

# CORPORATE GOVERNANCE REPORT

**STOCK CODE** : 5243  
**COMPANY NAME** : VELESTO ENERGY BERHAD  
**FINANCIAL YEAR** : December 31, 2019

## 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.

<p><b>Application</b></p>	<p>: Applied</p>
<p><b>Explanation on application of the practice</b></p>	<p>: The Board is in charge of leading and managing Velesto Energy Berhad ("<b>Company</b>" or "<b>VELESTO</b>") in an effective and responsible manner. The Board plays an important role in determining the Company's value and standard, as well as long term and strategic direction of the VELESTO and its subsidiaries ("<b>VELESTO Group</b>" or "<b>Group</b>") for the purpose of enhancing shareholders' value and to ensure long term sustainability of the Group.</p> <p>Certain responsibilities of the Board are delegated to Board Committees, which operate within clearly defined respective Terms of Reference ("<b>TOR</b>"). The Board committees of the Company are as follows:</p> <ul style="list-style-type: none"> <li>• Board Audit Committee ("<b>BAC</b>")</li> <li>• Board Risk Management Committee ("<b>BRMC</b>")</li> <li>• Board Nomination &amp; Remuneration Committee ("<b>BNRC</b>")</li> <li>• Board Whistleblowing Committee ("<b>BWBC</b>")</li> </ul> <p>Although specific powers are delegated to the Board Committees, the Board keeps itself abreast of key issues, deliberation, recommendations and/or decisions made by each Board Committee through reports made by the Chairman or Representative of each Board Committee. The Board is also updated on the proceedings of the Board Committee through the tabling of minutes of meetings of the respective Board Committee, for notation by the Board.</p> <p>It is the general policy of the Company that all major decisions be considered by the Board as a whole.</p> <p>To ensure the effective discharge of its function and duties, the primary duties of the Board include (but are not limited) to the following: -</p>

