

CORPORATE GOVERNANCE REPORT

STOCK CODE : 0196
COMPANY NAME : QES GROUP 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.

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| Application | : Applied |
| Explanation on application of the practice | <p>In QES Group Berhad ("the Company"), both the Board and the management work cohesively to successfully formulate and implement the Company's business strategy. The Company's strategy setting and review is an integral part of matters reserved for the Board.</p> <p>The Board sets out the strategic directions and objectives, formulating the policies and executing the key strategic action plans of the Company and its subsidiaries ("the Group").</p> <p>The Board will scrutinise the sustainability, effectiveness and implementation of the strategic plans for the financial year under review and provide guidance and input to the management. To ensure the effective discharge of its functions and duties, the principal responsibilities of the Board include the following: -</p> <ul style="list-style-type: none">(i) Regularly review the Company's business operations;(ii) Review the management's performance(iii) Together with Senior Management, promote good Corporate Governance culture within the Company which reinforces ethical, prudent and professional behaviour;(iv) Overseeing the conduct of business of the Company;(v) Identifying principal risks and ensure the implementation of appropriate framework for internal controls and risk management;(vi) Succession planning;(vii) Overseeing the development and implementation of a shareholder communications policy for the Company; and(viii) Ensure that the Senior Management has the necessary skills and experience, and there are measures in place to provide for the orderly succession of Board and Senior Management. <p>In order to ensure orderly and effective discharge of the above functions and responsibilities, the Board has also delegated certain responsibilities to other Board Committees. Standing Committees of</p> |

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| | the Board includes Audit Committee, Nomination Committee and Remuneration Committee which operates within clearly defined terms of reference. The Board receives reports at its meetings from the Chairman of each Committee on current activities and it is the general policy of the Company that all major decisions be considered by the Board as a whole. | |
| Explanation for departure | : | |
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| <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 1.2

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

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>Encik Adnan Bin Zainol was appointed as the Independent Non-Executive Chairman of the Company.</p> <p>The roles and responsibilities of the Chairman of the Board are specified in the Board Charter.</p> <p>The key responsibilities undertaken by the Chairman are as follows: -</p> <ul style="list-style-type: none"> (i) Provides leadership for the Board so that the Board can perform its responsibilities effectively; (ii) Leads Board meeting and discussions to enable appropriate decisions are made to ensure that no Board members, whether Executive or Non-Executive, dominates the discussion; (iii) Encourages active participation and allows dissenting views to be freely expressed; (iv) Communicates with the management from time to time to ensure the Company complies with all relevant laws and regulations; (v) Ensures appropriate steps are taken to provide effective communication with stakeholder and that their views are communicated to the Board as a whole; and (vi) Leads the Board in establishing and monitoring good Corporate Governance practices in the Company. <p>The Chairman with the assistance of the Company Secretary sets the Board agenda for each meeting based on the dates of scheduled Board meetings in the annual meeting calendar, and the notice of meeting is circulated to the Board Members accordingly.</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 1.3

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

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The positions of the Chairman, and the Managing Director in the Company are held by different individuals with clear and distinct roles which are formally documented in the Board Charter of the Company to ensure a balance of power and authority between the Chairman and the Managing Director.</p> <p>The Chairman of the Board, Encik Adnan Bin Zainol is responsible for instilling good Corporate Governance practices, leadership and effectiveness of the Board. Meanwhile, Mr. Chew Ne Weng, the Managing Director of the Company is responsible for implementation of the policies, strategies and decisions adopted by the Board as well as day-to-day management of the Company's operations and shall adhere to the guidelines and instructions provided by the Board.</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 1.4

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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board had appointed a qualified Company Secretary who is a member of the Malaysian Institute of Accountants and is qualified to act as Company Secretary under Section 235(2) of the Companies Act, 2016.</p> <p>The Company Secretary manages all Board and Board Committee meeting logistics, attending and recording minutes to ensure that deliberations at Board and Board Committee meetings are well documented and facilitate Board communications.</p> <p>The Company Secretary play an advisory role to the Board, particularly with regards to the Company's Corporate Governance best practices and its compliance with regulatory requirements, codes, guidance and legislations.</p> <p>In this respect, the Company Secretary briefed the board on: -</p> <ul style="list-style-type: none">• Amendments to the ACE Market Listing Requirements ("AMLR") issued by Bursa Malaysia Securities Berhad ("Bursa Securities") on 29 November 2017• Briefing on Malaysian Code on Corporate Governance 2017• Substantial Shareholdings Obligations under The Companies Act, 2016• Closed and Open-End Period under AMLR <p>The Company Secretary will manage the process of the Annual General Meetings which are to be held, by ensuring the proceedings are in place and properly managed. During the meeting, the Company Secretary will assist the Chairman and the Board to conduct the meeting and ensure the minutes are properly recorded, particularly, questions raised by the shareholders.</p> <p>The Company Secretary will undertake relevant continuous professional development programmes to keep abreast of the evolving capital market environment, regulatory changes and developments in Corporate Governance through attendance at relevant conferences and training programmes.</p> |
| Explanation for departure | : | |

