

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

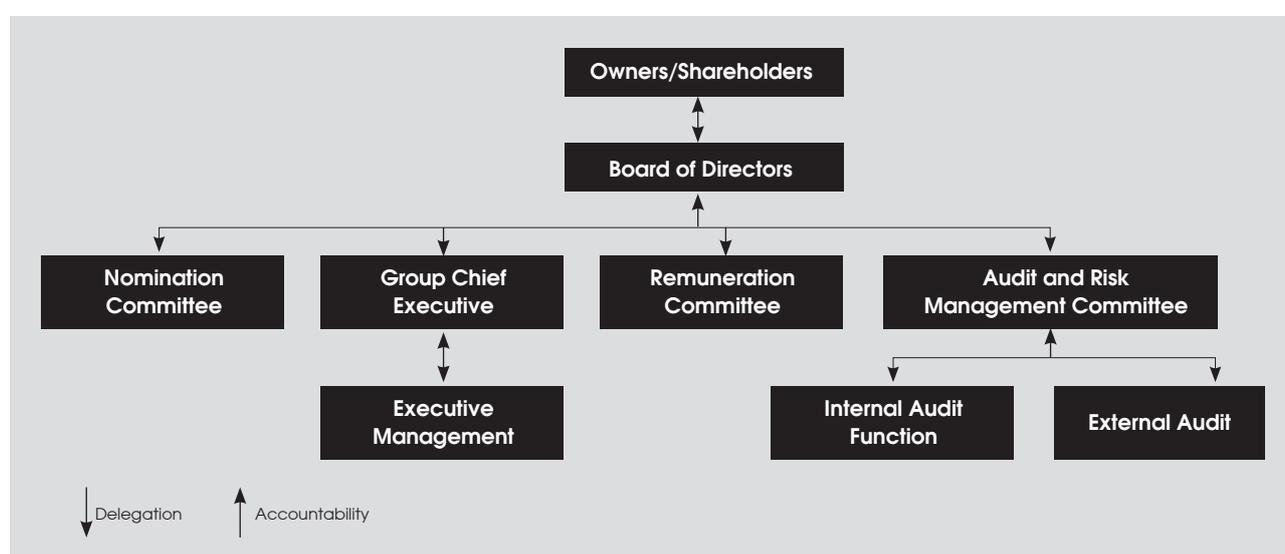
## INTRODUCTION

The Board of Directors ("Board") of Knusford Berhad is committed to ensure high standards of corporate governance are practised throughout the Company and its subsidiaries ("the Group") to enhance shareholder value and improve the Group's financial performance. The Board aims for the principles and best practices of the Malaysia Code of Corporate Governance ("MCCG") to be observed and practiced throughout the Group as a fundamental part of discharging its responsibilities.

Therefore, the Board is pleased to present the following report on the Company's application of the principles and compliance with best practices as set out in MCCG during the financial year ended 31 December 2017.

## CORPORATE GOVERNANCE STRUCTURE

The Group's corporate governance structure is illustrated below.



The Group has established a system of governance structured around three lines of defence. This structure enables a more effective decision making process where all views are challenged and considered. In summary, the three lines of defence are as follows:

### Executive Management

The first line of defence consists of Executive Management which manages the day to day operations and reports directly to the Group Chief Executive. Executive management sets out the execution of strategy and business plans in discussion with the Group Chief Executive, where specific action plans, initiatives and tasks are laid out to achieve those strategies.

### Group Chief Executive and Board Committees

The Group Chief Executive ("GCE") oversees the execution of the strategy and business plans of the Group as approved by the Board. These matters are developed based on the input and action plans derived from the Executive Management, with oversight role from the GCE and the Board Committees. The Board Committees comprise of 3 committees, namely the Nomination Committee, the Remuneration Committee, and the Audit and Risk Management Committee. These Committees report directly to the Board.

### Internal Audit and External Audit

The third line of defence comprises of internal and external auditors who report independently to the board committee. The internal and external auditors regularly review the governance structure and internal controls to ensure that the corporate governance arrangements and structures are appropriate and are discharging their roles and responsibilities completely and accurately. The results of these independent reviews are communicated to executive management and to the board of directors to ensure that appropriate action is taken to maintain and enhance the corporate governance framework.

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## Internal Audit and External Audit (continued)

Other governance components include:

### Authority limits

The Group establishes authority limits across the Group covering all key processes such as procurement, tendering and contract award. The authority limits provide the line responsibility and accountability in decision-making processes, enabling a thorough consideration of factors prior to any business decisions being made.