	<p>(i) Establishing the corporate vision and mission, as well as the philosophy of the Company.</p> <p>The Board affirms and drives the Group’s commitment to its vision and mission, as follows:-</p> <p>Vision – to be a leading player in the oil and gas industry operating both domestically and globally supported by proven track records, true spirit, quality services and healthy growth potential.</p> <p>Mission – developing a Malaysian-owned company that provides quality services to the oil and gas industry and maintaining standards by matching – if not surpassing - other international companies providing similar global services.</p> <p>(ii) Setting key targets for Management and monitoring the performance of the Management.</p> <p>The Board monitors the performance of the Company and the Group, both financial as well as non-financial, on regular basis. Depending on meetings schedule, the Management provides updates and reports to the Board and / or Board Committees, through the monthly Management Report as well as the quarterly Unaudited Financial Results Statements.</p> <p>The Management analyses the financial results and highlights various operational issues or factors that affect and / or could affect the business of the Group. Instructions given by the Board will be followed by action plans. Enquiries or concerns raised by the Board members in relation to the agenda items will be clarified by the Management.</p> <p>(iii) Reviewing and setting the Group’s strategic direction, business plans and budget: -</p> <p>(a) Business Plan</p> <p>With the objective of pursuing profitability, improving resilience and competitiveness, and further improving operational and cost efficiency, the focus of the Group in 2019 was set with a Business Plan that drove activities in the following key areas:-</p> <ul style="list-style-type: none"> <li>i) maximising utilisation of key assets via direct negotiations with key clients and stakeholders;</li> <li>ii) improving revenue stream through increased day charter rates and additional related income through improved commercial terms;</li> <li>iii) development and retention of high performers;</li> </ul>
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	<p>iv) continuous improvement in business efficiency and cost optimisation;</p> <p>v) improving processes and enhancing automation; and</p> <p>vi) other key initiatives including instilling iLEAP values, further enhancing staff engagement, enhancing industry cooperation as well as exploring new viable business.</p> <p>(b) Strategic direction</p> <p>The Board coordinated a review on the Group’s business direction and new business opportunities, in enhancing the development of the Group’s future strategies.</p> <p>(c) Annual Budget</p> <p>For the financial year 2019, the Board has reviewed and approved budget and expenditure for the mandatory five (5)-yearly Special Periodic Surveys for several of its drilling rigs.</p> <p>(d) Assimilation of iLEAP Core values</p> <p>On 20 March 2019 the Board, the Management and employees of the Group have adopted and affirmed its commitment to assimilate its Core Values - iLEAP culture that represents the values of the Group as below:-</p> <ol style="list-style-type: none"> <li>1. Integrity</li> <li>2. Leadership</li> <li>3. Excellence</li> <li>4. Agility</li> <li>5. People-Focused</li> </ol> <p>Various iLEAP campaigns were held throughout the year, with employees of the Group inculcating, assimilating, sharing and experiencing iLEAP values in their day to day operations and work place environment. Led by the President, and supported by various Divisions, the iLEAP ambassadors nominated from each Divisions of the Group worked as a team, respecting and supporting each other.</p> <p>(e) Long Term Incentive Plan – Employees’ Share Option Scheme (“ESOS”)</p> <p>During the financial year 2019, the Board led the long-term incentive plan for the Group by guiding and shaping the ESOS with the following objectives:-</p>
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	<ol style="list-style-type: none"> <li>1. Promote entrepreneurial leadership to drive returns and shareholders' values;</li> <li>2. Strengthen the alignment of employees to the long-term objectives and business plan of the Group and shareholders;</li> <li>3. Instil a greater sense of ownership amongst Management and employees, so they will have an opportunity to participate directly in future growth of the Group; and</li> <li>4. Create a more competitive compensation package for the Executive Director and employees to strengthen retention efforts.</li> </ol> <p>With the approval of the ESOS on 31 October 2019 at its extraordinary general meeting, the ESOS was launched on 1 November 2019.</p> <p>(f) Setting of corporate key performance indicators (“KPIs”) and targets.</p> <p>During the beginning of the year 2019, KPIs for the Group was set and approved by the Board.</p> <p>(g) Evaluate the Performance and Succession Planning for the President and his Direct Reports.</p> <p>During the financial year 2019, the Board through the BNRC has evaluated the performance and deliverables of the President. The Board has also reviewed the Succession Plan Framework for key leadership positions, including the President and his Direct Reports.</p> <p>(h) Set VELESTO risk parameters and risk appetites, understand major risk exposure and ensure appropriate risk mitigation approaches are in place.</p> <p>During the financial year 2019, the following have been reviewed and approved by the Board:-</p> <ul style="list-style-type: none"> <li>• Group’s Top Risks and Risk Action Plans status; and</li> <li>• Group’s Business Continuity Management Programme.</li> </ul> <p>In addition to the above, the Board has, among others:-</p> <ol style="list-style-type: none"> <li>i) together with Senior Management, promote good Corporate Governance culture within the Group, which reinforced ethical, prudent and professional behavior;</li> <li>ii) ensured that the strategic plans for the Group support long-term value creation and included the strategies on economic, environmental and other social considerations underpinning sustainability;</li> </ol>
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	<ul style="list-style-type: none"> <li>iii) ensured there was a sound framework for internal controls and risk management; understood the principal risks of the Group's business and recognised that business decisions would involve taking appropriate but calculated risks;</li> <li>iv) set the risk appetite within which the Board expected Management to operate and ensure that there was appropriate risk management framework to identify, analyse, evaluate, manage and monitor significant financial and non-financial risks;</li> <li>v) ensured that Senior Management has the necessary skills and experiences; and there are measures in place to provide for the orderly succession of the Board and Senior Management;</li> <li>vi) ensured that the Company has in place procedures to enable effective communication with stakeholders; and</li> <li>vii) ensured the integrity of the Company's financial and non-financial reporting.</li> </ul> <p>The Board has put in place a clear and formal schedule of matters that are specifically reserved to the Board for decision-making, which include (but are not limited to) the followings: -</p> <ul style="list-style-type: none"> <li>(a) Material acquisitions and disposal of assets;</li> <li>(b) Investments in major projects;</li> <li>(c) Authority levels;</li> <li>(d) Treasury policies;</li> <li>(e) Risk Management policies;</li> <li>(f) Key human resource issues; and</li> <li>(g) Conflict of interest issues relating to a substantial shareholder or Director.</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 1.2

