

# CORPORATE GOVERNANCE REPORT

**STOCK CODE** : 7164  
**COMPANY NAME** : KNM GROUP BERHAD  
**FINANCIAL YEAR** : 31 DECEMBER 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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Company is headed by the Board who leads and plays a key role in driving the overall performance of its Group by setting up the strategic direction and objectives of the Group, reviewing the adequacy and integrity of the Group's risk management and internal control systems, ensuring a management succession plan as well as having a dedicated investor relations programme and shareholders' communication policy in place. The Board maintains a close and effective working partnership with the management in achieving the above mission and is guided by the Board Charter in the performance of its duties.</p> <p>The Board is chaired by a Non-Executive Director whilst the Group Chief Executive Officer position is helmed by an Executive Director. Their roles and responsibilities are clearly divided to ensure a balance of power and authority. In addition, the roles and responsibilities of the Chairman and Group Chief Executive Officer/Executive Director are well defined whereby, the Board is led by the Chairman to ensure its effective functioning whilst the management is led by the Group Chief Executive Officer/Executive Director in formulating the annual business plan to enhance the Company's business growth and create shareholders' value, and implementing the Board's policies, strategies and decisions as well as managing the business operations.</p> <p>However, certain key matters are reserved to be determined by the Board. These stewardship responsibilities include, determining overall corporate strategy and business direction, determining funding needs and capital expenditure, approving financial plans and budgets, reviewing financial statements and financial performance of the Company, ensuring necessary financial and other resources allocation to the management to facilitate successful strategy implementation as well as undertaking of corporate exercises involving mergers and acquisitions, new issues of securities, fund raising activities and so on. The Board empowers Management to operate within defined limits of authority as set by the Board to ensure efficiency in carrying out day-to-day operations of 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

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 Board is led by the Chairman to ensure its effective functioning whilst the management is led by the Group Chief Executive Officer/Executive Director in formulating the annual business plan to enhance the Company's business growth and create shareholders' value, and implementing the Board's policies, strategies and decisions as well as managing the business operations.</p> <p>The Chairman leads and encourages constructive and healthy debates to ensure Board effectiveness and that resolutions are circulated and deliberated so that all Board decisions reflect the collective view of the Board and not the views of an individual or small group of individuals.</p> <p>The current Chairman of the Board is Dato' Ab Halim bin Mohyiddin who is well-versed in corporate governance and in providing strategic direction. He graduated with a Bachelor of Economics (Accounting) from University of Malaya in 1971 and thereafter joined Universiti Kebangsaan Malaysia as a Faculty Member of the Faculty of Economics. He obtained his Masters of Business Administration degree from University of Alberta, Edmonton, Alberta, Canada in 1973. He retired from KPMG/KPMG Desa Megat &amp; Co. on 1 October 2001, a firm he joined in 1977 and had his early accounting training in both Malaysia and United States of America. He was made Partner of the Firm in 1985. At the time of his retirement, he was Partner-in-Charge of the Assurance and Financial Advisory Services Divisions and was also looking after the Secured e-Commerce Practice of the Firm. He has extensive experience in tax, audit, corporate turnaround and financial restructuring of various companies and has also acted as Receiver and Manager and Liquidator for several companies during his tenure with KPMG.</p> <p>Dato' Ab Halim is a member of the Malaysian Institute of Certified Public Accountants (MICPA) and Malaysian Institute of Accountants (MIA). He is currently the Chairman of the Education and Training Committee of MICPA. He served as a member of the Education Committee of the International Federation of Accountants (IFAC) from 2001 to 2005. He was the President of MICPA from June 2004 to June 2007 and a Council Member of MIA from 2001 to 2007.</p> <p>Presently, he is also the Chairman of MISC Berhad and Amway (Malaysia) Holdings Berhad, and a Board member of Petronas Gas Berhad.</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 1.3