### Policies and procedures

The Group has established policy and procedures providing guidance on the operational aspects to the management of the Group. These include financial, human resource, procurement, construction management and property management.

### Management meetings

The Executive management meets at least 6 times per year to discuss operational matters, key issues and strategic priorities. The Executive management monitors the execution of action plans and initiatives and the achievement of strategies in line with the business objectives of the Group.

### Assurance function – internal and external audit

Independent oversight of the Group is provided through internal and statutory auditors. Internal audit focuses on operational matters, compliance, internal controls and general controls of the Group, while statutory auditors provide assurance in terms of financial management, accounting and internal controls.

### Code of conduct and whistle blowing policy

The Board has formulated ethical standards through a Code of Conduct for the Directors, senior management and all employees. The Code of Conduct includes principles related to conflict of interest, dealings with confidential information, to ensure safety, security and adherence to Group's rules, dealing with suppliers, customers and third parties. Knusford Berhad also has in place a Whistle Blowing Policy which are implemented to provide well-defined and accessible channels for reporting possible improprieties, violations, improper conduct or wrongdoing within the Group. Further details pertaining to the Code of Ethics and Whistle Blowing Policy is available at Knusford Berhad's website at [www.knusford.com.my](http://www.knusford.com.my).

## PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS

### I. Board Responsibilities

The Board is responsible for the overall corporate governance of the Group, including its ethical behaviour, strategic direction, establishing goals for management and monitoring the achievement of these goals with a view to optimising performance, maximizing shareholder value and safeguarding the stakeholders' interest. The responsibility for the operation and administration of the Group of Companies is delegated by the Board to the GCE.

The Board Charter, which clearly sets out the roles and responsibilities of the Board, the Board Committees and GCE, is available on the corporate website of Knusford Berhad at [www.knusford.com.my](http://www.knusford.com.my) for easy access by the stakeholders and the public alike. The objectives of this Board Charter are to ensure that all Board members acting on behalf of the Company are aware of their roles and responsibilities as Board members and the various legislations and regulations affecting their conduct and that the principles and practices of good corporate governance are applied in all their dealings in respect, and on behalf of the Company.

The Board has appointed 2 Company Secretaries, who are Members of Chartered Secretaries Malaysia and have the competence to provide the necessary assistance to the Board.

### II. Board Composition

The Board comprises of 9 members, out of which 5 are Independent Directors. The existing Board composition is in line with Principle (A) 4.1 of the MCGG which specifies that the board must comprise a majority of independent directors.

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## PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (continued)

### II. Board Composition (continued)

The Group practices non-discrimination in any form, whether based on age, gender, ethnicity or religion in the selection of Board members. In addition, the Group believes it is of utmost importance that the Board is composed of the best-qualified individuals who possess the requisite knowledge, experience, competency, professionalism, independence, foresight and good judgement to ensure that the Board and management team function effectively and is able to discharge its duties in the best interests of the Group and shareholders. The Board consists of qualified individuals with diverse experiences, backgrounds and perspectives. Their combined expertise and business experience provides insights and diversity of perspective to lead and guide the Group in an increasing complex and competitive environment. The skills and experience of the Board are provided in details on pages 9 to 11 of this Annual Report.

The Board is supportive of gender diversity policy. In its selection of Board members, the Board provides equal opportunity to all candidates who meet the criteria (i.e. individual experience, knowledge and competency) and other qualities vis-a-vis the Group present business portfolios and prospective investment. Presently, there is no female Director and the Board strives to search and appoint a female board member.

The Board recognises the needs to attend trainings in order to enhance their skills and knowledge and keep abreast with the relevant change in laws, regulations and business environment enabling them discharge their duties effectively. During the financial year, the Group had organised a training course entitled "Changes and Implications of the Companies Act 2016", which was attended by all the Directors. The Group will continue to organise development and training programmes for the benefit of Directors and in addition, the Directors individually are encouraged to equip themselves on the new developments in the business environment by attending other relevant courses, trade fairs, seminars and conferences.

The Board Charter establishes a policy limiting the tenure of independent Directors to nine years. The policy allows exceptions, subject to the assessment of the Nomination Committee and on an annual basis subject to shareholders' approval. As of the date of this Annual Report, none of the Independent Directors of the Company have reached or exceeded a cumulative term of nine years.