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 Dato' Abdul Rahman Ahmad - 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>(a) providing leadership for the Board, so that the Board can perform its responsibilities effectively;</li><li>(b) setting the Board agenda and ensuring that Board members receive complete and accurate information in a timely manner;</li><li>(c) leading Board meetings and discussions;</li><li>(d) encouraging active participation and allowing dissenting views to be freely expressed;</li><li>(e) managing the interface between the Board and Management;</li><li>(f) 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>(g) 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 Dato' Abdul Rahman Ahmad - 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="http://www.velesto.com">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>(a) Lee Mi Ryoung</li><li>(b) Rafiza Ghazali</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 as follows:-</p> <ul style="list-style-type: none"><li>(i) Lee Mi Ryoung's profile is available for viewing at page 33 of the Annual Report.  She has been appointed as Company Secretary of the Company with effect from 15 July 2019.</li><li>(ii) Rafiza Ghazali's profile is available for viewing at page 30 of this Annual Report.  She has been appointed as company secretary of the Company with effect from 30 March 2018.</li></ul> <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>(a) disclosure of interest in securities;</li><li>(b) disclosure of any conflict of interest in a transaction involving the Company;</li><li>(c) prohibition on dealing in securities; and</li><li>(d) 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>(a) Manage all Board and Committee meeting logistics, attend and record minutes of all Board and Board Committee meetings and facilitate communication;</li><li>(b) Advise the Board on its roles and responsibilities;</li></ul>

	<ul style="list-style-type: none"> <li>(c) Facilitate the orientation of new Directors and assist in Director training and development;</li> <li>(d) Advise the Board on corporate disclosures and compliance with company and securities regulations and listing requirements;</li> <li>(e) Manage processes pertaining to the annual shareholder meeting;</li> <li>(f) Monitor corporate governance development and assist the Board in applying governance practices to meet the Board's needs and stakeholders' expectations; and</li> <li>(g) Serve as a focal point for stakeholders' communication and engagement on corporate governance issues.</li> </ul> <p>For FY2019, the Board is satisfied with the performance and support rendered by the Company Secretaries to the Board in discharging their functions.</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> :			
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### 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 FY2019, 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 (“<b>Main LR</b>”) of Bursa Malaysia Securities Berhad (“<b>Bursa Securities</b>”) were taken into consideration during the process of formalising the Board Charter.</p> <p>The Board Charter is also designed to provide guidance and clarity for the Directors and Senior Management with regards to the roles of the Board and its Board Committees, the requirements of Directors in carrying out their roles and in discharging their fiduciary duties towards the Company as well as the Board’s operating practices.</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 was recently reviewed and approved by the Board on 19 September 2019.</p> <p>The Board Charter of the Company is available for viewing at the VELESTO’s corporate website at <a href="http://www.velesto.com">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>(i) handle actual or potential conflict of interests;</li><li>(ii) prevent corrupt practices which include the offering and acceptance of gifts and other form of benefits;</li><li>(iii) encourage the reporting of unlawful or unethical behaviour;</li><li>(iv) protect and ensure the proper usage of the Company's assets; and</li><li>(v) 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="http://www.velesto.com">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 Group's businesses, the Whistle-Blowing Policy welcomes disclosures of suspected wrongdoings that include mismanagement, malpractices, corrupt practices, fraud, conflict of interest, abuse of authority or breach of any laws and regulations by any member of 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>During the financial year 2019, the Company has established Integrity &amp; Governance Unit ("IGU"), headed by Encik Hafiz Saparani as Head of IGU to ensure the upholding of Integrity and dissemination of highest standards of compliance within the Group, and reports to the Board Whistleblowing Committee. The terms of reference of the Board Whistleblowing Committee is available for viewing at the Company's corporate website at <a href="http://www.velesto.com">www.velesto.com</a></p> <p><b>Disclosure channel</b></p> <p>Should a person wishes to lodge a report on any suspected wrongdoings, he/she may elect to make disclosures to the Head of IGU via:-</p> <p>Attention: Mohammad Hafiz Saparani, Head of IGU Telephone number: +603-2096 8788 Email: <a href="mailto:hafiz.saparani@velesto.com">hafiz.saparani@velesto.com</a></p> <p>The Whistle-blowing Policy is available for viewing at the Company's corporate website at <a href="http://www.velesto.com">www.velesto.com</a>.</p>
<b>Explanation for departure</b>	:	

