditors annually. The assessment is to be based on established External Auditors Assessment Policy Statement, that consider among others:-</p> <ul style="list-style-type: none"><li>• The competence, audit quality and resource capacity of the external auditor in relation to the audit;</li><li>• The nature and extent of the non-audit services rendered and the appropriateness of the level of fees; and</li><li>• Obtaining 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.</li></ul> <p>During the FY2020, the BAC has carried out the annual assessment and in its assessment, the BAC considered, inter alia, the following factors:-</p> <p><u>Independence</u></p> <p>The External Auditors must be independent from the Group and shall not provide any services that may materially impair their independence or conflict with their role as External Auditors.</p> <p><u>Non-Audit service</u></p> <p>The External Auditors may be permitted to provide non-audit services that are not perceived to be materially in conflict with the role of the External Auditors.</p> <p>External Auditors shall observe and comply with the By-Laws of the Malaysian Institute of Accountants in relation to the provision of non-audit services.</p> <p>The Management shall obtain confirmation from the External Auditors that the independence of the External Auditors will not impair by the provision of non-audit services. All engagements of the External Auditors to provide non-audit services are subject to the approval of the BAC.</p>

	<p><u>Rotation of Audit Partner</u></p> <p>The audit partner responsible for the external audit of the Group is subject to rotation at least every five (5) years.</p> <p>The BAC has assessed the quality process/performance, audit team, independence and objectivity, audit scope and planning, audit fees and audit communications of External Auditors vide the findings and insights on External Auditors' Performance and EY Independence Evaluation on the External Auditors, namely Messrs. Ernst &amp; Young PLT (EY) for the FY2020.</p> <p>The External Auditors provided a written statement that they will continuously comply with the relevant ethical requirements regarding independence throughout the audit of the Group, in accordance with the International Federation of Accountants' Code of Ethics for Professional Accountants and the Malaysian Institute of Accountants' By-Laws (On Professional Ethics, Conduct and Practice). They are not aware of any relationship between EY and the Group that, in their professional judgment, may reasonably be thought to impair their independence. They have reviewed the non-audit services provided to the Company during the FY2020 and are not aware of any non-audit services that have compromised our independence as External Auditors of the Company.</p> <p>Upon completion of its assessment, the BAC was satisfied with EY's technical competency and audit independence and recommended to the Board the re-appointment of EY as External Auditors. The Board, in turn now recommends for the same for shareholders' approval at this coming 11<sup>th</sup> AGM of the Company.</p>
<p><b>Explanation for departure</b></p>	<p>:</p>
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>	
<p><b>Measure</b></p>	<p>:</p>
<p><b>Timeframe</b></p>	<p>:</p>

**Intended Outcome**

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.  
The company's financial statement is a reliable source of information.

**Practice 8.4 - Step Up**

The Audit Committee should comprise solely of Independent Directors.

<b>Application</b>	:	Adopted															
<b>Explanation on adoption of the practice</b>	:	<p>The BAC comprises of four members, all INEDs, thus fully complying with the requirements of paragraph 15.09(1)(a) and (b) of the Bursa Malaysia Securities Berhad's Main Market Listing Requirements (MMLR) and Practice 8.4 under Principle B of the MCCG 2017. The BAC comprises solely of INEDs:-</p> <table border="1"> <thead> <tr> <th>COMMITTEE MEMBERS</th><th>DESIGNATION</th><th>DIRECTORSHIP</th></tr> </thead> <tbody> <tr> <td>Razalee Amin</td><td>Chairman</td><td>Senior INED</td></tr> <tr> <td>Dato' Ibrahim Marsidi</td><td>Member</td><td>INED</td></tr> <tr> <td>Dato' Dayang Fatimah Johari</td><td>Member</td><td>INED</td></tr> <tr> <td>Datuk Tong Poh Keow</td><td>Member</td><td>INED</td></tr> </tbody> </table>	COMMITTEE MEMBERS	DESIGNATION	DIRECTORSHIP	Razalee Amin	Chairman	Senior INED	Dato' Ibrahim Marsidi	Member	INED	Dato' Dayang Fatimah Johari	Member	INED	Datuk Tong Poh Keow	Member	INED
COMMITTEE MEMBERS	DESIGNATION	DIRECTORSHIP															
Razalee Amin	Chairman	Senior INED															
Dato' Ibrahim Marsidi	Member	INED															
Dato' Dayang Fatimah Johari	Member	INED															
Datuk Tong Poh Keow	Member	INED															

### Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations.  
The company's financial statement is a reliable source of information.

### Practice 8.5

Collectively, the Audit Committee should possess a wide range of necessary skills to discharge its duties. All members should be financially literate and are able to understand matters under the purview of the Audit Committee including the financial reporting process.

All members of the Audit Committee should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The members of our BAC possess the necessary qualifications/experience in financial and auditing matters. Their profiles are disclosed under the Board of Directors' section set in pages 92 to 102 of 2020 Annual Report and on the Company's website.</p> <p>In addition, the Chairman of BAC, Razalee Amin, is a member of the Malaysian Institute of Accountants, a member of the Malaysian Institute of Certified Public Accountants and a member of the Financial Planning Association of Malaysia. The BAC therefore, meets the requirements of Paragraph 15.09(1)(c) of the Main LR of Bursa Securities.</p> <p>The members of the BAC have attended various continuous trainings and development programmes as detailed in the Corporate Governance Overview Statement of 2020 Annual Report.</p> <p>To keep abreast of relevant developments in accounting and auditing standards, our BAC members are regularly briefed by the External Auditors on key changes in accounting standards, practices and rules.</p> <p>Based on the results of the annual assessment in FY2020, the BAC members are financially literate and understand the Group's business. The BAC as a whole, has necessary skills and knowledge to discharge their duties.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		

<b>Measure</b>	:		
<b>Timeframe</b>	:		



### Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

### Practice 9.1

The board should establish an effective risk management and internal control framework.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board recognises the importance of establishing and maintaining sound systems of risk management and internal control framework and systems in the Group.</p> <p>In light of the above, the Board of VELESTO is committed to maintaining sound internal control and risk management system, through the Group's Enterprise Risk Management Framework (ERM Framework). Providing the frame for holistic understanding, application, implementation and monitoring of internal control and risk management, the ERM Framework complements the Group's core values of iLEAP and strong culture of dedication to the highest standards of corporate governance and integrity.</p> <p>The Board is of the view that the system of internal control and risk management in place in FY2020, is sound and sufficient to safeguard the Group's assets, as well as shareholders' investments, and the interests of customers, regulators, employees and other stakeholders.</p> <p>The salient features of VELESTO's risk management and internal control framework are disclosed in the Statement on Risk Management and Internal Control (SORMIC) on pages 124 to 132 of 2020 Annual Report.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

### Practice 9.2

The board should disclose the features of its risk management and internal control framework, and the adequacy and effectiveness of this framework.

Application	:	Applied	
Explanation on application of the practice	:	The salient features of our risk management and internal control framework are disclosed under SORMIC in pages 124 to 132 of 2020 Annual Report.	
Explanation for departure	:		
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.			
Measure	:		
Timeframe	:		

### Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

### Practice 9.3 - Step Up

The board establishes a Risk Management Committee, which comprises a majority of independent directors, to oversee the company's risk management framework and policies.