The composition, number of Board and Committee Meetings held in financial year 2017 and the attendance of each member of the Board at the respective Board and Committee meetings are as follows:

| Name                                  | Designation                               | Meeting Attendance |                                    |                                      |   |
|---------------------------------------|---|--------------------|------------------------------------|--------------------------------------|---|
|                                       |   | Board              | Nomination Committee <sup>N1</sup> | Remuneration Committee <sup>N1</sup> | Audit and Risk Management Committee <sup>N2</sup> |
| DYAM Tunku Ismail Ibni Sultan Ibrahim | Non-Independent Non-Executive Director    | 4/5 <sup>N3</sup>  | -                                  | -                                    | -   |
| Datuk Ahmad Zaki Bin Zahid            | Managing Director                         | 5/5                | -                                  | -                                    | -   |
| Lim Chen Heng                         | Executive Director                        | 4/5                | -                                  | -                                    | -   |
| Lee Hun Kheng                         | Executive Director                        | 4/5                | -                                  | -                                    | -   |
| Bernard Hilary Lawrence               | Senior Independent Non-Executive Director | 5/5                | 1/1                                | 2/2                                  | 5/5   |
| Avinderjit Singh A/L Harjit Singh     | Independent Non-Executive Director        | 4/5                | 1/1                                | 2/2                                  | 3/5   |
| Lim Foo Seng                          | Independent Non-Executive Director        | 5/5                | 1/1                                | 2/2                                  | 5/5   |
| Mohd Salleh Bin Othman                | Independent Non-Executive Director        | 5/5                | 1/1                                | 2/2                                  | 5/5   |
| Lee Wai Kuen                          | Independent Non-Executive Director        | 5/5                | 1/1                                | 2/2                                  | 5/5   |

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## PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (continued)

### II. Board Composition (continued)

N1 – The "Nomination Committee" and the "Remuneration Committee" were two separate committees during the financial year ended 31 December 2017. With effect from 1 March 2018, the Board has merged the committees into one, known as the "Nomination and Remuneration Committee".

N2 – The "Audit and Risk Management Committee" was a combined committee during the financial year ended 31 December 2017. With effect from 1 March 2018, the Board has separated the committee into two committees, known as the "Audit Committee" and the "Risk Management Committee".

N3 – One out of the five meetings, which was not attended by DYAM Tunku Ismail Ibni Sultan Ibrahim was attended by his Alternate Director, Mohamad Jaifuddin Bin Bujang Mohidin.

The Nomination Committee's Terms of Reference specifies the duties and functions of the Committee, which relate to the recruitment of directors and criteria used in their selection in terms of the appropriate balance of skills, expertise, attributes and core competencies and annual assessment. The Committee is responsible for reviewing candidates for appointment to the Board Committee and make appropriate recommendations thereon to the Board for approval and assessing the effectiveness of the Board and Board Committee and the performance of individual Directors in order to ensure that required mix of skills and experience are present of the Board. There is no new director appointed during the financial year ended 31 December 2017.

The Nomination Committee which comprising solely Independent Directors met once to review the mix of skills, independence and diversity required, the nomination and election process of directors and criteria used for the selection process and assessed the boards, its committees and individual directors based on the criteria established.

In respect of the assessment for the financial year ended 31 December 2017, the Board was satisfied that the Board and Board Committees have discharged their duties and responsibilities effectively and the contribution and performance of each individual Director is deemed satisfactory. The Board was also satisfied that the Board composition in terms of size, the balance between Executive, Non-Executive and Independent Directors and mix of skills was adequate.

### III. Remuneration

The Remuneration Committee assists the Board in reviewing and making recommendations relating to the remuneration, terms of employment, reward structure and benefits in-kind for Directors and key senior management position of the Group. The authority and duties of the Remuneration Committee has been formalised in the Terms of Reference of the Remuneration Committee. During the financial year, the Remuneration Committee met twice and all members attended the meetings. During those meetings, the Remuneration Committee undertook its tasks in accordance with the MCCG and MMLR in relation to the remuneration of directors of listed companies. These tasks include:

- Determine the policy for the chairman, the executive directors and Senior Management for inclusion in the remuneration policy;
- Determine the remuneration, terms of engagements and other compensation;
- Advise the board on the remuneration policy; and
- Monitor the implementation of the policy.