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The Board is chaired by an Independent Non-Executive Chairman whilst the Management is helmed by the Group Chief Executive Officer who is also an Executive Director. There is a separation in the functions, roles and positions of the Chairman and Group Chief Executive Officer/Executive Director to promote accountability and facilitate division of responsibilities between them.	
<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 function of Company Secretary is undertaken by the Head of Corporate Legal &amp; Group Company Secretary of KNM Group Berhad, and he is assisted by an Assistant Company Secretary. Both are legally qualified and have valid licenses issued by the Companies Commission of Malaysia (CCM) and The Malaysian Institute of Chartered Secretaries and Administrators (MAICSA) respectively.</p> <p>The Group Company Secretary undertakes primary responsibility for organizing information necessary for the Board to deal with at Board meetings as well as the circulation of Board papers to all Board members in a timely manner to facilitate effective deliberations of matters brought up in meetings.</p> <p>The Group Company Secretary also effect all proper documentation, to meet all statutory obligations and compliances as well as to support the Chairman of the Board in ensuring the effective functioning of the Board. He provides advisory role to the Board with regards to the MCGG 2017, Main Market Listing Requirements, Companies Act 2016, Company's Constitution, Terms of Reference of the Committees, Board Charter and the consequential application, disclosure and compliance requirements and other applicable related matters.</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

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>The Chairman of the Board takes responsibility for ensuring that the members of the Board receive relevant, accurate, and clear information on a timely basis in respect of the Group's financial and operational performance to enable the Board to make sound decision and provide necessary advice. In this respect, the Group Company Secretary will assist the Chairman of the Board to ensure that the process of disseminating the information is effective and reliable. Furthermore, in order to provide for adequate and thorough discussion of the respective matters within a reasonable and sufficient time, the Chairman would decide on the agenda and accordingly structure and prioritise the respective matters based on their relevancy and importance.</p> <p>Prior to each Board meeting, each Director will be provided with the draft minutes of the previous meeting and the agenda together with the respective reports/papers and other board meeting reference materials for each item to be discussed in order for them to be apprised of the topics and to be prepared accordingly.</p> <p>All discussions, decisions and conclusions are duly recorded in the minutes of meeting. Such minutes are subsequently circulated in a timely manner to ensure that all Directors are kept well informed of the Board's and Board Committees' activities and recommendations. These minutes are kept by the Group Company Secretary and are open to inspection by the Directors at any time.</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

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 maintains a close and effective working partnership with the management in achieving the above mission and is guided by the Board Charter in the performance of its duties.</p> <p>The Board Charter is a source of reference to guide the Board members and senior management on their roles and responsibilities. It also details <i>inter alia</i>, the board responsibilities, the terms of reference of the Board Committees, and the standards of conduct and best practices to be observed by the Board and Board Committees.</p> <p>The Board Charter is reviewed periodically to ensure that all new regulations and legislative changes, and other relevant developments that has or may have an impact on the Group's businesses are taken into account when necessary.</p> <p>The Board Charter may be gleaned from the Company's corporate website at <a href="http://www.knm-group.com">www.knm-group.com</a>.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

## Intended Outcome

The 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>The Board is committed in conducting its businesses in an ethical and honest manner by implementing and enforcing systems that adhere to the fundamental ethical practices and principles of the Company.</p> <p>The Board establishes and on a regular basis reviews the Code of Conduct and Ethics of the Company.</p> <p>The Code of Conduct and Ethics together with the Standards of Conduct and Best Practices as formulated by the Board for the members' observance are as set out in the Board Charter. A copy of the Code of Conduct and Ethics is available under the Board Charter on the Company's corporate website at <a href="http://www.knm-group.com">www.knm-group.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 3.2