*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

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>The Board recognises the benefits of having a diverse Board to ensure that the mix and profiles of the Board members in terms of age, ethnicity and gender, provide the necessary range of perspectives, experiences and expertise required to achieve effective stewardship and management. The Board believes that a truly diverse and inclusive Board will leverage the differences in thought, perspective, knowledge, skill, regional and industry experience, cultural and geographical background, age, ethnicity and gender which will ensure that the Company retains its competitive advantage.</p> <p>For the financial year 2019, the Board comprises ten (10) members, six (6) Independent Non-Executive Directors (“INEDs”), two (2) Non-Independent Non-Executive Directors, one (1) Executive Director, who is the President of the Company and one (1) Non-Independent Non-Executive Director, who is the Chairman of the Board and is compliant with the Paragraph 15.02(1) of the MMLR with the requirement for one-third (1/3) Independent Directors in the Board.</p> <p>The roles of the Independent Directors are particularly important in ensuring that the strategies proposed by the Executive Director and Management are deliberated on and have taken into account the interest, not only of the Company, but also that of the shareholders, employees, customers, suppliers and the community.</p> <p>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, six (6) out of ten (10) or 60% of the Board’s composition comprises of Independent Directors.</p> <p>The composition of the Board provides an effective blend of entrepreneurship, business and professional expertise in general management, finance, corporate affairs, legal and technical areas of the industry in which the Group operates. The individuality and vast experience of the Directors in arriving at collective decisions at board level will ensure impartiality.</p>
<b>Explanation for departure</b>	:	

*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

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>	:	Not applicable - No independent director(s) serving beyond 9 years	
<b>Explanation on application of the practice</b>	:		
<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>	:	The Board takes cognisance that Practice 4.3 of MCG 2017, and has instituted a policy by way of inclusion in the Board Charter, which limits the tenure of its INEDs up to nine (9) years.

### 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 and 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 the financial year 2019, the Board through its BNRC conducted an annual review of its size and composition, to determine if the Board has the right size and sufficient diversity with independence elements that fit the Company’s objectives and strategic goals.</p> <p>After due consideration of candidates from Institute of Corporate Directors Malaysia and the composition of the Board, the BNRC recommended Datuk Tong Poh Keow be appointed as Independent</p>

	<p>Non-Executive Director (“INED”) of the Company on 19 September 2019.</p> <p>Prior to her appointment as INED, Datuk Tong Poh Keow has fulfilled the independence test prior to her appointment, and has confirmed that: -</p> <ul style="list-style-type: none"> <li>• she is independent of the Management, free from any businesses or other relationship which could interfere with the exercise of independent judgement or ability to act in the best interest of the Company;</li> <li>• within the last two (2) years, she is not an officer of the Company or its related corporation;</li> <li>• she is not a major shareholder;</li> <li>• she is not a family member of the Executive Director, officer or major shareholders of the Company;</li> <li>• she is not a nominee of any Director or major shareholder; or</li> <li>• she has either been engaged as advisor by the Company nor is a Partner, Director or major shareholders of a firm/corporation which provides professional advisory services to the Company.</li> </ul> <p>On 31 January 2019, Mohd Rashid Mohd Yusof was appointed as the new Senior INED of the Company.</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 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>
<p><b>Explanation for departure</b></p>	<p>:</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>	:	
<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 Board Nomination and Remuneration Committee (“<b>BNRC</b>”) 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. The Board Charter has outlined the policies and procedures for recruitment or appointment (including re-election/reappointment) of Directors.</p> <p>The Board Charter further states that potential candidates for appointment of directors, may be referred to the BNRC for consideration and recommendation to the Board, wherein the BNRC will determine appropriate means for seeking additional candidates, including engagement of outside consultants/third party to assist the BNRC in the identification of candidates.</p> <p>The BNRC shall decide on the appropriate means for the review and approval of individual candidates.</p> <p>In formulating its recommendation, the BNRC will consider not only the findings and conclusions of its evaluation process, but also the current composition of the Board, the attributes and qualifications that should be represented on the Board and whether the candidate can provide such additional attributes, capabilities or qualifications.</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.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The Chairman of the BNRC, Dato' Ibrahim Marsidi is an Independent Non-Executive Director of the Company.	
<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 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 Group had in 2018, engaged KPMG Management &amp; Risk Consulting Sdn Bhd (“<b>KPMG</b>”) - an Independent External Expert, to facilitate the Board Effectiveness Evaluation (“<b>BEE</b>”) for the Company, which include the conduct of assessment and analyses thereof on Company’s Board, Board Committees, the individual directors (including the Executive Directors). In 2019, the annual evaluation was done internally.</p> <p>The evaluation process conducted were as follows:-</p> <ol style="list-style-type: none"><li>1. Circulate the enhanced questionnaires according to respective designation and committee membership;</li><li>2. Welcome candid feedbacks on the questionnaires;</li><li>3. Review pertinent documents such as Board and Board Committee meeting minutes; and</li><li>4. Consolidate and assess the responses from the questionnaires and insights gleaned.</li></ol> <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>