Based on this policy, the remuneration breakdown of individual directors includes fees, salary, bonus, benefits in-kind and other emoluments proposed for the year are as follows:

#### Group

| Name                                  | Fixed-Rate Fees (RM) | Salaries (RM) | Bonus (RM) | Other Remuneration (RM) | Benefits-in-kind (RM) | Total (RM) |
|---------------------------------------|----------------------|---------------|------------|-------------------------|-----------------------|------------|
| DYAM Tunku Ismail Ibni Sultan Ibrahim | 20,000               | -             | -          | -                       | -                     | 20,000     |
| Datuk Ahmad Zaki Bin Zahid            | 20,000               | 416,613       | 22,500     | 187,104                 | 24,600                | 670,817    |
| Lim Chen Herng*                       | 20,000               | 315,000       | -          | 172,800                 | 25,000                | 532,800    |
| Lee Hun Kheng                         | 20,000               | 216,000       | 54,000     | 32,400                  | -                     | 322,400    |
| Bernard Hilary Lawrence               | 20,000               | -             | -          | -                       | -                     | 20,000     |
| Avinderjit Singh A/L Harjit Singh     | 20,000               | -             | -          | -                       | -                     | 20,000     |

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## PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS (continued)

### III. Remuneration (continued)

#### Group (continued)

| Name                   | Fixed-Rate Fees (RM) | Salaries (RM) | Bonus (RM) | Other Remuneration (RM) | Benefits-in-kind (RM) | Total (RM) |
|------------------------|----------------------|---------------|------------|-------------------------|-----------------------|------------|
| Lim Foo Seng           | 20,000               | -             | -          | -                       | -                     | 20,000     |
| Mohd Salleh Bin Othman | 20,000               | -             | -          | -                       | -                     | 20,000     |
| Lee Wai Kuen           | 20,000               | -             | -          | -                       | -                     | 20,000     |
| Total                  | 180,000              | 947,613       | 76,500     | 392,304                 | 49,600                | 1,646,017  |

\* Appointed on 21 August 2013 and started to draw salary from March 2017 onward.

#### Company

| Name                                  | Fixed-Rate Fees (RM) | Salaries (RM) | Bonus (RM) | Other Remuneration (RM) | Benefits-in-kind (RM) | Total (RM) |
|---------------------------------------|----------------------|---------------|------------|-------------------------|-----------------------|------------|
| DYAM Tunku Ismail Ibni Sultan Ibrahim | 20,000               | -             | -          | -                       | -                     | 20,000     |
| Datuk Ahmad Zaki Bin Zahid            | 20,000               | -             | -          | -                       | 15,000                | 35,000     |
| Lim Chen Heng*                        | 20,000               | -             | -          | -                       | 25,000                | 45,000     |
| Lee Hun Kheng                         | 20,000               | -             | -          | -                       | -                     | 20,000     |
| Bernard Hilary Lawrence               | 20,000               | -             | -          | -                       | -                     | 20,000     |
| Avinderjit Singh A/L Harjit Singh     | 20,000               | -             | -          | -                       | -                     | 20,000     |
| Lim Foo Seng                          | 20,000               | -             | -          | -                       | -                     | 20,000     |
| Mohd Salleh Bin Othman                | 20,000               | -             | -          | -                       | -                     | 20,000     |
| Lee Wai Kuen                          | 20,000               | -             | -          | -                       | -                     | 20,000     |
| Total                                 | 180,000              | -             | -          | -                       | 40,000                | 220,000    |

\* Appointed on 21 August 2013 and started to draw salary from March 2017 onward.

Details of the remuneration of the top 5 Senior Management (including salary, bonus, benefits in-kind and other emoluments) in each successive band of RM50,000 during the financial year 2017, are as follows:

| Name                       | Designation        | Range of Remuneration (RM) |
|----------------------------|--------------------|----------------------------|
| Datuk Ahmad Zaki Bin Zahid | Managing Director  | 650,001 – 700,000          |
| Lim Chen Heng*             | Executive Director | 500,001 – 550,000          |
| Lim Sew Hua                | General Manager    | 500,001 – 550,000          |
| Han Loong Kwang            | Project Director   | 400,001 – 450,000          |
| Jiang Mi                   | Project Director   | 300,001 – 350,000          |

\* Appointed on 21 August 2013 and started to draw salary from March 2017 onward.

