

CORPORATE GOVERNANCE REPORT

STOCK CODE : 1996
COMPANY NAME : KRETAM HOLDINGS BERHAD
FINANCIAL YEAR : December 31, 2017

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.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board is responsible for the corporate governance practices of the Group and has full and effective control of the Group, including the Management. To ensure good performance of the Group's business, the Board, in discharging its fiduciary functions, assumes the responsibilities of reviewing and adopting the strategic plans for the Group, overseeing the conduct and monitoring the Group's business operations, identifying principal risks and instituting risk management, reviewing and establishing a succession plan for senior management and maintaining and reviewing the adequacy of the Group's internal control systems, management information systems and compliance systems.</p> <p>Besides that, the Board is also responsible for assessing and monitoring the budget proposed and cash flow requirements in order to maintain full and effective control over the Management of the Group as well as monitoring compliance with all relevant statutory and legal obligations.</p>
Explanation for departure	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
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 1.2

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

Application	:	Applied
Explanation on application of the practice	:	<p>The Chairman of the Board, Y. Bhg. Dato' Abd. Aziz Bin Haji Sheikh Fadzir was appointed to the Board on 1 July 2002.</p> <p>As provided in the Board Charter of the Company, the Chairman heads the Board and leads the Directors to review and decide on the Management's proposals relating to the financial and corporate matters of the Company and the Group. Additionally, the Chairman's roles include the following:</p> <ul style="list-style-type: none">• Providing leadership and governance to the Board to create Board effectiveness and ensuring that all key matters are adequately deliberated by the Board;• Ensuring that the Board actively participates in the formulation of strategies, policies and plans of the Group, and that decisions are made in the best interest of the shareholders and are effectively implemented by the management;• Setting the agendas of the Board Meetings with the Company Secretary by taking into consideration of the important issues of the Group and ensuring that sufficient time is allocated for deliberation of the issues as set out in the Board Papers; and• Establishing good corporate governance practices and promoting the highest standards of integrity throughout the Group.
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
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 1.3

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

Application	:	Applied	
Explanation on application of the practice	:	The positions of Chairman and CEO of the Board are held by two (2) different individuals namely, Y. Bhg. Dato' Abd. Aziz Bin Haji Sheikh Fadzir and Datuk Lim Nyuk Sang @ Freddy Lim, respectively. Their roles and responsibilities are clearly outlined in the Company's Board Charter, as well as the Annual Report 2017.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
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.

Application	:	Applied
Explanation on application of the practice	:	<p>The Company Secretary, Ms Liu Yee Ling @ Annie Liu is a qualified and competent Licensed Secretary, in accordance with Section 235 of the Companies Act 2016, and has served the Group for 24 years.</p> <p>She provides advices to the Board regarding statutory and regulatory requirements, as well as the implications in the event of non-compliance of the Company and/or its Directors and Officers. She is also responsible in ensuring that policies and procedures on matters that correspond with the Corporate Governance practices are strictly adhered to.</p> <p>In view of the changes and updates in the legal environment governing the management of a company, efforts have been taken by her to attend skills and knowledge enhancement trainings to ensure adequate compliance to the legislations.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
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 1.5

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.

Application	:	Applied
Explanation on application of the practice	:	<p>Board Papers are despatched to the Directors one (1) week prior to the meetings to ensure that the Board has sufficient time to comprehend the matters to be deliberated and make well-informed decisions. It allows the Board to obtain additional information from the management, where necessary.</p> <p>The discussions and decisions at the meetings will be communicated to the management for further actions to be taken as and when required. Actions on the matters arising from the previous meetings would also be appropriately and adequately followed up with to ensure that the matters were properly resolved. Minutes of the Board and Board Committee meetings are circulated to the Board and the respective Board Committee chairmen for their comment and confirmation.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

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.

Application	:	Applied	
Explanation on application of the practice	:	The respective roles and responsibilities of the Board, Board Committees and the Management are clearly outlined in the Board Charter of the Company which is made available in the Company's website at www.kretam.com . A review on the Board Charter has been recently carried out to ensure that the Board Charter is in line with the Company's objectives, as well as the legal requirements and Practices of the Malaysian Code on Corporate Governance 2017 ("MCCG").	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

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.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board, Management and the employees are committed to observing a high level of professionalism and integrity in the businesses of the Group.</p> <p>The Code of Ethics and Conduct ("Code") provides guidance to the Board, Management and employees of the Group in the day-to-day operations, including the dealings with its stakeholders, which covers the following areas:</p> <ul style="list-style-type: none">• Compliance with laws, rules and regulations relevant to the work and duties of the individual Directors and employees;• Conflict of interest;• Confidentiality of the Group's information;• Protection of the Group's assets and equipment;• Adherence to environmental, health and safety policies and regulations;• Acceptance of gifts, benefits, favours or service; and• Employee misconduct. <p>The Code is made available in the Company's website at www.kretam.com.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

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.