	<p>2. Directors' Skill Sets Assessment</p> <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> <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>In 2019, the evaluation was internally conducted but the Board intends to engage independent experts periodically to facilitate the evaluations.</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

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>In 2019, the Company has established the Remuneration Policy and Procedures for Non-Executive Directors, which:-</p> <p>i) Provides a guiding document for the Board to administer the remuneration of its Non-Executive Directors, taking into account the demands, complexities and performance of the Company as well as skills, experience, time commitment required and responsibilities reposed on the Non-Executive Directors; and</p> <p>ii) to set out an over-arching framework for the development of a fair and transparent framework for the remuneration of Non-Executive Directors of the Company.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;">Fees</td> <td>A fixed sum shall be provided to the Non-Executive Directors for their on-going contribution to the Board (Directors Fees) and Board Committees (Board Committee Fees for Board Audit, Board Nomination &amp; Remuneration, Board Risk Management and Board Whistle-Blowing).</td> </tr> <tr> <td>Meeting Allowance</td> <td>A payment is made to the Non-Executive Directors on a per meeting basis with a condition that attendance, either physical or virtual, is a pre-requisite requirement</td> </tr> <tr> <td>Benefits</td> <td> <p>Non-Executive Directors are provided with benefits such as per diem, mobile phone allowance as well as medical, hospitalisation and dental benefits.</p> <p>In addition to the aforementioned benefits, the Chairman of the Board of Directors is entitled for a company car (including driver) and leave passage.</p> </td> </tr> </table> <p>The policy sets out the remuneration structure, which includes fixed components (such as board fees and meeting allowances) as well as</p>	Fees	A fixed sum shall be provided to the Non-Executive Directors for their on-going contribution to the Board (Directors Fees) and Board Committees (Board Committee Fees for Board Audit, Board Nomination & Remuneration, Board Risk Management and Board Whistle-Blowing).	Meeting Allowance	A payment is made to the Non-Executive Directors on a per meeting basis with a condition that attendance, either physical or virtual, is a pre-requisite requirement	Benefits	<p>Non-Executive Directors are provided with benefits such as per diem, mobile phone allowance as well as medical, hospitalisation and dental benefits.</p> <p>In addition to the aforementioned benefits, the Chairman of the Board of Directors is entitled for a company car (including driver) and leave passage.</p>
Fees	A fixed sum shall be provided to the Non-Executive Directors for their on-going contribution to the Board (Directors Fees) and Board Committees (Board Committee Fees for Board Audit, Board Nomination & Remuneration, Board Risk Management and Board Whistle-Blowing).							
Meeting Allowance	A payment is made to the Non-Executive Directors on a per meeting basis with a condition that attendance, either physical or virtual, is a pre-requisite requirement							
Benefits	<p>Non-Executive Directors are provided with benefits such as per diem, mobile phone allowance as well as medical, hospitalisation and dental benefits.</p> <p>In addition to the aforementioned benefits, the Chairman of the Board of Directors is entitled for a company car (including driver) and leave passage.</p>							