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>The Board establishes, reviews and implements policies and procedures on whistleblowing.</p> <p>In line with good corporate governance practices and all applicable laws and regulations in Malaysia, the KNM Group of Companies (“KNMG”) encourage its employees or external parties (the “Whistle Blower”) to report instances of unethical behaviour, actual or suspected fraud and/or abuse involving the resources of the Company.</p> <p>The objective of this policy is to encourage and facilitate the Whistle Blower to report instances of unethical behaviour, actual or suspected fraud and/or abuse and to ensure that all allegations are thoroughly investigated and suitable actions are taken where necessary.</p> <p>This policy applies to all employees or external parties of KNM Group Berhad and its subsidiaries. This policy will not apply to personal grievances concerning an individual’s term and conditions of employment, or other aspects of working relationship, complaints of bullying or harassment or disciplinary matters. Such complaints should be dealt under the existing Human Resource procedures in the Code of Conduct and Ethics adopted by the Company.</p> <p>The Whistle Blower’s role is of a reporting party with reliable information and to raise genuine concerns of any unethical behaviour, actual or suspected fraud and/or abuse. They are not required or expected to act as investigators or finders of facts, nor would they determine the appropriate corrective or remedial action. Whistle Blowers should not conduct any investigative activities, nor do they have a right to participate in any investigative activities.</p> <p>It is the policy of the Company to allow the Whistle Blower to either identify themselves or if they prefer, to remain anonymous when reporting suspected and/or known instances of unethical behaviour, fraud and/or abuse.</p>

	<p>The identity and particulars of the Whistle Blower shall also be kept private and confidential and the Company shall treat all reports or disclosures as sensitive and will only reveal the information if required by law, court or authority.</p> <p>KNMG is committed to this policy and assures that the Whistle Blower would be protected against reprisals and/or retaliation, or will not suffer any form of retribution, victimization or detriment for raising allegations of suspected and/or known instances of unethical behaviour, fraud and/or abuse.</p> <p>All costs in relation to any legal liabilities or proceedings (whether criminal or civil) that may be brought against the Whistle Blower shall be borne by the Company and the selection of the lawyer defending the legal action shall be made by 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

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>	:	The establishment of an active and independent Board of Directors is paramount in improving corporate governance practices. During the financial year under review, the Board comprised of seven (7) Directors, three (3) of whom are Executive Directors while the rest are Independent Non-Executive Directors who make up more than one-half 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

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>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	<p>Except for Dato' Ab Halim bin Mohyiddin ("Dato' Ab Halim") who has a cumulative term of more than twelve years tenure, all the current Independent Directors of the Company are below the nine years' tenure. The Company will seek shareholders' approval at the forthcoming 2018 Annual General Meeting for Dato' Ab Halim continuance as an Independent Non-Executive Director of the Company but not based on the two-tier voting process as this is not provided for in the Company's Constitution. This process would be incorporated in the Company's new Constitution, which is to be tabled to the shareholders in the 2019's Annual General Meeting.</p> <p>Dato' Ab Halim was appointed as an Independent Non-Executive Director on 14 June 2003 and was subsequently designated as a Senior Independent Non-Executive Director on 29 June 2011. Thereafter, he was re-designated as Chairman of the Company on 29 April 2013.</p> <p>Although he has exceeded the cumulative term limit of nine (9) years as an Independent Director as prescribed by the Malaysian Code on Corporate Governance 2017, the Nomination Committee and the Board of Directors ("the Board"), after having assessed the independence of Dato' Ab Halim, considers him to be independent based on the following justifications and recommends that Dato' Ab Halim be retained as an Independent Director of the Company:-</p> <ul style="list-style-type: none"><li>(a) He has confirmed and declared that he is an Independent Non-Executive Director as defined under Paragraph 1.01 of Bursa Malaysia Securities Berhad's Main Market Listing Requirements;</li><li>(b) He is not related to any of the Company's directors or major shareholders;</li></ul>

	<p>(c) He does not have any conflict of interest with the Company and has not entered/is not expected to enter into contract(s) especially material contract(s) with the Company and/or its subsidiary companies;</p> <p>(d) He is currently not sitting on the board of any other public and/or private companies having the same nature of business as that of the Company and its subsidiary companies; and</p> <p>(e) His experience and knowledge of the Company and the Group's activities and corporate history is invaluable to the Board. The Board is also of the view that his impartial opinion and advice in his role as the Company's Chairman and Chairman of the Company's Audit and Nomination Committees will be beneficial to the Board and the Company too.</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**