<b>Application</b>	:	Adopted															
<b>Explanation on adoption of the practice</b>	:	<div><p>The BRMC comprises of the following Directors, which are majority Independent Directors:-</p><table><tr><th>COMMITTEE MEMBERS</th><th>DESIGNATION</th><th>DIRECTORSHIP</th></tr><tr><td>Rowina Ghazali Seth</td><td>Chairperson</td><td>INED</td></tr><tr><td>Razalee Amin</td><td>Member</td><td>INED</td></tr><tr><td>Haida Shenny Hazri</td><td>Member</td><td>NINED</td></tr><tr><td>Datuk Tong Poh Keow</td><td>Member</td><td>INED</td></tr></table><p>Further details on BRMC are made available in the Corporate Governance Overview Statement and SORMIC of 2020 Annual Report.</p></div>	COMMITTEE MEMBERS	DESIGNATION	DIRECTORSHIP	Rowina Ghazali Seth	Chairperson	INED	Razalee Amin	Member	INED	Haida Shenny Hazri	Member	NINED	Datuk Tong Poh Keow	Member	INED
COMMITTEE MEMBERS	DESIGNATION	DIRECTORSHIP															
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Razalee Amin	Member	INED															
Haida Shenny Hazri	Member	NINED															
Datuk Tong Poh Keow	Member	INED															

### Intended Outcome

Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

### Practice 10.1

The Audit Committee should ensure that the internal audit function is effective and able to function independently.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Internal Audit Department (IAD) is headed by Norzalizah Alias, who reports directly to the BAC, to ensure impartiality and independence in executing its role.</p> <p>The IAD undertakes a systematic and disciplined approach in evaluating and improving the effectiveness of governance, risk management and control processes within the Group and its key function is to assist the Group in accomplishing its goals.</p> <p>The IAD adopts the International Standards for the Professional Practices of Internal Auditing set by the Institute of Internal Auditors in carrying out the Internal Audit Function.</p> <p>In maintaining independence and objectivity, IAD will not be assigned any scopes that would lead to a conflict of interest and impair their judgement.</p> <p>The IAD functions is enshrined in the Internal Audit Charter of the Company. Further details are provided in the SORMIC and Board Audit Committee Report of 2020 Annual Report.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

## Intended Outcome

Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

## Practice 10.2

The board should disclose—

- (a) whether internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence;
- (b) the number of resources in the internal audit department;
- (c) name and qualification of the person responsible for internal audit; and
- (d) whether the internal audit function is carried out in accordance with a recognised framework.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The IAD is an integrated part of the assurance structure of the Group. IAD performs the internal audit function of the Group and provides an independent and reasonable assurance on the adequacy, integrity and effectiveness of the Group's overall system of internal control, risk management and governance processes.</p> <p>The Head of IAD, Norzalizah Alias, reports directly to the BAC on a functional basis and to the President administratively. The Head of IAD periodically reports to the BAC on the activities performed as well as the key control issues noted by the internal auditors. The details of the Head of IAD, Norzalizah Alias can be found at page 107 under "Our Leaders" section in 2020 Annual Report.</p> <p>The purpose, authority and responsibility of IAD are reflected in the Internal Audit Charter, which was approved by the BAC. In order to maintain its independence and objectivity, IAD has no operational responsibility and authority over the activities it audits. In maintaining independence and objectivity, IAD will not be assigned any scopes that would lead to a conflict of interest and impair their judgement.</p> <p>The total staff strength in IAD as at 31 December 2020 stood at 5 staff and a total of RM0.8 million was incurred as part of resource allocation for an internal audit function, covering mainly manpower and incidental costs such as travelling and training.</p> <p>IAD adopts a risk-based approach as part of its audit planning and execution focusing on significant identified risks and effectiveness of the controls in mitigating the risks. In performing the audit engagements, IAD is guided by the Institute of Internal Auditors' International Professional Practices Framework (IPPF) which includes the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing.</p>

<b>Explanation for departure</b> :		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b> :		
<b>Timeframe</b> :		

