

# CORPORATE GOVERNANCE REPORT

**STOCK CODE** : 7153  
**COMPANY NAME** : KOSSAN RUBBER INDUSTRIES BHD.  
**FINANCIAL YEAR** : 31 December 2018

## 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 PERSUANT 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>	:	<ul style="list-style-type: none"> <li>- The Board is responsible for the oversight and overall effective management of the Company.</li> <li>- The Board Charter formulated in November 2014 formalises the duties and responsibilities of the Board, the Board Committees and Management.</li> <li>- The roles and responsibilities of the Board as set out in the Board Charter are clear and distinct from that of the Managing Director/Chief Executive Officer.</li> <li>- The Board has oversight on matters delegated to management.</li> <li>- The Board's principal responsibilities include reviewing and adopting strategic plans, overseeing conduct of business, risk management and implementation of internal control procedures.</li> <li>- The Board has delegated specific responsibilities to the following committees:-               <ul style="list-style-type: none"> <li>a) Audit Committee ("AC")</li> <li>b) Risk Management Committee ("RMC")</li> <li>c) Nomination Committee ("NC")</li> <li>d) Remuneration Committee ("RC")</li> </ul> </li> </ul> <p>The powers delegated to the committees are set out in the Terms of Reference of each committee.</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>	:	<ul style="list-style-type: none"><li>- The roles and responsibilities of the Chairman of the Board has been clearly specified in the Board Charter.</li><li>- The Chairman, Mohamed Shafeii Bin Abdul Gaffoor, is an independent non-executive director and is primarily responsible for matters pertaining to the Board and the overall conduct of the Company.</li><li>- The Chairman is committed to good corporate governance practice and has been leading the Board towards high performing culture.</li><li>- The responsibility of the Chairman is clearly stated in the Board Charter and includes the following:-<ul style="list-style-type: none"><li>- provides Board leadership to ensure effective performance;</li><li>- sets the Board agendas and ensure Board members receive complete and accurate information on a timely basis;</li><li>- leads Board discussion;</li><li>- encourages free active participation on all matters under deliberation; and</li><li>- leads the Board in establishing, monitoring and achieving good corporate governance practices.</li></ul></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.

Application	:	Applied	
Explanation on application of the practice	:	<ul style="list-style-type: none"><li>- The Chairman, Mohamed Shafeii Bin Abdul Gaffoor and the Managing Director/Chief Executive Officer, Tan Sri Dato’ Lim Kuang Sia, both hold separate position and their roles and responsibilities, governed by the Board Charter, are clearly distinct to enhance the balance of power and authority.</li><li>- The Managing Director oversees the day to day management of the Group and implements the decisions and policies of the Board.</li></ul>	
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

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>	:	<ul style="list-style-type: none"><li>- Both company secretaries of the Company are qualified to act as company secretaries under Section 235(2) of the Companies Act 2016. One is a member of the Malaysian Institute of Accountants while the other is licensed by the Registrar of Companies.</li><li>- Their responsibilities includes: -<ul style="list-style-type: none"><li>(a) ensure compliance to listing and related statutory obligations, updates on regulatory requirements, codes, guidance and other relevant legislations;</li><li>(b) ensure adherence and compliance to Board policies and procedures, rules, best practices on corporate governance.</li><li>(c) attend all meetings of the members, Board and committees and ensure the proper recording of minutes of meetings;</li><li>(d) ensure proper upkeep of statutory records and timely filing of returns; and</li><li>(e) assist the Chairman in the preparation for and conduct of meetings, updates on regulatory requirements.</li></ul></li><li>- The company secretaries undertake continuous professional development to keep abreast of the latest developments.</li><li>- The Board is satisfied with the performance and support rendered by the company secretaries.</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 1.5

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>	:	<ul style="list-style-type: none"><li>- To facilitate the Directors' time planning, the annual meeting calendar is prepared and circulated in advance of each new year. The notification provides the Directors with scheduled dates of meetings of the Board, Board Committees and the Annual General Meeting.</li><li>- The Board Charter provides that seven (7) days notice be provided for each meeting, except in emergency case, where the 7 days notice is dispensed with. This is to ensure Directors have sufficient time and information to make informed decisions at the meeting.</li><li>- The deliberations and decisions at Board and Board Committees meetings are documented, including matters where member(s) abstained or voted against the resolution.</li><li>- The Directors are provided with meeting materials which are complete and accurate within reasonable time period prior to the meeting.</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