Application	:	Applied	
Explanation on application of the practice	:	The Company has in place a Complaints and Grievances Procedure which is made available to the management and stakeholders of the Group to facilitate the reporting of unethical conduct. A copy is made available on the Company's website at www.kretam.com .	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 4.1

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

Application	:	Applied	
Explanation on application of the practice	:	<p>The Board of the Company comprises of six (6) Directors, three (3) of whom are Independent Directors, as follows:</p> <ol style="list-style-type: none"> 1. Mr Tan Kung Ming (<i>Independent Non-Executive Director</i>) 2. Ms Teo Gim Suan (<i>Independent Non-Executive Director</i>) 3. Mr Lee Kok Toong @ Lee Ming Heng (<i>Independent Non-Executive Director</i>) 	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 4.2

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

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

Application	:	Applied - Annual shareholders' approval for independent directors serving beyond 9 years						
Explanation on application of the practice	:	One (1) out of the three (3) Independent Directors of the Board, Mr Tan Kung Ming had exceeded a cumulative term of nine (9) years as at 1 August 2017. A review had been conducted and the Board is satisfied and would recommend to the shareholders in the coming 30 th Annual General Meeting ("AGM") of the Company for Mr Tan to be retained as an Independent Director of the Company, based on the following justifications: <table border="1" data-bbox="594 1020 1373 1325"><tr><td>1.</td><td>Mr Tan Kung Ming has fulfilled the criteria of an Independent Director in accordance with the Main Market Listing Requirements.</td></tr><tr><td>2.</td><td>His vast experience and knowledge have equipped him with the ability to provide insights to support the Board's decision making in material matters of the Company.</td></tr><tr><td>3.</td><td>He has performed his professional roles and responsibilities as an Independent Director unceasingly in the best interest of the Company and its shareholders.</td></tr></table>	1.	Mr Tan Kung Ming has fulfilled the criteria of an Independent Director in accordance with the Main Market Listing Requirements.	2.	His vast experience and knowledge have equipped him with the ability to provide insights to support the Board's decision making in material matters of the Company.	3.	He has performed his professional roles and responsibilities as an Independent Director unceasingly in the best interest of the Company and its shareholders.
1.	Mr Tan Kung Ming has fulfilled the criteria of an Independent Director in accordance with the Main Market Listing Requirements.							
2.	His vast experience and knowledge have equipped him with the ability to provide insights to support the Board's decision making in material matters of the Company.							
3.	He has performed his professional roles and responsibilities as an Independent Director unceasingly in the best interest of the Company and its shareholders.							
Explanation for departure	:							
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>								
Measure	:							
Timeframe	:							

Intended Outcome

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

Practice 4.3 - Step Up

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

Application	:	Not Adopted
Explanation on adoption of the practice	:	

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	:	<p>Appointments to the Board are based on qualifications, skills, expertise and experience necessary for the Company's business operations and to ensure meaningful contribution in the deliberation and decision making processes of the Board. A breakdown of the composition of the Board is as follows:</p> <ul style="list-style-type: none">• <u>Age</u> 41 to 50: One (1) Director; 51 to 60: Two (2) Directors; and 61 to 70: Three (3) Directors• <u>Cultural Background</u> One (1) Malay Director; One (1) Sino-Kadazan Director; and Four (4) Chinese Directors• <u>Gender</u> Five (5) Male Directors and One (1) Female Director <p>Appointment of the senior management of the Company is solely based on the required expertise and experience in the respective divisions.</p> <p>Detailed profiles of the Board and the key senior management is available in the Annual Report 2017.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
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.

Application	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	The Board has no immediate plans to formalise or set targets or measures for a gender diversity policy.	
		The Board is of the opinion that the appointment of Directors should refer on merit with a sense in diverse mix of skills, experience, knowledge and background as paramount importance rather than on gender.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 4.6

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	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	There were two (2) appointments to the Board during the financial year 2017 i.e. the appointments of Mr Pek Hak Bin on 16 March 2017 and Mr Lee Kok Toong @ Lee Ming Heng on 30 August 2017. Both appointments approved by the Board were solely based on the recommendation of the Company's Chief Executive Officer.	
		The Board would consider the utilisation of independent sources for future appointments to the Board.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
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	:	The Nominating Committee is chaired by Mr Tan Kung Ming, who is an Independent Director.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
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.