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

## 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>All appointments to the Board and its various Board Committees together with Senior Management are assessed and considered by the Nomination Committee. In making these recommendations, due consideration is given to the required mix of skills, knowledge, expertise, experience, professionalism and integrity that the proposed candidate(s) shall bring to complement the Board and/or Board Committees. The Board may also consider and exercise judgment in determining the appropriate number and size of the Board relative to the level of investment by the shareholders in the Company.</p> <p>Together, the Board members with their different age, financial, commercial, technical and operational expertise as well as business acumen and skills, brings with them a wide and diverse range of experience essential in the management and direction of the Company. In view of the composition of the Board and having regard to the calibre of the Directors and their diverse range of skills, expertise and experience; the interest of investors, including the Company's minority shareholders, are adequately protected and advanced.</p>
<b>Explanation for departure</b>	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

## Intended Outcome

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

### Practice 4.5

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	<p>During the financial year under review, the Board comprised of seven (7) Directors, three (3) of whom are Executive Directors while the rest are Independent Non-Executive Directors who make up more than one-half of the Board. In addition, approximately one-third of the Board is represented by the feminine gender.</p> <p>The review of a new gender diversity policy is underway. The process for review and selections are aligned with the Company's requirements for skills diversity.</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>All appointments to the Board and its various Board Committees are assessed and considered by the Nomination Committee. In making these recommendations, due consideration is given to the required mix of skills, knowledge, expertise, experience, professionalism and integrity that the proposed candidate(s) shall bring to complement the Board and/or Board Committees. The Board may also consider and exercise judgment in determining the appropriate number and size of the Board relative to the level of investment by the shareholders in the Company.</p> <p>The utilisation of independent sources and researches to identify suitable candidates have been applied before and shall continue to be applicable for consideration in future appointments.</p>
<b>Explanation for departure</b>	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

## Intended Outcome

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

### Practice 4.7

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 Nomination Committee comprises three (3) members, all of whom are exclusively Independent Non-Executive Directors. It is chaired by an Independent Non-Executive Director who is also the Chairman of the Board. The Board believes that the Chairman is well placed to act on behalf of the Board and able to ensure that the Nomination Committee meets the needs 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>	:	The responsibility for annual evaluation to determine the effectiveness of the Board, its committees and each individual director falls on the Nomination Committee which assesses on an annual basis the effectiveness of the Board as a whole and the Board Committees as well as the respective individual Directors' performance and contribution. All assessments and evaluations are duly discussed and recorded in the minutes of meeting.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

## Intended Outcome

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

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

### Practice 6.1

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Remuneration Committee is responsible for recommending to the Board, <i>inter alia</i>, the remuneration of the Executive Directors, in all its forms, drawing from outside advice as necessary. With the availability of Directors remuneration policy and market survey information from external sources or human resources consultants, the Remuneration Committee ensures that the remuneration packages recommended are appropriate and competitive. All recommendations of the Remuneration Committee in respect of remuneration packages of the Executive Directors are referred to the Board for approval.</p> <p>The Company's remuneration scheme is linked to performance, service seniority, experience and scope of responsibilities. The Remuneration Committee ascertains and recommends the remuneration packages of the Executive Directors, including the Group Chief Executive Officer/Executive Director in accordance with the Company's policy guidelines that strongly link remuneration to performance and benchmark the remuneration against that of the market surveys conducted by external sources or human resource consultants periodically.</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>The Remuneration Committee comprises three (3) Independent Non-Executive Directors and the Group Chief Executive Officer/Executive Director. It is chaired by the Senior Independent Non-Executive Director. The Remuneration Committee is responsible for recommending to the Board, <i>inter alia</i>, the remuneration of the Executive Directors, in all its forms, drawing from outside advice as necessary.</p> <p>The Remuneration Committee is regulated by its own written Terms of Reference which deal with the Committees' authorities and duties and are disclosed under the Board Charter in the Company's corporate website at <a href="http://www.knm-group.com">www.knm-group.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