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>	:	<div><div><div>- The Board Charter was adopted by the Board in November 2014.</div><div>- The Board Charter clearly identifies the respective roles and responsibilities of the Board, Board Committees, individual director and management.</div><div>- The charter provides that training programs will be provided to directors to keep them abreast with development in the market place and enable them to discharge their duties and responsibilities effectively.</div><div>- The training undertaken in 2018 were as follows:-</div></div><table><tr><th></th><th>Director</th><th>Program/Courses/Forums/Training</th><th>Date</th></tr><tr><td rowspan="5">1.</td><td rowspan="5">Tan Sri Dato’ Lim Kuang Sia</td><td>(a) MACC Act, Whistle Blower Protection Act and Whistle Blowing Policy.</td><td>24.7.2018</td></tr><tr><td>(b) Malaysian Economic Summit: Whither Economic Growth, Towards Sustainable Productivity.</td><td>16.10.2018</td></tr><tr><td>(c) Power Talk and Directors Dialogue: Effective Boards in a VUCA World – People, Purpose and Performance.</td><td>31.10.2018</td></tr><tr><td>(d) Engagement Session with MSWG: Directors’ Responsibilities, New MCCG and CG Assessment 2017.</td><td>2.11.2018</td></tr><tr><td>(e) 2019 Budget: What you need to know – The Economy, Capital Market and You.</td><td>14.11.2018</td></tr><tr><td rowspan="5">2.</td><td rowspan="5">Mohamed Shafeii Bin Abdul Gaffoor</td><td>(a) National Supply Chain Conference on rail Projects and Carrier Fair 2018.</td><td>11.4.2018</td></tr><tr><td>(b) The New Malaysian Code on Corporate Governance and Bursa Malaysia Listing Requirements.</td><td>3.5.2018</td></tr><tr><td>(c) MACC Act, Whistle Blower Protection Act and Whistle Blowing Policy.</td><td>24.7.2018</td></tr><tr><td>(d) Directors’ Duties and Responsibilities Under Companies Act 2016 and Bursa Malaysia Listing Requirements.</td><td>11.10.2018</td></tr><tr><td>(e) Engagement Session with MSWG: Directors’ Responsibilities, New MCCG and CG Assessment 2017.</td><td>2.11.2018</td></tr><tr><td>3.</td><td>Lee Choo Hock</td><td>(a) HSBC Asian Outlook &amp; Belt and Road Initiative Forum 2018: Capitalising on China’s Global Ambitions.</td><td>22.1.2018</td></tr></table></div>		Director	Program/Courses/Forums/Training	Date	1.	Tan Sri Dato’ Lim Kuang Sia	(a) MACC Act, Whistle Blower Protection Act and Whistle Blowing Policy.	24.7.2018	(b) Malaysian Economic Summit: Whither Economic Growth, Towards Sustainable Productivity.	16.10.2018	(c) Power Talk and Directors Dialogue: Effective Boards in a VUCA World – People, Purpose and Performance.	31.10.2018	(d) Engagement Session with MSWG: Directors’ Responsibilities, New MCCG and CG Assessment 2017.	2.11.2018	(e) 2019 Budget: What you need to know – The Economy, Capital Market and You.	14.11.2018	2.	Mohamed Shafeii Bin Abdul Gaffoor	(a) National Supply Chain Conference on rail Projects and Carrier Fair 2018.	