	<p>variable components (benefit-in-kind, insurance coverage, medical as well as other reimbursable claims).</p> <p>The Board has on 25 February 2020, further reviewed and approved the revised Remuneration Policy and Procedures for Non-Executive Directors. A copy of which is available on the Company website, <a href="http://www.velesto.com">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 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>	:	<p>BNRC is responsible to implement the Group's policies and procedures on remuneration, approved by the Board, based on its Terms of Reference ("<b>TOR</b>"), which has been revised and approved by the Board on 19 September 2019.</p> <p>The BNRC currently comprises exclusively of INEDs:-</p> <table border="1"><thead><tr><th>COMMITTEE MEMBERS</th><th>DESIGNATION</th><th>DIRECTORSHIP</th></tr></thead><tbody><tr><td>Dato' Ibrahim bin 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 <i>(appointed effective 19 September 2019)</i></td><td>Member</td><td>NINED</td></tr><tr><td>Cheah Tek Kuang <i>(retired effective 29 May 2019)</i></td><td>Member</td><td>INED</td></tr></tbody></table> <p>A copy of the TOR of the BNRC is available for viewing at the Company's corporate website at <a href="http://www.velesto.com">www.velesto.com</a>.</p>	COMMITTEE MEMBERS	DESIGNATION	DIRECTORSHIP	Dato' Ibrahim bin Marsidi	Chairman	INED	Rowina Ghazali Seth	Member	INED	Dato' Dayang Fatimah Johari	Member	INED	Rizal Rickman Ramli <i>(appointed effective 19 September 2019)</i>	Member	NINED	Cheah Tek Kuang <i>(retired effective 29 May 2019)</i>	Member	INED
COMMITTEE MEMBERS	DESIGNATION	DIRECTORSHIP																		
Dato' Ibrahim bin Marsidi	Chairman	INED																		
Rowina Ghazali Seth	Member	INED																		
Dato' Dayang Fatimah Johari	Member	INED																		
Rizal Rickman Ramli <i>(appointed effective 19 September 2019)</i>	Member	NINED																		
Cheah Tek Kuang <i>(retired effective 29 May 2019)</i>	Member	INED																		
<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>	:	For FY2019, the remuneration breakdown of Directors is as follows:-				
		<b>Directors' Remuneration</b>	<b>Fees (RM'000)</b>	<b>Salaries and Other emoluments (RM'000)</b>	<b>Benefits-in-kind (RM'000)</b>	<b>Total (RM'000)</b>
		<b>Executive Director</b>				
		Rohaizad Darus <sup>(1)</sup>	Nil	1,456	224	1,680
		<b>Non-Executive Director<sup>(2)</sup></b>				
		Dato' Abdul Rahman Ahmad <sup>(3)</sup>	77	14	Nil	91
		Razalee Amin	110	25	46	181
		Dato' Ibrahim Marsidi	110	35	46	191
		Rowina Ghazali Seth	102	29	15	146
		Haida Shenny Hazri	101	19	15	135
		Mohd Rashid Mohd Yusof	104	21	15	140
		Rizal Rickman Ramli <sup>(4)</sup>	91	18	4	113
		Dato' Dayang Fatimah Johari	102	31	8	141
		Datuk Tong Poh Keow <sup>(5)</sup>	30	5	Nil	35
		Cheah Tek Kuang <sup>(6)</sup>	58	21	43	122
		<b>Grand Total</b>	<b>885</b>	<b>1,674</b>	<b>416</b>	<b>2,975</b>
		<p>(1) Included in the salaries and other emoluments are salary, bonus, employer's statutory contribution, driver, car and petrol allowances, leave passage, telephone expenses and club subscriptions.</p> <p>(2) Included in the other emoluments are meeting fees allowances, per diem allowance, car, petrol, telephone expenses and leave passage.</p> <p>(3) Fees as nominee Director paid to Permodalan Nasional Berhad up to 30 September 2019.</p>				

	<p>(4) Fees as nominee Director paid to Permodalan Nasional Berhad.</p> <p>(5) Appointed as INED of VELESTO on 29 August 2019.</p> <p>(6) Retired as INED of VELESTO on 29 May 2019.</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

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.