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

### Practice 7.1

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

<b>Application</b>	:	Applied																																																																																								
<b>Explanation on application of the practice</b>	:	<p>The detailed remuneration comprising of directors' fees and other emoluments/salary for the year under review payable and/or paid respectively to the Directors are disclosed in aggregated detail as listed out in the table shown below. In accordance with Section 230 of the Companies Act 2016, the remuneration is tabled to shareholders for approval at the Annual General Meeting.</p> <p><b>Company</b></p> <table border="1"> <thead> <tr> <th>Category of Directors</th> <th>Fee (RM'000)</th> <th>Other emoluments*/ Salary** (RM'000)</th> <th>Total (RM'000)</th> </tr> </thead> <tbody> <tr> <td colspan="4"><b>Executive Directors</b></td> </tr> <tr> <td>Ir Lee Swee Eng</td> <td>150</td> <td>2,704</td> <td>2,854</td> </tr> <tr> <td>Gan Siew Liat</td> <td>150</td> <td>820</td> <td>970</td> </tr> <tr> <td>Chew Fook Sin</td> <td>150</td> <td>6</td> <td>156</td> </tr> <tr> <td colspan="4"><b>Non-Executive Directors</b></td> </tr> <tr> <td>Dato' Ab Halim bin Mohyiddin</td> <td>150</td> <td>114</td> <td>264</td> </tr> <tr> <td>Dato' Dr Khalid bin Ngah</td> <td>150</td> <td>69</td> <td>219</td> </tr> <tr> <td>Dato' Sri Adnan bin Wan Mamat</td> <td>150</td> <td>25</td> <td>175</td> </tr> <tr> <td>Soh Yoke Yan</td> <td>150</td> <td>54</td> <td>204</td> </tr> <tr> <td><b>Total</b></td> <td><b>1,050</b></td> <td><b>3,792</b></td> <td><b>4,842</b></td> </tr> </tbody> </table> <p><b>Group</b></p> <table border="1"> <thead> <tr> <th>Category of Directors</th> <th>Fee (RM'000)</th> <th>Other emoluments*/ Salary** (RM'000)</th> <th>Total (RM'000)</th> </tr> </thead> <tbody> <tr> <td colspan="4"><b>Executive Directors</b></td> </tr> <tr> <td>Ir Lee Swee Eng</td> <td>150</td> <td>2,728</td> <td>2,878</td> </tr> <tr> <td>Gan Siew Liat</td> <td>150</td> <td>845</td> <td>995</td> </tr> <tr> <td>Chew Fook Sin</td> <td>150</td> <td>812</td> <td>962</td> </tr> <tr> <td colspan="4"><b>Non-Executive Directors</b></td> </tr> <tr> <td>Dato' Ab Halim bin Mohyiddin</td> <td>150</td> <td>114</td> <td>264</td> </tr> <tr> <td>Dato' Dr Khalid bin Ngah</td> <td>150</td> <td>69</td> <td>219</td> </tr> <tr> <td>Dato' Sri Adnan bin Wan Mamat</td> <td>150</td> <td>25</td> <td>175</td> </tr> <tr> <td>Soh Yoke Yan</td> <td>150</td> <td>54</td> <td>204</td> </tr> <tr> <td><b>Total</b></td> <td><b>1,050</b></td> <td><b>4,647</b></td> <td><b>5,697</b></td> </tr> </tbody> </table>	Category of Directors	Fee (RM'000)	Other emoluments*/ Salary** (RM'000)	Total (RM'000)	<b>Executive Directors</b>				Ir Lee Swee Eng	150	2,704	2,854	Gan Siew Liat	150	820	970	Chew Fook Sin	150	6	156	<b>Non-Executive Directors</b>				Dato' Ab Halim bin Mohyiddin	150	114	264	Dato' Dr Khalid bin Ngah	150	69	219	Dato' Sri Adnan bin Wan Mamat	150	25	175	Soh Yoke Yan	150	54	204	<b>Total</b>	<b>1,050</b>	<b>3,792</b>	<b>4,842</b>	Category of Directors	Fee (RM'000)	Other emoluments*/ Salary** (RM'000)	Total (RM'000)	<b>Executive Directors</b>				Ir Lee Swee Eng	150	2,728	2,878	Gan Siew Liat	150	845	995	Chew Fook Sin	150	812	962	<b>Non-Executive Directors</b>				Dato' Ab Halim bin Mohyiddin	150	114	264	Dato' Dr Khalid bin Ngah	150	69	219	Dato' Sri Adnan bin Wan Mamat	150	25	175	Soh Yoke Yan	150	54	204	<b>Total</b>	<b>1,050</b>	<b>4,647</b>	<b>5,697</b>
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	<p><b>Notes:-</b></p> <p>* Other emoluments include board committee fees, bonuses, allowances, provision of hand-phones and company cars.</p> <p>** The salary is inclusive of statutory employer's contribution to Employees Provident Fund.</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>In the attempt of complying to MCCG 2017, the Board has opted to disclose the top five senior management's remuneration in bands of RM50,000 on a no named basis.</p> <p>The Board has taken the reporting approach of a no named basis for senior management due to the fact that the Board is of the opinion that such disclosure would be disadvantageous to the Group's business interests, given the highly competitive conditions in the oil and gas industry where sourcing and poaching of executives is rampant.</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**