11.4.2018	(b) The New Malaysian Code on Corporate Governance and Bursa Malaysia Listing Requirements.	3.5.2018	(c) MACC Act, Whistle Blower Protection Act and Whistle Blowing Policy.	24.7.2018	(d) Directors’ Duties and Responsibilities Under Companies Act 2016 and Bursa Malaysia Listing Requirements.	11.10.2018	(e) Engagement Session with MSWG: Directors’ Responsibilities, New MCCG and CG Assessment 2017.	2.11.2018	3.	Lee Choo Hock	(a) HSBC Asian Outlook & Belt and Road Initiative Forum 2018: Capitalising on China’s Global Ambitions.	22.1.2018
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		(b) HBMS Townhall Meeting and 10th Year Anniversary	26.2.2018
		(c) Information & Cyber Security Risk & BNM Scenario Analysis for 2018: Cyber Attack	11.4.2018
		(d) 5th BNM-FIDE FORUM Annual Dialogue	19.4.2018
		(e) The New Malaysian Code on Corporate Governance and Bursa' Revamped Listing Requirements Seminar.	3.5.2018
		(f) AIF-FSBP Business Ethics Conference 2018 FinTech: Business Benefits and Conduct Challenges.	23.5.2018
		(g) Asia-Pacific Audit and Risk Committee Chairmen's Forum 2018.	29.5.2018 - 30.5.2018
		(h) Islamic Finance for Boards Programme.	11.6.2018 - 12.6.2018
		(i) Transfer Pricing.	18.6.2018
		(j) E-learning: Sanction.	22.6.2018
		(k) E-learning: Data Privacy and Cyber Security.	26.6.2018
		(l) E-Learning: Anti-Money Laundering.	26.6.2018
		(m) IBM Think Malaysia.	16.8.2018
		(n) Global Islamic Finance Forum (GIFF) 2018.	3.10.2018 - 4.10.2018
		(o) FIDE Refresher Elective: Emerging Risks, the Future Board and Return on Compliance.	22.10.2018
		(p) Cyber Security Framework and Cloud Strategy.	24.10.2018
		(q) Engagement Session with MSWG: Directors' Responsibilities, New MCGG and CG Assessment 2018.	2.11.2018
		(r) Leadership Energy Summit Asia 2018: Cut Through The Challenges of 21st Century Leadership.	14.11.2018 - 15.11.2018
		(s) E-learning: Embedding Good Conduct.	5.12.2018
		(t) E-learning: Bribery and Corruption	5.12.2018
		(u) Mobile Product Strategy	5.12.2018
4.	Hoh Kim Hyan	(a) ICAEW Evening Talk on Big Data & Analysis	9.4.2018
		(b) Embracing Technology in Reshaping the Future Work.	12.7.2018
		(c) MACC Act, Whistle Blower Protections Act and Whistle Blowing Policy.	24.7.2018
		(d) Audit Committee Institute Breakfast Roundtable 2018.	3.8.2018
		(e) MIA International Accountants Conference 2018.	9.10.2018 - 10.10.2018
		(f) Power Talk and Directors Dialogue: Effective Boards in a VUCA World – People, Purpose and Performance.	31.10.2018
		(g) Engagement Session with MSWG: Directors' Responsibilities, New MCGG and CG Assessment 2017.	2.11.2018
		(h) Impact of AI on Shareholder Value & Market Performance – What Every Listco Needs to Know.	15.11.2018
		(i) Economic Insight: South East Asia Q4.	4.12.2018
		(j) Budget 2019 & SST Updates	17.12.2018
5.	Lim Leng Bung	(a) MACC Act, Whistle Blower Protections Act and Whistle Blowing Policy.	24.7.2018
		(b) Engagement Session with MSWG: Directors' Responsibilities, New MCGG and CG Assessment 2017.	2.11.2018