### Intended Outcome

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

### Practice 11.1

The board ensures there is effective, transparent and regular communication with its stakeholders.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board welcomes the opportunity to engage with shareholders as it recognises the importance of a continuing effective dialogue, whether with institutional shareholders, private or employee shareholders. The Board takes responsibility for ensuring that such dialogue takes place. The President and Senior Management are closely involved in investor relations, and the Strategic Communications Division has day-to-day responsibility for such matters. Dialogues with key institutional shareholders, fund managers and analysts are organised throughout the year.</p> <p>Investors are kept informed of key business activities, decisions and other key announcements on an ongoing basis via the announcements released to Bursa Securities, Company's website, media releases, press releases, briefing sessions, press conferences, one-to-one meetings, general meetings with shareholders.</p> <p>During FY2020, the Company has implemented the following to communicate with its Shareholders:-</p> <ul style="list-style-type: none"><li>i. General meeting</li></ul> <p>The 10<sup>th</sup> AGM was held on 29 June 2020. The Chairman of the AGM allowed reasonable time for questions and answers session in the AGM to ensure that all subject matters tabled are thoroughly considered and debated. The minutes of the AGM together with the response to Minority Shareholder Watch Group were uploaded onto the Company's website after the AGM.</p> <ul style="list-style-type: none"><li>ii. Announcements made to Bursa Securities</li></ul> <p>Annual Report, Quarterly Financial Results and various announcements were made to Bursa Securities in accordance with the Main LR of Bursa Securities.</p> <ul style="list-style-type: none"><li>iii. Annual Report and Circular to Shareholders</li></ul>

	<p>The Annual Report for year 2019 together with the notice of AGM were distributed to Shareholders on 19 May 2020.</p> <p>iv. Company's website</p> <p>All announcements released to Bursa Securities also appear in the Company's website at the following:  <a href="https://velestocom/investor-relation-bursa-annoucement/">https://velestocom/investor-relation-bursa-annoucement/</a></p> <p>Shareholders and the general public may also access to the said website for information such as financial reports, bursa announcements, stock information, investor updates, investor relations contact, email alerts and reports – AGM/EGM.</p> <p>vi. Analyst briefing</p> <p>Analyst briefing was held 4 times in FY2020 after the release of each Quarter Financial Results.</p> <p>vii. One-on-one Meeting</p> <p>The Group aims to communicate fully with fund managers, investors and analysts upon request. One-on-one meetings with analysts and fund managers are held to provide updates on the Group's strategy and financial performance.</p> <p>The Group's website, <a href="http://www.velestocom">http://www.velestocom</a> contains information on the Group, together with financial reports, presentations and other information on the Group's operations. A dedicated "Investor Relations Contact" section is available in the Company's website. For any queries on investor relations matters, please contact the following:</p> <p>Name: Head, Investor Relations &amp; Sustainability  Telephone: +603-2096 8788  Email: <a href="mailto:investor.relations@velestocom">investor.relations@velestocom</a></p> <p>The detailed communication with the stakeholders for FY2020 is disclosed in the Stakeholder Engagement as set out in the Sustainability Report of 2020 Annual Report.</p>
Explanation for departure	
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.	
Measure	



<b>Timeframe</b>	:		
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### Intended Outcome

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

### Practice 11.2

Large companies are encouraged to adopt integrated reporting based on a globally recognised framework.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	VELESTO Group continues to make progress in its adoption of the globally recognised, Integrated Reporting (<IR>) framework. Now in its second year of reporting, the Group has strengthened its disclosures in accordance to the principles based framework of the International Integrated Reporting Council (<IIRC>). Refer explanation on the <IR> framework may be found in page 2 to page 3 of 2020 Annual Report.	
<b>Explanation for departure</b>	:	Please provide an explanation for the departure.	
		Please provide an alternative practice and explain how the alternative practice meets the intended outcome.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:	Please explain the measure(s) the company has taken or intend to take to adopt the practice.	
<b>Timeframe</b>	:	Choose an item.	Please specify number of years.