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>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	<p>For the year under review, the Audit Committee is chaired by the Independent Non-Executive Chairman who is a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants. Its other members comprise the Independent Non-Executive Directors.</p> <p>The Board takes cognizance of the importance in terms of governance to separate the Chairmanship of the Board and the Audit Committee. In line with this, the Board shall make the effort to re-structure the composition of the Audit Committee in the near future.</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

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>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	<p>The current Terms of Reference ("TOR") of the Audit Committee does not yet contain 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.</p> <p>The Board takes cognizance of the importance in terms of governance to modify the Audit Committees' TOR to include the above new policy before the end of year 2018.</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

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>	:	The Audit Committee is the Board's principal agent in ensuring the independence of the Company's external auditors, the objectivity of the Company's internal auditors, the integrity of management and management policies and the adequacy of disclosures to shareholders. Such policies and procedures are contained in the Audit Committee TOR.
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### **Intended Outcome**

There is an effective and independent Audit Committee.

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

### **Practice 8.4 - Step Up**

The Audit Committee should comprise solely of Independent Directors.

<b>Application</b>	:	Adopted
<b>Explanation on adoption of the practice</b>	:	All the present Audit Committee members are Independent Directors.

## Intended Outcome

There is an effective and independent Audit Committee.

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

### Practice 8.5

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

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Audit Committee is chaired by an Independent Director who is a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants.</p> <p>In addition, all the Audit Committee members are able to read, analyse and interpret the quarterly results and year end financial statements from the external auditors in order to effectively discharge their functions.</p> <p>The Company is committed to ensure that its Directors and Board Committees receive continuous education and further training updates from time to time. The Board and its Committees shall, on a continuous basis, evaluate and determine the training needs of its members and subject matters of training that aid the Directors in the discharge of their duties.</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

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 acknowledges its responsibilities for the Group's system of internal controls and risk management practices to safeguard the shareholders investment and the Group's assets. The Board also believes that the Group's system of internal controls and risk management practices are vital to good corporate governance.</p> <p>The Board has developed a risk management framework and has put in place an Enterprise-Wide Risk Management framework to identify the key risks faced by the Group, the potential impact and likelihood of those risks occurring, the control effectiveness and the action plans being taken to manage those risks to the desired level. Such a system is designed to identify, evaluate and manage the significant risks faced by the Group to achieve its objectives and strategies. A process has been put in place for the year under review and up to the date of this statement. On-going reviews are carried out quarterly by the Risk Management Committee ("RMC"). The RMC, chaired by the Group Finance Director/Chief Financial Officer, is to assist the facilitation of the continuous monitoring and evaluating of the Group's risk management system and reports to Audit Committee and the Board to achieve the Group's business objective and to ensure that the Group is always vigilant to any situation that might affect its assets, income and profits.</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