## 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>	:	<ul style="list-style-type: none"><li>- The Kossan Code of Ethics and Conduct ("KCEC") was adopted by the Company in June 2014 to help the Company's employees to make the right choices and to act appropriately in response to ethical behaviour in the work place. KCEC applies to the Board, management and all employees.</li><li>- KCEC covers the following areas:-<ul style="list-style-type: none"><li>(a) compliance with national laws, rules and regulations of government agencies and authorities;</li><li>(b) conflict of interest;</li><li>(c) gifts, entertainments and loans;</li><li>(d) confidential and proprietary information;</li><li>(e) anti-corruption;</li><li>(f) work environment;</li><li>(g) data protection; and</li><li>(h) political activities and interest.</li></ul></li><li>- The KCEC is extensive but not exhaustive and the Group expects employees to exercise good judgements in their decision making to ensure adherence to highest ethical standards.</li><li>- The KCEC is published on Kossan's website: <a href="http://www.kossan.com.my">www.kossan.com.my</a> as well as internal <i>i-Portal</i>.</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

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>	:	<ul style="list-style-type: none"><li>- Kossan has established a whistleblowing policy with guideline in June 2014. The policy was last reviewed in November 2018.</li><li>- The policy provides an avenue to its employees and the general public to raise concern about malpractice or improper conduct and explains how Kossan will respond. It also gives assurance that all concerns raised will be taken seriously.</li><li>- Whistleblower can raise a concern in writing to <a href="mailto:whistleblowing@kossan.com.my">whistleblowing@kossan.com.my</a>. Any concern raised will be deliberated by the whistleblowing committee and a decision will be made. The whistleblower will be informed of the outcome.</li><li>- The policy will be reviewed from time to time to ensure effectiveness.</li><li>- A whistleblower acting in good faith will be assured of non-retaliation, harassment or victimisation. All concern raised will be treated in strict confidence.</li><li>- The whistleblowing policy is available on Kossan's website: <a href="http://www.kossan.com.my">www.kossan.com.my</a> as well as internal <i>i-Portal</i>.</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

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>	:	Departure	
<b>Explanation on application of the practice</b>	:		
<b>Explanation for departure</b>	:	<div>- The Board currently has nine (9) members, of which three (3) are independent and non-executive. The Board believes the current Board composition has an appropriate mix of skills, expertise and experience, which will contribute towards the growth of the Company.</div> <div>- The Board has deliberated on Practice 4.1 and was of the view that it would be in the best interest of the stakeholders that the Board has a fair and adequate representation from the major shareholders.</div>	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:	The Board will continuously and endeavour to deliberate on the composition of the independent directors of the Board.	
<b>Timeframe</b>	:	Within 5 years	

## 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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	None of the tenure of the independent directors exceeded a cumulative term limit of nine years.
<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 4.3 - 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>	:	<p>-The tenure of an Independent Non-Executive Director (“INED”) should not exceed a cumulative term limit of nine (9) years. Upon completion of the nine (9) years, an INED may continue to serve on the Board as a Non-Independent Director.</p> <p>-If the Board intends to retain an INED beyond nine (9) years, it shall justify and seek annual shareholders’ approval. If the Board continues to retain the Independent Non-Executive Director after the twelfth (12th) year, the Board shall seek annual shareholders’ approval through a two-tier voting process as prescribed under the MCCG Practice 4.2.</p>

## 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.

Application	:	Applied	
Explanation on application of the practice	:	<ul style="list-style-type: none"><li>- The Board and the Nomination and Remuneration Committees take into account the current mix of skills, experience, age, cultural background and gender of the existing Board when seeking potential candidates.</li><li>- This practice applicable at board level, is extended and applied at senior management level too.</li><li>- The Board recognises a diverse board and management can lead to greater depth and breadth in decision making.</li></ul>	
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 4.5

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>	:	Departure	
<b>Explanation on application of the practice</b>	:		
<b>Explanation for departure</b>	:	<ul style="list-style-type: none"><li>- Currently the Board does not have any policy on gender, ethnicity or age diversity policies and targets.</li><li>- The Board believes that experience, skills, knowledge and insight are essential criteria in the selection of Board member.</li><li>- Nevertheless, the Board acknowledged the merits of gender diversity towards the performance of the Board.</li></ul>	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:	The Board, through the Nomination Committee, will place gender diversity as one of the consideration for new appointment to the Board.	
<b>Timeframe</b>	:	Within 5 years	



## 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.

Application	:	Applied	
Explanation on application of the practice	:	<ul style="list-style-type: none"><li>- The company’s candidates are sourced from unrelated third parties.</li><li>- The shortlisted candidates were not known to the existing board members, were interviewed by the Nomination Committee and thereafter met with the Board of Directors for endorsement of approval.</li></ul>	
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 4.7