**Intended Outcome**

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

**Practice 12.1**

Notice for an Annual General Meeting should be given to the shareholders at least 28 days prior to the meeting.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The notice of the 10<sup>th</sup> AGM together with the 2019 Annual Report was dispatched to shareholders more than twenty-eight (28) days prior to the meeting date, well in advance of the twenty-one (21) days requirement under the Companies Act 2016 and Main LR of Bursa Securities. The additional time given to shareholders is to allow them to make the necessary arrangements to participate in person or through corporate representatives, proxies or attorneys.</p> <p>The notes to the Notice of the 10<sup>th</sup> AGM dated 19 May 2020 provided detailed explanations for each resolution proposed, to enable shareholders to make informed decisions in exercising their voting rights at the meeting.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

### Practice 12.2

All directors attend General Meetings. The Chair of the Audit, Nominating, Risk Management and other committees provide meaningful response to questions addressed to them.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>All the Directors were present at the 10<sup>th</sup> AGM of the Company held in 2020, which was live streamed from the broadcast venue. The Chairman of the Board presided over the 10<sup>th</sup> AGM and he was joined by President and Chairman of BNRC at the broadcast venue, whilst the other Directors and Senior Management attended the meeting remotely.</p> <p>The proceedings of 10<sup>th</sup> AGM saw its inaugural remote participations by registered shareholders and proxyholders, included presentations of financial statements for FY2019 and performance of the Group by the President. Before putting the proposed resolutions to vote, the proceedings continued with Questions and Answers session to respond to questions raised by shareholders or proxyholders prior to and during the meeting. The Group Company Secretary also shared with the shareholders in attendance, the Company's responses to questions submitted in advance of the AGM by the Minority Shareholders Watch Group.</p> <p>The Group Company Secretary read out the questions received by the Company in advance and those via the query box from the shareholders/corporate representatives/proxies. The President, Chief Financial Officer, Company Secretary, External Auditors, and Principal Advisor for the proposed Capital Reduction exercise (Affin Hwang Investment Bank Berhad) were invited to respond accordingly. The Chairman further informed that the Management will respond to these questions and upload it to the Company's website. This had been implemented accordingly by the Company Secretary.</p> <p>The minutes of 10<sup>th</sup> AGM (including all the Questions raised at the meeting and the Answers thereto) were also made available on VELESTO's website.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		

<b>Measure</b>	:		
<b>Timeframe</b>	:		

### Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

### Practice 12.3

Listed companies with a large number of shareholders or which have meetings in remote locations should leverage technology to facilitate–

- (a) including voting in absentia; and
- (b) remote shareholders' participation at General Meetings.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	<p>The Company had leveraged technology and conducted its 10<sup>th</sup> AGM held on 29 June 2020, through live streaming from the broadcast venue, which had enabled remote shareholders' participation and online remote voting for the first time.</p> <p>Shareholders and proxyholders were given the access the live streaming of the AGM and vote online through access onto online platform managed by the Company's appointed share registrar for the 10<sup>th</sup> AGM, Tricor Investor &amp; Issuing House Services Sdn. Bhd., on TIIH online website at: <a href="https://tiih.online">https://tiih.online</a>.</p> <p>For voting in absentia, shareholders were enabled to log in with their usernames and passwords at Tricor's TIIH Online website and participated remotely via live streaming at the AGM. They were given the opportunity to cast their votes online from 2 p.m. on 29 June 2020 until the close of the voting session as announced by the Chairman.</p>	
<b>Explanation for departure</b>	:	<p>Please provide an explanation for the departure.</p> <p>Please provide an alternative practice and explain how the alternative practice meets the intended outcome.</p>	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:	Please explain the measure(s) the company has taken or intend to take to adopt the practice.	
<b>Timeframe</b>	:	Choose an item.	

**SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES PURSUANT  
CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA MALAYSIA**

*Disclosures in this section are pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia. This section is only applicable for financial institutions or any other institutions that are listed on the Exchange that are required to comply with the above Guidelines.*

N/A
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