<b>Application</b>	:	Departure								
<b>Explanation on application of the practice</b>	:									
<b>Explanation for departure</b>	:	<p>While the Board is cognisant on the importance of transparency, the Board is of the view that the disclosure of the Senior Management's remuneration would be unfavourable to the Group due to intense competition and scarcity for C-level talent and the Group would like to ensure its senior employee retention efforts be safeguarded to ensure the success of the Group.</p> <p>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 FY2019 as follows:-</p> <table border="1" data-bbox="555 1265 1236 1451"> <thead> <tr> <th>Remuneration</th> <th>RM</th> </tr> </thead> <tbody> <tr> <td>Top 5 Senior Management</td> <td></td> </tr> <tr> <td>Salary, benefits in-kind and other emoluments*</td> <td>2,841,957.00</td> </tr> <tr> <td><b>Total</b></td> <td><b>2,841,957.00</b></td> </tr> </tbody> </table> <p>* 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 on page 147 of Annual Report.</p>	Remuneration	RM	Top 5 Senior Management		Salary, benefits in-kind and other emoluments*	2,841,957.00	<b>Total</b>	<b>2,841,957.00</b>
Remuneration	RM									
Top 5 Senior Management										
Salary, benefits in-kind and other emoluments*	2,841,957.00									
<b>Total</b>	<b>2,841,957.00</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>	:	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								



**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 – an Independent Non-Executive Director, who is a separate person from the chair of the Board	
<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 FY2019, 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 be impaired 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 2019 External Auditors' Performance and EY Independence Evaluation on the External Auditors, namely Messrs. Ernst &amp; Young PLT ("EY") for the for the financial year 2019.</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 FY2019 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 10<sup>th</sup> AGM of the Company.</p>	
<p><b>Explanation for departure</b></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><b>Timeframe</b></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>	:	The BAC comprises solely of Independent Non-Executive Directors ("INED").																				
		<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>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 <i>(appointed effective 19 September 2019)</i></td><td>Member</td><td>INED</td></tr><tr><td>Cheah Tek Kuang <i>(retired effective 29 May 2019)</i></td><td>Member</td><td>INED</td></tr></tbody></table>	COMMITTEE MEMBERS	DESIGNATION	DIRECTORSHIP	Razalee Amin	Chairman	INED	Dato' Ibrahim Marsidi	Member	INED	Dato' Dayang Fatimah Johari	Member	INED	Datuk Tong Poh Keow <i>(appointed effective 19 September 2019)</i>	Member	INED	Cheah Tek Kuang <i>(retired effective 29 May 2019)</i>	Member	INED		
COMMITTEE MEMBERS	DESIGNATION	DIRECTORSHIP																				
Razalee Amin	Chairman	INED																				
Dato' Ibrahim Marsidi	Member	INED																				
Dato' Dayang Fatimah Johari	Member	INED																				
Datuk Tong Poh Keow <i>(appointed effective 19 September 2019)</i>	Member	INED																				
Cheah Tek Kuang <i>(retired effective 29 May 2019)</i>	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 on pages 160 to 162 of 2019 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 16member 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 2019 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 FY2019, 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 fulfilling its overall responsibilities, the Board delegated the responsibility of overseeing and reviewing the effectiveness of VELESTO Group's Enterprise Risk Management ("ERM") to the Board Risk Management Committee ("BRMC"), while matters relating to internal control falls within the purview of the Board Audit Committee ("BAC").</p> <p>The Board is of the view that the system of internal control and risk management in place in FY2019, 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 our risk management and internal control framework are disclosed in the SORMIC on pages 152 to 159 of 2019 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.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The salient features of our risk management and internal control framework are disclosed in the Statement on Risk Management and Internal Control on pages 152 to 159 of 2019 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

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>	:	<p>Board Risk Management Committee comprises of the following Directors, which are majority Independent Directors (in page 144 of 2019 Annual Report):-</p> <table border="1"><tr><td>Rashid Mohd Rashid Mohd Yusof</td><td>Senior Independent Director</td></tr><tr><td>Razalee Amin</td><td>Independent Director</td></tr><tr><td>Rowina Ghazali Seth</td><td>Independent Director</td></tr><tr><td>Haida Shenny Hazri</td><td>Non Independent Director</td></tr></table> <p>Further details on Board Risk Management Committee is available in page 143 of 2019 Annual Report.</p>	Rashid Mohd Rashid Mohd Yusof	Senior Independent Director	Razalee Amin	Independent Director	Rowina Ghazali Seth	Independent Director	Haida Shenny Hazri	Non Independent Director
Rashid Mohd Rashid Mohd Yusof	Senior Independent Director									
Razalee Amin	Independent Director									
Rowina Ghazali Seth	Independent Director									
Haida Shenny Hazri	Non Independent Director									