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

Application	:	Applied	
Explanation on application of the practice	:	<ul style="list-style-type: none"><li>- The Nomination Committee oversees matters relating to the nomination of new directors, annual review of the required mix of skills, experience and other requisite qualities of directors. It is also involved in the annual assessment of the effectiveness of the board as a whole.</li><li>- The Chairman and members of the Nomination Committee are independent directors.</li></ul>	
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>	:	Departure	
<b>Explanation on application of the practice</b>	:	-For the year under review, the Nominating Committee being the evaluation committee, undertakes an annual assessment of the board committees and individual directors. -The assessment includes reviewing and evaluation of the performance of the Board as a whole by individual board member and also a peer assessment.	
<b>Explanation for departure</b>	:	For the year under review, the Board did not engage independence experts to facilitate the board evaluations.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:	The Board will consider to engage independent experts when deemed necessary.	
<b>Timeframe</b>	:	Within 5 years	

## 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>	:	<ul style="list-style-type: none"><li>- The objective of the Group's remuneration policy is to attract and retain directors and senior management required to lead and control the Group effectively. The remuneration package is linked to individual and corporate performance.</li><li>- For non-executive directors, the level of remuneration reflects their experience and level of responsibilities.</li><li>- The remuneration policy for Directors is reviewed by the Remuneration Committee on an annual basis.</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

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>	:	<ul style="list-style-type: none"><li>- The Remuneration Committee ("RC") consists of a majority of independent non-executive directors.</li><li>- The Committee evaluates the remuneration package of senior management executives and executive board members and recommends these packages for the Board's approval.</li><li>- Non-executive directors' fees are determined by the Board as a whole, and the concerned director abstaining from deliberations and voting on decisions in respect of his fee.</li><li>- The terms of reference of the RC is available per Appendix II of the Board Charter published on Kossan's website: <a href="http://www.kossan.com.my">www.kossan.com.my</a>.</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

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>To comply with best practice, the Directors’ remuneration on a named basis is shown below:-</p> <p>a) Executive Directors</p> <table><tr><td></td><td>Name</td><td>Salary (RM’000)</td><td>Bonus (RM’000)</td><td>EPF (RM’000)</td><td>Other allowance (RM’000)</td><td>Benefit in kind (RM’000)</td><td>Total (RM’000)</td></tr><tr><td>1.</td><td>Tan Sri Dato’ Lim Kuang Sia</td><td>2,652</td><td>2,320</td><td>945</td><td>-</td><td>28</td><td>5,945</td></tr><tr><td>2.</td><td>Lim Leng Bung</td><td>819</td><td>512</td><td>253</td><td>-</td><td>15</td><td>1,599</td></tr><tr><td>3.</td><td>Tan Kong Chang</td><td>684</td><td>513</td><td>228</td><td>-</td><td>15</td><td>1,440</td></tr><tr><td>4.</td><td>Lim Siau Tian</td><td>684</td><td>541</td><td>233</td><td>-</td><td>28</td><td>1,486</td></tr><tr><td>5.</td><td>Lim Siau Hing</td><td>513</td><td>297</td><td>155</td><td>-</td><td>28</td><td>993</td></tr><tr><td>6.</td><td>Lim Ooi Chow</td><td>475</td><td>320</td><td>152</td><td>-</td><td>10</td><td>957</td></tr></table> <p>b) Non-Executive Directors</p> <table><tr><td></td><td>Name</td><td>Directors’ Fee (RM’000)</td><td>Other allowance (RM’000)</td></tr><tr><td>1.</td><td>Mohamed Shafeii Bin Abdul Gaffoor</td><td>105</td><td>-</td></tr><tr><td>2.</td><td>Lee Choo Hock</td><td>100</td><td>-</td></tr><tr><td>3.</td><td>Hoh Kim Hyan</td><td>95</td><td>-</td></tr></table>									Name	Salary (RM’000)	Bonus (RM’000)	EPF (RM’000)	Other allowance (RM’000)	Benefit in kind (RM’000)	Total (RM’000)	1.	Tan Sri Dato’ Lim Kuang Sia	2,652	2,320	945	-	28	5,945	2.	Lim Leng Bung	819	512	253	-	15	1,599	3.	Tan Kong Chang	684	513	228	-	15	1,440	4.	Lim Siau Tian	684	541	233	-	28	1,486	5.	Lim Siau Hing	513	297	155	-	28	993	6.	Lim Ooi Chow	475	320	152	-	10	957		Name	Directors’ Fee (RM’000)	Other allowance (RM’000)	1.	Mohamed Shafeii Bin Abdul Gaffoor	105	-	2.	Lee Choo Hock	100	-	3.	Hoh Kim Hyan	95	-
	Name	Salary (RM’000)	Bonus (RM’000)	EPF (RM’000)	Other allowance (RM’000)	Benefit in kind (RM’000)	Total (RM’000)																																																																										
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Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.																																																																																	