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| <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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Notice of Board meetings are sent to the Board and Board Committee via email and hard copy at least 7 working days prior to a meeting. The same notice is sent to the management, External Auditors and Internal Auditors.</p> <p>The Board is provided with appropriate information and comprehensive Board papers 7 days prior to Board meetings to ensure that the Directors have sufficient preparation time and information to make an informed decision at each Board meeting.</p> <p>Annual meeting calendar which provides details of scheduled dates for Board and Board Committee Meeting, the Annual General Meeting are given to Directors at the beginning of the year. The Directors and Key Senior Management would receive notification on closed periods for dealings in securities based on the targeted dates of announcement of the Company's quarterly results.</p> <p>Management is invited to attend the Board and Board Committee meetings to brief and provide explanations to the Directors and Board on the operations of the Group.</p> <p>The deliberations and decisions at the Board and Board Committee meetings are well documented in the minutes, including matters where Directors abstained from voting or deliberation. Upon conclusion of the meeting, minutes are circulated in a timely manner.</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

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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board implemented its Board Charter on 11 October 2017. It sets out the roles, functions, composition, operation and processes of the Board and is to ensure all Board members acting on behalf of the Company are aware on their duties and responsibilities as Board members.</p> <p>Key matters reserved for the Board's approval includes approval of the annual and quarterly financial results, annual budgets, major capital commitments, dividend policy, business continuity plan and corporate plan, managing conflict of interest issues, new issues of securities, business restructuring, expenditure above a certain pre-determined limit, disposal of significant fixed assets and acquisition or disposal of companies within the Company.</p> <p>The Board reviews the Board Charter regularly, to keep it up to date with changes in regulations and best practices.</p> <p>The Board Charter is available on the Company's corporate website at www.gesnet.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 3.1

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 corporate website.

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| Application | : | Applied |
| Explanation on application of the practice | : | The Board establishes a Code of Conduct and Ethics for the Company, and together with the management implements its policies and procedures, which include dealing with customers and suppliers, managing conflicts of interest, maintaining confidential information, accepting gifts, loans and entertainment ,accepting directorship outside the Company, complying with laws and regulations, ensuring a healthy and safe environment, protection and use of company's asset, , insider information and securities trading and sexual harassment. The Code of Conduct and Ethics is periodically reviewed and is available on the Company's corporate website at www.qesnet.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

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.

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| Application | : | Applied |
| Explanation on application of the practice | : | The Board has established, reviewed and implemented the policies and procedures on whistleblowing. The Group's whistleblowing policies and procedures provides avenue for all employees of the Group and members of the public to raise concerns or disclose any improper conduct within the Group and to take appropriate action to resolve them effectively. The Group's whistleblowing policies and procedures is periodically reviewed and is available on the Company's corporate website at www.gesnet.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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board has 5 members comprising of 2 Executive Directors and 3 independent Non-Executive Directors. The composition fulfils the requirements as set out under the ACE Market Listing Requirements of Bursa Securities which stipulates that at least 2 Directors or 1/3 of the Board, whichever is higher, must be independent.</p> <p>All the Directors would be given confirmations on a quarterly basis, as to whether he/she</p> <ul style="list-style-type: none">(i) is independent of management of the business of the Company;(ii) is an Executive Director or major shareholder of the Company;(iii) has any family relationship with any Director, officer or major shareholder of the Company;(iv) has been an advisor of the Company within the last 2 years; and(v) is not a person that are able to influence the Company's financial standing and not a person that perform policy-making function in the Company. <p>This is one of the criteria to enable the Nomination Committee to assess the Directors' independence as and when any new interest or relationship develops.</p> <p>In addition, the assessment of independence of the Independent Non-Executive Directors are conducted on an annual basis via the following:-</p> <p><i>Self and Peer Evaluation Questionnaire for Assessing the Independence of the Independent Directors</i> to ensure that the Independent Non-Executive Directors were independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement or the ability to act in the best interests of the Company.</p> <p>Based on the outcome of the evaluation done at the 4th quarter of 2017, the Directors fulfilled the criteria as Independent Directors and are able to bring independence and objectivity in the Board's decision-making process. The Directors had also declared that they are independent of management and free from any business or other relationship which could materially interfere with the exercise of their objective and independent judgements, decisions and reviews.</p> |

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| Explanation for departure : | | |
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| <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.