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 Board has disclosed the key features of its risk management and internal control system as well as its adequacy and effectiveness in the Statement on Risk Management and Internal Control in the Company's Annual Report 2017.
<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>	:	Not adopted
<b>Explanation on adoption of the practice</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 10.1

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>Internal Audit function is established by the Board for the Group to review the adequacy of operational controls system, and in identifying, evaluating, monitoring and managing risks to provide reasonable assurance that such system will continue to operate satisfactorily and effectively in the Group. The Internal Audit function adds value and improves the Group's operations and assist the Audit Committee to effectively discharge its duties by providing independent and objective assurance.</p> <p>The Internal Audit function reports directly to the Audit Committee and operates in accordance with the framework set out by the Internal Audit Charter as approved by the Audit Committee. It is independently positioned to assist the Board and Audit Committee in obtaining the assurance they require in relation to the effectiveness of the Group's system of internal controls. The Head of Internal Audit regularly reviews and appraises the systems of risk management, internal controls and governance processes within the Company and/or the Group.</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

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 function reports directly to the Audit Committee and operates in accordance with the framework set out by the Internal Audit Charter as approved by the Audit Committee. It is independently positioned to assist the Board and Audit Committee in obtaining the assurance they require in relation to the effectiveness of the Group’s system of internal controls.</p> <p>The resources available (internal and external) and qualification of the person responsible for internal audit are disclosed in the Audit Committee Report section of the Annual Report 2017. The Internal Audit function is carried out in accordance with the International Professional Practices Framework for Internal Auditing promulgated by the Institute of Internal Auditors.</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 Company provides an open channel of communication with its shareholders, institutional investors and the investing public at large with the objectives of <i>inter alia</i>, providing timely, clear and complete information of the Group's operations, updates, performance and new development based on permissible disclosures. The Company values feedbacks and dialogues with its investors, and believes that a constructive and effective investor relationship is essential to enhance shareholders' value.</p> <p>Communication with shareholders is also maintained by way of immediate announcements made in connection with material developments in the Company's business and operations in addition to the timely issuance of quarterly and annual reports. Whilst the Company is endeavour to provide as much information as possible to its shareholders and other stakeholders, it is mindful of the legal and regulatory framework governing the release and disclosure of material and/or price-sensitive information. Information which is price-sensitive or those which may be regarded as undisclosed material information about the Group will not be disclosed until after the prescribed announcement has been released to Bursa Malaysia Securities Berhad ("Bursa Securities").</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

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

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

### Practice 11.2

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

<b>Application</b>	:	Departure	
<b>Explanation on application of the practice</b>	:		
<b>Explanation for departure</b>	:	The practice is not applicable to the Company in view that the Company does not currently fall within the "Large Companies" definition. However, the Company aims to adopt integrated reporting in the future and will initiate its journey towards this.	
<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 12.1

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>	:	The Notice of AGM with the detailed Agenda, Annual Report and Circular to Shareholders are announced to Bursa Securities, published on the Company's website and issued 28 days before the Company's Annual General Meeting ("AGM"). Printed copies are made available to shareholders who request for Annual Reports and Circular to Shareholders. The Notice of the AGM is also advertised in one (1) widely circulated newspaper in Malaysia in the English language.
<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>The general meetings of the Company are normally attended by all Directors. Explanations are provided during shareholders' meetings in relation to any queries that are posted by shareholders and clarification made to proposed resolutions on key corporate proposals to enable shareholders to make informed decisions.</p> <p>The Company's external auditors and the relevant advisers of the Company will attend such general meetings upon invitation and be available to answer questions raised where appropriate.</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>	:	Departure
<b>Explanation on application of the practice</b>	:	
<b>Explanation for departure</b>	:	<p>The Company is highly supportive of any technology that allows shareholders' participation at AGMs. In order to implement voting in absentia and remote shareholders' participation, the Company would need to invest and ensure that the necessary technology platform and connection are in place before implementing this.</p> <p>Taking into account the intended outcome of this practice, the Board will continue to monitor developments in the market in respect of new technologies to facilitate the conduct of meetings remotely and may consider implementing the same in the future if there is a strong case for change.</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>	:	

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

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

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