<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	:	The Company has disclosed the top 5 senior management’s remuneration components in bands width of RM50,000 but not in named basis due to confidentiality and sensitivity of each remuneration package.	
		Range of Remuneration (Annual Basis) (RM)	Top Five (5) Senior Management Team
		450,001 to 500,000	1
		500,001 to 550,000	0
		550,001 to 600,000	2
		600,001 to 650,001	1
650,001 to 700,000	1		
		The Board is of the view that it is not to the Company’s advantage or business interest to show such detailed disclosure in view of the highly competitive market for talents in this industry.	
		The remunerations paid to the senior management commensurate with their skills, knowledge and performance.	
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.			
Measure	:	The Board will monitor the prevailing market practice for consideration in the future.	
Timeframe	:	N/A	will continue with current practice.



### **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.

Application	:	Applied	
Explanation on application of the practice	:	Mr. Lee Choo Hock is the Chairman of the Audit Committee while En. Mohamed Shafeii Bin Abdul Gaffoor is the Chairman of the Board.	
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

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>	:	None of the members of the Board were former key audit partners.	
<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>	:	<ul style="list-style-type: none"><li>- The scope of the external auditor is ascertained by the Audit Committee ("AC") during the meetings between the AC and the external auditors.</li><li>- During the meetings between the AC and the external auditors, the AC were briefed on the audit findings and observations during the audit process. The auditors' performance, competency and professionalism were also assessed. The AC also received assurance from the external auditors on their independence.</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**

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>	:	All members of the Audit Committee are independent non-executive directors.

## 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>	:	<ul style="list-style-type: none"><li>- The members of the AC have the relevant accounting or related expertise to effectively discharge their duties.</li><li>- The qualifications and experience of each AC member are disclosed in the Board of Directors' profile page in the 2018 Annual Report.</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

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>	:	<ul style="list-style-type: none"><li>- The Board has always place great importance and emphasis on good internal control and effective risk management to safe guards the Group's assets and shareholders' investment.</li><li>- The Board affirmed its overall responsibility for the Group's system of internal control and risk management and for reviewing the adequacy and integrity of the system. The system of internal control covers governance, risk management, strategy, operations, regulatory compliance and financial matters.</li><li>- The system is designed to manage and minimise rather than eliminate risks. The system provides reasonable rather than absolute assurance against the occurrence of any misstatement, loss or fraud.</li><li>- The Group has established a risk management framework for managing risks affecting its business and operations.</li><li>- The level of risk tolerance is expressed through the use of a risk impact and likelihood matrix.</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

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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<ul style="list-style-type: none"><li>- The Board oversees the risk management function through the Risk Management Committee ("RMC"). The RMC reviews and recommends for the Board's consideration and approval the risk management principle, framework and policies for managing risks within the Group. The RMC also monitors and assesses the risk appetite and tolerance of the Group to safe guard the Group's assets and shareholders' investment.</li><li>- The Group has in place a structured process for identification, assessment, monitoring and communication of risks and effectiveness of risk mitigation strategies at all level of operations.</li><li>- Further details on the features of risk management and internal control are provided in the Statement on Risk Management and Internal Control disclosed in the 2018 Annual Report.</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

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>	:	<ul style="list-style-type: none"><li>- The Chairman of the Risk Management Committee ("RMC") is an independent non-executive director.</li><li>- The AC which constitutes all independent directors oversee the RMC's function.</li><li>- The RMC comprises a majority of executive directors. This structure was chosen at the initial steps to guide the independent directors through the operations of the Group.</li></ul>