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| Application | : | Not applicable - No independent director(s) serving beyond 9 years | |
| Explanation on application of the practice | : | | |
| Explanation for departure | : | | |
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| <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.

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| 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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board and the Nomination Committee takes into account the Board diversity, including gender, ethnicity, age, experience and skill, to the effective functioning of the Board.</p> <p>A Board Matrix has been developed and used as reference for Board's succession planning. Having conducted the mapping exercise, the Nomination Committee observed that the gap areas remain relevant in the current Board composition, hence it is taken into consideration in strengthening the mix of skills and composition of the Board. The Board will continue to tap talent from human capital market from time to time with the aim to attract suitable candidate for the Board.</p> <p>The Company's business is organised along functional line where department managers are responsible for the execution of their duties. The Company practice management empowerment, whereby department managers are relatively autonomous and have significant decision-making authority within their span of control and within clearly define boundaries. As such there is no over reliance on the Managing Director to be involved in all details and aspect of the Company's operational and functional area. This allows the Managing Director to focus on more strategic matters of the business.</p> <p>Nevertheless, to ensure business continuity, the Company has taken appropriate steps such as professional mentoring, on-the-job training and professional learning and development to ensure the implementation of succession planning in every department.</p> <p>The Company encourages the Senior Management to identify employees who have the potential to move into leadership positions and to expose such potential leadership talent to various development opportunities to groom and to provide them with the skill sets and experiences required to take on higher level leadership positions and greater responsibilities.</p> <p>In addition, the Company also encourages Senior Management to groom the lower and middle management staff to gradually assume higher responsibilities and encourages the middle management to participate in discussion for decision-making.</p> |

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| | <p>The Board is involved in the process of reviewing the potential successor’s readiness, and in identifying key competencies and requirement for managerial and key senior positions for succession planning.</p> <p>As part of the Company’s management succession plan, the Company had identified middle management personnel across the Company to facilitate knowledge transfer to build upon their capabilities to fulfil Senior Management position so as to ensure smooth running and continuity of our operations.</p> <p>From time to time, Key Management are to carry out meeting with regional manager to review the business and product strategies as well as setting annual target. This gives the managers an overall view of the business direction and the growth of the Company as a whole.</p> <p>The appointment of Key Management was also made with due regard for diversity in skills, experience, age, cultural background and gender. Their detailed particulars of the Key Management are provided on page 7 to 8 of the Annual Report 2017.</p> | |
| <p>Explanation for departure</p> | <p>:</p> | |
| <p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p> | | |
| <p>Measure</p> | <p>:</p> | |
| <p>Timeframe</p> | <p>:</p> | |

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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | <p>The Board takes note of the gender diversity recommendations under the Malaysian Code of Corporate Governance 2017 and will prioritise women candidates in future recruitment exercise. The Board intend to approach the Malaysian Chapter of the 30% Club as well as the NAM Institute for the Empowerment of Women for their pool of potential women candidate to join the Board.</p> <p>The Company target to recruit at least 1 female Board member within 2 years after the Company's listing.</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 4.6

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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Nomination Committee carries out its responsibilities in respect of the nomination, selection and appointment process in the Company's Board under the relevant laws and regulations on the matter.</p> <p>To ensure that Directors have sufficient time to fulfil their roles and responsibilities effectively, the criterion as agreed by the Board for determining candidates for potential Directors is that they must not hold directorships of more than 5 public listed companies (as prescribed in Paragraph 15.06 of the AMLR of Bursa Securities).</p> <p>The Board will utilise independent sources to identify suitably qualified candidate for future candidate of Directors.</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 4.7

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

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board had established Nomination Committee ("NC") on 11 October 2017.</p> <p>The primary objective of the NC is to ensure the Board are comprised of individuals with an optimal mix of qualifications, skills and experience.</p> <p>The present composition of the NC consists of 3 members of the Board, all of whom are Independent Non-Executive Directors: -</p> <p>Chairman of NC : Chia Gek Liang <i>Independent Non-Executive Director</i></p> <p>Members of NC : Hoh Chee Mun <i>Independent Non-Executive Director</i></p> <p> : Adnan Bin Zainol <i>Independent Non-Executive Chairman</i></p> <p>The Terms of Reference of the NC can be viewed on the Company's corporate website at www.qesnet.com.</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