Application	:	Applied	
Explanation on application of the practice	:	An annual assessment on the Board and Board Committees was conducted during the financial year ended 31 December 2017 by the Nomination Committee via a peer review assessment which was carried out by all the Board members by utilising questionnaires facilitated by the Company Secretary. The Committee reviewed and deliberated on the individual evaluations and was satisfied with the generally good rating on the composition and mix of the existing Board and Board Committees, as well as the contributions of each individual Director.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

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.

Application	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	The present remuneration of the directors is based on the responsibility and the commitment undertaken, as well as their respective experience and expertise. Whilst the remuneration of the senior management is based on a pay scale which is reviewed periodically.	
		Efforts will be made by the Board to formalise a Remuneration Policy to reflect a fair and just payout by taking into account the complexities, responsibilities and contribution of the Board to the Company.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

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.

Application	:	Applied
Explanation on application of the practice	:	The Remuneration Committee of the Company recommends to the Board the remuneration of the Executive and Non-Executive Directors. The Terms of Reference of the Remuneration Committee has been in place since the establishment of the Committee but was not made available in the Company's website. A copy would be published on the Company's website at www.kretam.com , in line with this practice.
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

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.

Application	:	Applied	
Explanation on application of the practice	:	Detailed disclosure on named basis for the remuneration of individual Directors is listed in the Annual Report 2017 of the Company, which includes the breakdown on fees, salary, bonus, benefits in-kind and other emoluments.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

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 Board is of the opinion that the disclosure on a named basis for the remuneration of the single top senior management would not be of the best interest of the individual involved, due to the sensitivity of the matter and the competitiveness of the employment market.	
		Disclosure will be made at such time when there is more than one (1) top senior management.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

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.

Application	:	Not Adopted
Explanation on adoption of the practice	:	

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 Tan Kung Ming, the Chairman of the Audit Committee is not the Chairman of the Board.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
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.

Application	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	Since the establishment of the Audit Committee, the membership has comprised solely of Independent Non-Executive Directors and none of the members was a former key audit partner. Hence, there is no cooling-off period policy for a former key audit partner.	
		Efforts would be made to formalise such a policy should a former key audit partner be appointed as a member of the Audit Committee, when the need arises.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
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 8.3

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

Application	:	Applied	
Explanation on application of the practice	:	<p>The suitability, objectivity and independence of the Company's external auditor, Messrs Ernst & Young ("EY"), is reviewed on an annual basis by the Audit Committee in order to justify EY's re-appointment as the Group's external auditor to the Board and for the approval of the shareholders.</p> <p>EY's declaration of independence is made verbally to the Audit Committee and through their annual audit plan as well as via the audit engagement letters, in accordance with the relevant regulatory requirements.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
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 8.4 - Step Up

The Audit Committee should comprise solely of Independent Directors.

Application	:	Adopted
Explanation on adoption of the practice	:	The Audit Committee comprises of the following directors: 1. Mr Tan Kung Ming (<i>Independent Non-Executive Director</i>) 2. Ms Teo Gim Suan (<i>Independent Non-Executive Director</i>) 3. Mr Lee Kok Toong @ Lee Ming Heng (<i>Independent Non-Executive Director</i>)

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.

Application	:	Applied
Explanation on application of the practice	:	<p>All the members of the Audit Committee possess the necessary experience and knowledge that are required for them to discharge their duties and are financially literate. Mr Tan Kung Ming, the Chairman, and Ms Teo Gim Suan are members of the Malaysian Institute of Accountants (MIA). Mr Lee Kok Toong @ Lee Ming Heng was an Audit Senior with Ernst & Young for 12 years and subsequently achieved his Chartered Institute of Management Accountants qualification while working for another company as a Finance Manager.</p> <p>Throughout the year of 2017, all the members, with the exception of Mr Lee Kok Toong @ Lee Ming Heng who has attended the MAP after his appointment on 30 August 2017, have undertaken professional development to keep themselves abreast of the relevant developments in the accounting and auditing standards, practices and rules. Details of the trainings attended are as follows:</p> <ul style="list-style-type: none">• <i>Malaysian Code on Corporate Governance: New Dimension (Roadshow)</i> by Securities Industry Development Corporation• <i>Audit Committee Conference 2017</i> by Malaysian Institute of Accountants & The Institute of Internal Auditors Malaysia• <i>Seminar Percukaian Kebangsaan 2017</i> by Lembaga Hasil Dalam Negeri Malaysia• <i>Seminar Mastering Audit GST</i> by Persatuan Pegawai Kanan Kastam Sabah• <i>GST Conference 2017</i> by Malaysian Institute of Accountants & Royal Malaysian Customs Department• <i>Workshop on Driving Financial Integrity and Performance – Enhancing Financial Literacy for Audit Committee</i> by Axcelasia Inc.• <i>Case Study Workshop for Independent Directors “Rethinking – Independent Directors: A New Frontier”</i> by Securities Industry Development Corporation & Bursa Malaysia Berhad