## 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>	:	<ul style="list-style-type: none"><li>- The Board has established an inhouse internal audit ("IA") function which reports directly to the Audit Committee ("AC").</li><li>- The Head of IA reports to the AC on the assessment and adequacy of the Group's control processes.</li><li>- The IA function undertakes an independent assessment on the internal control system of the Group and provide assurance to the AC that no material issue or major deficiency has been noted which could pose a high risk to the overall system of internal control.</li><li>- The AC reviews the appointment and removal of the head of IA, the adequacy of the IA's scope, competency, experience and sufficiency of resources.</li><li>- The IA assignments were carried out in accordance with the 2018 audit plan approved by the AC.</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

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—

- whether internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence;
- the number of resources in the internal audit department;
- name and qualification of the person responsible for internal audit; and
- 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>	:	<ul style="list-style-type: none"><li>- All the Internal Audit (“IA”) personnel had confirmed that they are free from any relationships or conflict of interest. .</li><li>- The IA function has four (4) employees headed by Mr. Ong Chiang Long. The AC is satisfied with the competency, experience and resource of the IA function.</li><li>- The IA reports functionally to the Audit Committee (“AC”).</li><li>- The roles and responsibilities of the IA is guided by an Audit Charter and IA Framework in reference to IIA’s International Professional Practices Framework.</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

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>	:	<ul style="list-style-type: none"><li>- Kossan is committed to engage and communicate with its stakeholders to facilitate mutual understanding and trust between the company and its stakeholders by providing information that are consistent, accurate, transparent and timely.</li><li>- Kossan has established an Investor Relations ("IR") Framework that govern the IR function to communicate with stakeholders and in full compliance with the disclosure requirements.</li><li>- The annual reports, quarterly results and any announcement on material corporate exercise are the primary mode of dissemination of information on the Group's business and financial performance.</li><li>- The Group Managing Director is the designated spokesperson for all matters related to the Group.</li><li>- The Group maintains a website at <a href="http://www.kossan.com.my">www.kossan.com.my</a> for shareholders and the general public to access information on, amongst other, the Group's background and products and financial performance.</li><li>- The stakeholders are encouraged to channel their concerns to the IR officer whose details are in the Corporate Information page of the 2018 Annual Report.</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

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>	:	Departure	
<b>Explanation on application of the practice</b>	:		
<b>Explanation for departure</b>	:	<div>- The Company has yet to adopt full integrated reporting.</div> <div>- Nevertheless, certain elements of the integrated reporting is found in the 2018 Annual Report:-</div> <div>(1) 5 years Group Financial Information</div> <div>(2) Sustainability Report</div>	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:	The Board will look into compliance.	
<b>Timeframe</b>	:	Within 3 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.

Application	:	Applied	
Explanation on application of the practice	:	<ul style="list-style-type: none"><li>- Kossan dispatches the notice of its Annual General Meeting (“AGM”) to its shareholders at least 28 days before the AGM, longer than the time frame of 21 days under the Companies Act 2016 and the Main Market Listing Requirements.</li><li>- The additional time given will enable the shareholders to make the necessary arrangement to attend in person or through proxies, corporate representatives or attorneys. The notes on the notice of AGM also provide detailed information on the resolutions proposed to enable shareholders to make informed decisions in exercising their voting rights.</li></ul>	
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

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.

Application	:	Applied	
Explanation on application of the practice	:	<ul style="list-style-type: none"><li>- At the 38th AGM, all the directors attended the AGM. Besides them, the external auditors and senior management were also in attendance to respond to any queries.</li><li>- The MD briefed at the AGM on the performance of the Group and invited questions from the floor and all queries were answered to the satisfaction of the shareholders.</li></ul>	
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

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–

- including voting in absentia; and
- remote shareholders' participation at General Meetings.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<ul style="list-style-type: none"><li>- The Company's AGMs are always held in Shah Alam. In 2018, the Company's AGM was held at Setia City Convention Centre, a venue that is easily accessible.</li><li>- The Company always provided adequate notice to shareholders to allow them to plan ahead for the meeting. The Company also allowed shareholders to appoint more than 1 proxy to attend, participate and vote in their stead at the AGM.</li><li>- The Company has also adopted electronic voting for the conduct of poll on all resolutions tabled at the AGM held in 2018. The poll reflects were announced by the Company via Bursa Link and also published in the Company's website on the same day for the benefit of all shareholders.</li><li>- The Company will explore the further use of technology in engagement with shareholders.</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>	:	



**SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES  
PERSUANT 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.*

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