### 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 (“IIA”) 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 in enshrined in the Internal Audit Charter, which was reviewed and approved by the Board on 20 August 2018. Further details are provided in SORMIC and Board Audit Report, which are available in pages 157 and 161 respectively of 2019 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–

- 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>	:	<p>The Internal Audit Division (“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 162 of 2019 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 2019 stood at 6 staff and a total of RM1.0 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 recognises the importance of an effective communication channel between the Board, Shareholders and the general public and shall inform in a timely manner to its Shareholders of its latest business and corporate developments in enhancing value to its shareholders.</p> <p>In consequence thereto, the Board had a Corporate Disclosure Policy in place to provide consolidated guide, procedure and structure in disseminating corporate information to, and in dealing with shareholders, stakeholders, media representatives, analysts and investing public.</p> <p>A copy of the Corporate Disclosure Policy is available on the Company's website: <a href="http://www.velesto.com">www.velesto.com</a>.</p> <p>During FY2019, 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 9<sup>th</sup> AGM was held on 29 May 2019. 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 2018 together with the notice of AGM were distributed to Shareholders on 29 April 2019.</p>

iv. Company's website

All announcements released to Bursa Securities also appear in the Company's website at the following:

[www.ir.chartnexus.com/velesto-energy/index.php](http://www.ir.chartnexus.com/velesto-energy/index.php).

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.

v. Media release

In the financial year 2019, two (2) media releases were uploaded onto the Company's website as follows:

[www.velesto.com/media-centre](http://www.velesto.com/media-centre)

vi. Analyst briefing and / or Press conference

Analyst briefing was held four (4) times in FY2019 after the release of each Quarter Financial Results. A press conference was held after the 9<sup>th</sup> AGM on 29 May 2019, followed by a press release on the AGM. Chaired by the President, these briefings provided venues to keep the investors informed of the various activities and initiatives undertaken by the Company and to provide clearer understanding of the Company's financial and operational performance.

vii. One-on-one Meeting

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.

viii. Investor Relations matters

A dedicated "Investor Relations Contact" section with the listing the following information, for ease of communication by stakeholders:-

Contact Person: Eric Chua, Manager Strategy & Investor Relations

Telephone: +603 2096 8788

Email: [investor\\_relation@velesto.com](mailto:investor_relation@velesto.com)

The detailed communication with the stakeholders for FY2019 are disclosed in the Stakeholder Engagement as set out in 2019 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 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>	:	For the Annual Report 2019, the Board has embarked on its journey to adopt integrated reporting. Refer to pages 38 to 54 of the Annual Report 2019, for integrated reporting of the Group.	
<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 Annual Report is dispatched to shareholders at least 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 attend and participate in person or through corporate representatives, proxies or attorneys.</p> <p>More importantly, it enables the shareholders to consider the resolutions and make an informed decision in exercising their voting rights at the general meeting. Full explanation of the effects of a proposed resolution of any special business will accompany the notice of the AGM.</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 including the Chairman of the respective board committees were present at the previous 9<sup>th</sup> AGM of the Company held on 29 May 2019.</p> <p>The Chairman of the Board of Directors, presided over the 9<sup>th</sup> AGM, and together with the President, chairman of the respective board committees and senior management were readily available to address various questions from our shareholders and their proxies.</p> <p>For the coming 10<sup>th</sup> AGM, it is expected that all the Board members, including the President and Senior Management team will be attending 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 12.3

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>	:	<p>The Company's upcoming 10th Annual General Meeting ("10<sup>th</sup> AGM") scheduled on 29 June 2020 will be conducted entirely through live streaming from a broadcast venue. Shareholders and proxyholders can access 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>The detailed procedure on remote shareholders' participation at the 10<sup>th</sup> AGM is provided in the Administrative Note to the 10<sup>th</sup> AGM (in page 284 of 2019 Annual Report) and available at the Company's website at <a href="http://www.velesto.com">www.velesto.com</a>.</p>
<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.

**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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