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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Nomination Committee has established a set of quantitative and qualitative performance criteria to evaluate the performance of each member of the Board, each Board Committee and to review the performance of the Board as whole. The effectiveness of the Board is assessed in the areas of the Board's role and responsibilities and composition, attendance record, intensity of participation at meetings. Besides, the effectiveness of the Board Committee is assessed in terms of structure and process, accountability and responsibility as well as the effectiveness of the Chairman of the respective Board Committees.</p> <p>The Nomination Committee also assessed the training needs of the Board and remind the Board to continue to attend training programmes to enhance their skills and knowledge where relevant, as well as to keep abreast with the changes in market terms, legislations and regulations affecting the Company.</p> <p>The Board, through the Nomination Committee, shall assess the independence of Independent Directors annually. The criteria for assessing the independence of an Independent Director includes the relationship between the Independent Director and the Company and his involvement in any significant transaction with the Company.</p> <p>Among the criteria considered for independency includes ability to exercise independent comments, judgment, and contribution constructively at all times for an effective Board. The relationship between the Independent Directors with substantial shareholders, Executive Directors, persons related that have business transactions with the Company and the tenure of office of the Independent Directors will also be reviewed.</p> <p>The Nomination Committee reviewed the independence of the Independent Directors for the financial year ended 31 December 2017 and is satisfied with the independency demonstrated.</p> |

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| Explanation for departure : | | |
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| <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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | <p>The Board has established a formal and transparent process for approving the remuneration of the Board and Board Committees, the Managing Director, Executive Director, Non-Executive Director and Senior Management.</p> <p>The remuneration policy is periodically reviewed by the Remuneration Committee prior to making its recommendations to the Board for approval. In its review, the Remuneration Committee considers various factors including the Non-Executive Directors fiduciary duties, time commitments expected of them and the Company's performance.</p> <p>The Board is mindful that fair remuneration is critical to attract, retain and motivate the Directors of the Company as well as other individuals.</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

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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board had established Remuneration Committee ("RC") on 11 October 2017</p> <p>The primary objective of the RC is to establish a documented, formal and transparent procedure for assessing and reviewing the remuneration packages of Executive Director, Non-Executive Director and Senior Management in order to ensure the remuneration of the Directors reflect their responsibility and commitment undertaken by them and also to attract and retain right talent in the Board to drive the Company's long-term objectives.</p> <p>The present composition of the RC consists of 3 members of the Board, all of whom are Independent Non-Executive Directors: -</p> <p>Chairman of RC: Chia Gek Liang <i>Independent Non-Executive Director</i></p> <p>Members of RC: Hoh Chee Mun <i>Independent Non-Executive Director</i></p> <p>: Adnan Bin Zainol <i>Independent Non-Executive Chairman</i></p> <p>The Terms of Reference of the RC can be viewed on the Company's corporate website at www.qesnet.com.</p> |
| Explanation for departure | : | |

Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.

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| 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.

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| Application | : | Applied | |
| Explanation on application of the practice | : | The detailed disclosure on named basis for the remuneration of individual directors are set out in the Corporate Governance Overview Statement at page 28 of 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

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 components including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

| Application | : | Departure | | | | | | | | | | | |
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| Explanation on application of the practice | : | | | | | | | | | | | | |
| Explanation for departure | : | Details of the remuneration of each Key Management on named basis is not disclosed due to confidentiality reasons and such disclosure may be prejudicial to the Company's business interests given that poaching of qualified Key Management is common. | | | | | | | | | | | |
| | | As an alternative, details of Key Management whose remuneration falls within successive bands of RM50,000 is set out below: | | | | | | | | | | | |
| | | <table border="1"> <thead> <tr> <th>Range of Remuneration</th> <th>Number of Key Managements</th> </tr> </thead> <tbody> <tr> <td>RM400,001 to RM450,000</td> <td>1</td> </tr> <tr> <td>RM450,001 to RM500,000</td> <td>1</td> </tr> <tr> <td>RM700,001 to RM750,000</td> <td>1</td> </tr> <tr> <td>RM1,350,001 to RM1,400,000</td> <td>1</td> </tr> </tbody> </table> | | Range of Remuneration | Number of Key Managements | RM400,001 to RM450,000 | 1 | RM450,001 to RM500,000 | 1 | RM700,001 to RM750,000 | 1 | RM1,350,001 to RM1,400,000 | 1 |
| Range of Remuneration | Number of Key Managements | | | | | | | | | | | | |
| RM400,001 to RM450,000 | 1 | | | | | | | | | | | | |
| RM450,001 to RM500,000 | 1 | | | | | | | | | | | | |
| RM700,001 to RM750,000 | 1 | | | | | | | | | | | | |
| RM1,350,001 to RM1,400,000 | 1 | | | | | | | | | | | | |
| | | The Board is of the view that the transparency and accountability aspects of the MCCG 2017 on disclosure of the remuneration are appropriately served by the above remuneration disclosures in bands of RM50,000. | | | | | | | | | | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | | | | | | | | | | | |
| Measure | : | Please explain the measure(s) the company has taken or intend to take to adopt the practice. | | | | | | | | | | | |
| Timeframe | : | Choose an item. | | | | | | | | | | | |