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

Intended Outcome

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

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

Practice 9.1

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

Application	:	Applied	
Explanation on application of the practice	:	An effective risk management and internal control framework has been established, and had been reviewed and approved by the Board. The framework is disclosed in the Statement on Risk Management and Internal Control in the Annual Report 2017.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

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

Practice 9.2

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

Application	:	Applied	
Explanation on application of the practice	:	<p>The Risk Management Committee ("RMC") assists the Board in the aspect of risk management and monitoring as a means to assess the risk appetite and tolerance of the Group. The responsibilities of the RMC include identifying, managing and mitigating significant risks in order to safeguard the interest of the Group and its shareholders.</p> <p>The RMC meets twice a year to deliberate and re-assess the significance of each risk in order to ensure the effectiveness of the management in mitigating the risks.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

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

Practice 9.3 - Step Up

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

Application	:	Adopted
Explanation on adoption of the practice	:	A Risk Management Committee has been established by the Board in 2005, comprising of 2 Non-Independent Executive Directors and the key senior management who are more familiar with the technicality of the respective operations of the Group, and are able to provide mitigation strategies of the operation risks faced by the Group.

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.

Application	:	Applied	
Explanation on application of the practice	:	The internal audit function of the Group is outsourced and carried out by Messrs Jeta PLT (“Jeta PLT”) (formerly known as FS Chen & Associates). The internal auditors report directly to the Audit Committee. The roles of the internal auditors are to review internal control systems implemented by the management and to make recommendations to aid the management in taking appropriate corrective actions.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

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.

Application	:	Applied	
Explanation on application of the practice	:	The required disclosure is made in the Audit Committee Report in the Annual Report 2017.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

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.

Application	:	Applied
Explanation on application of the practice	:	The Board ensures effective dissemination of corporate and financial disclosures to the Company's stakeholders via the following means: <ol style="list-style-type: none">1) Despatching the Group's Annual Report and circulars to shareholders (if any);2) Timely release of the Group's Quarterly Results announcements, circular to shareholders (if any) and other announcements to the regulatory authorities namely Bursa Securities;3) Accessibility of the Group's Annual Report, Quarterly Results announcements, circular to shareholders (if any) and other announcements through the Bursa Securities' website at www.bursamalaysia.com as well as the Company's website at www.kretam.com;4) Bursa Securities Link, whereby queries from Bursa Securities are addressed in a timely manner;5) Notifying shareholders of dates of AGM and other general meetings in the printed media and on the Bursa Securities' website to ensure communication with the shareholders;6) Holding dialogues with shareholders at the AGM and other general meetings and with stakeholders at forums on the Company's business and policies on the environment and sustainability; and7) The Company's website through which the shareholders and the stakeholders can have access to information or to forward their queries pertaining to the Group.
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

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.

Application	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	This practice was not adopted by the Company as the Company does not fall into the category of "Large Companies" as defined in the MCCG.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
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 12.1

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	:	<p>The Company will despatch the Notice of the forthcoming 30th Annual General Meeting (“AGM”) at least 28 days prior to the meeting despite Section 316(2) of the Companies Act 2016 and Paragraph 7.15 of the Main Market Listing Requirements which call for a 21-day notice for a listed issuer.</p> <p>The Notice of the AGM outlines the resolutions to be tabled at the meeting together with the explanatory notes to the proposed resolutions for clarification to the shareholders so that better informed decisions can be made.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
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	:	<p>The Board acknowledges that the AGM serves as a platform for shareholders to participate in the meeting and provide meaningful responses to their questions. In the last AGM, save for Mr Pek Hak Bin, all other Directors attended the meeting. The Board encourages full attendance by the Directors at the AGM. During the proceeding of the last AGM, the Chairman had allowed sufficient time to the floor during the questions and answers session.</p> <p>The Chairmen of the Audit, Nomination, Remuneration and Risk Management were present to facilitate discussion on any enquiries addressed to them.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
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.

Application	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	The Board is of the view that the Company will not leverage technology to facilitate voting in absentia and remote shareholders' participation in General Meetings as the cost to be incurred for these purposes outweighs the benefits.	
		Due to the limitations in facilities and unstable internet connection to facilitate and comply with this Practice, the Board will depend on proxy forms for shareholders who are unable to attend the Company's General Meetings.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

**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.

Not applicable to Kretam Holdings Berhad.