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## PRINCIPLE B – EFFECTIVE AUDIT AND RISK MANAGEMENT

### I. Audit Committee

The Board acknowledges its overall responsibilities for maintaining a sound system of risk management and internal control and has delegated its role in the review process to the Audit and Risk Management Committee (“ARMC”). The ARMC comprises five (5) Independent Non-Executive Directors and the Chairman of the ARMC is distinct from the Chairman of the Board. It is a practice for the ARMC to require 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 ARMC and such practice has been formalised and incorporated in the Terms of Reference of the ARMC, which also includes the authority, duties and responsibilities of the committee.

The ARMC met 5 times during the year. The activities of the ARMC during the year are described at length in the Audit and Risk Management Committee Report in this Annual Report on pages 35 to 41.

### II. Risk Management and Internal Control Framework

The Statement on Risk Management and Internal Control is set out on pages 24 to 27 of this annual report detailing the features of the risk management and internal control frameworks of the Group.

## PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

### I. Communication with Stakeholders

The Board acknowledges the need for stakeholders to be informed of all material business matters affecting the Company and as such adopts an open and transparent policy in respect of its relationship with its stakeholders and investors. The Board will ensure the timely release of financial results on a quarterly basis to provide stakeholders with an overview of the Company’s performance and operations in addition to the various announcements made during the year. These announcements are also available on the Group’s website at [www.knusford.com.my](http://www.knusford.com.my) in the Investors relation section.

The Company conducts dialogues with financial analysts and/or the media from time to time as a means of effective communication to enable the Board and Management to convey information relating to the Company’s performance, corporate strategy and other matters affecting stakeholders’ interests.

### II. Conduct of General Meetings

The Board presents the progress and performance of the Group to provide shareholders with the opportunity to seek clarification on the Group’s businesses and financial performance during the general meeting. Notices of each general meeting are issued in a timely manner to all shareholders to ensure that they have sufficient time to prepare and digest issue to be raised during the meeting. The Directors, Chairman of the Audit and Risk Management Committee, and External Auditors are available to respond to the questions of shareholders during the Annual General Meeting.

In the 21st Annual General Meeting held on 15 June 2017, notice was sent more than 28 days in accordance with the requirements of MCCG, enabling shareholders to review the details of the resolution being proposed timely for better decision. The notice included details of resolutions to be passed in the general meeting.

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## SUMMARY OF CORPORATE GOVERNANCE PRACTICES

The Board is pleased to report that during the year ended 31 December 2017, the Company has applied and adopted 32 of the 36 Practices (32 Practices and 4 Step Ups) encapsulated in the 3 Principles of MCCG. The breakdown of the status of application by Principle is provided below:

| Principle  | Practice |           |                | Step-up |             |
|--|----------|-----------|----------------|---------|-------------|
|  | Applied  | Departure | Not Applicable | Adopted | Not Adopted |
| A - Board Leadership and Effectiveness   | 17       | 1         | 1              | 1       | 1           |
| B - Effective Audit and Risk Management  | 8        | -         | -              | 2       | -           |
| C - Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders | 4        | 1         | -              | -       | -           |
| Total  | 29       | 2         | 1              | 3       | 1           |

The summary of the 2 departed Practices is as follows:

| Principal  | Practice   | Gap Summary  |
|--|--|--|
| A - Board Leadership and Effectiveness   | 4.5 The board discloses policies on gender diversity (Departure)   | No female Director on the Board of the Group. The Board is supportive of gender diversity and is reviewing action plans to have a female board member subject to the skills, experience and profile of the female directors. |
| C - Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders | 11.2 Large Companies are encouraged to adopt Integrated Reporting based on a globally recognised framework (Departure) | The Group does not fall under the category of large companies and has yet to adopt Integrated Reporting.<br><br>The Board and Senior Management will regularly review this practice requirement.                             |

Further information about the Company's corporate governance practices, in the form of the Corporate Governance Report, is available on the Company's web site at [www.knusford.com.my](http://www.knusford.com.my).

## KEY FOCUS AREAS AND FUTURE PRIORITIES

The Company's key focus during the year was to comprehend the Principles and Practices introduced in the MCCG, for the subsequent application and disclosure in the annual report for the financial year ended 31 December 2017. Consequently, the Group's existing Board Charter, Terms of Reference of the Board Committees and Code of Conduct have been reviewed and revised to be in line with the MCCG.

In 2017, the Group has applied and adopted all the Practices under the MCCG, with the exceptions of 4 Practices. Nevertheless, the Board endeavours to achieve full application and adoption in the future.

This Corporate Governance Overview Statement was approved by the Board of Directors on 4 April 2018.