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 | : | <p>The Board established the Audit Committee ("AC") on the 11 October 2017.</p> <p>The AC was established to assist the Board with the primary objective of providing an additional assurance to the Board by giving an objective and independent review of financial, operational and administrative controls and procedures, establishing and maintaining internal controls, reinforce the independence of the Company's External Auditors, evaluate the quality of the Internal Auditors and oversee compliance with laws and regulations together with observance of a proper code of conduct.</p> <p>The present composition of the AC consists of 3 members of the Board, all of whom are Independent Non-Executive Directors: -</p> <p>Chairman of AC : Hoh Chee Mun <i>Independent Non-Executive Director</i></p> <p>Members of AC : Chia Gek Liang <i>Independent Non-Executive Director</i></p> <p>: Adnan Bin Zainol <i>Independent Non-Executive Chairman</i></p> <p>The Board took note that the Chairman of the AC is not the Chairman of the Board.</p> <p>The Terms of Reference of the AC can be viewed on the Company's corporate website at www.qesnet.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

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 | : | Applied | |
| Explanation on application of the practice | : | The Board took note on recommendations in MCCG 2017 to have a policy that requires a former key audit partner to observe a cooling-off period of at least 2 years before being appointed as a member of the Audit Committee. None of the members of the Board were former key audit partners. | |
| 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 8.3

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>During the financial year ended 31 December 2017, the External Auditor, Moore Stephens Associates PLT ("MSA") made 2 presentation which are as follows: -</p> <ul style="list-style-type: none"> (i) Audit Plan which outlined its engagement team, audit timeline, the areas of audit emphasis, and their focus on Key Audit Matters with reference to the International Standard on Auditing 701; and (ii) A Closing Presentation for the financial year ended 31 December 2017 which highlights the Key Audit Matters identified during the audit, any significant deficiencies in internal control and MSA's assessment of the risks or material misstatement with reference to ISA 260. <p>The Audit Committee had undertaken an annual assessment of the independence, competency, reliability and compliance of MSA. The Audit Committee was satisfied with the suitability of MSA based on the quality of audit, performance, competency and sufficiency of resources the external audit team provided to the Company. The Audit Committee was also satisfied in its review that the provision of the non-audit services by MSA to the Company for the financial year 2017 did not in any way impair their objectivity and independence as External Auditors of QES.</p> <p>Having regards to the outcome of the annual assessment of the External Auditors, the Board had in February 2018 approved the Audit Committee's recommendation for the shareholders' approval to be sought at the 4th AGM on the re-appointment of MSA as External Auditors of the Company for the financial year 2018.</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 members of the Company solely comprises of 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.

| | | |
|---|---|--|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>The review of the composition of the Audit Committee shall be conducted annually by the Nomination Committee in accordance with Paragraph 15.20 of the ACE Market Listing Requirements ("AMLR") of Bursa Malaysia Securities Berhad.</p> <p>Mr. Hoh Chee Mun, the Chairman of the Audit Committee, is a Chartered Accountant and a Registered GST agent and is currently a member of Malaysian Institute of Accountants ("MIA") and Malaysian Institute of Certified Public Accountants ("MICPA").</p> <p>Accordingly, this meets the requirements of paragraph 15.09(1)(c) of the ACE Market Listing Requirements of Bursa Securities.</p> <p>Encik Adnan Bin Zainol, has accumulated over 21 years of working experience in banking industry. He is currently the Independent Non-Executive Director of Orion IXL Berhad since April 2007.</p> <p>Mr. Chia Gek Liang had 9 years tenure in the investment banking whereby he was involved in a wide variety of assignments which include initial public offerings, debt and equity fund raising, mergers and acquisitions, reverse take-over, corporate and debt restructuring and privatisation exercise. After he was admitted as Advocate and Solicitor of the High Court of Malaya in 2012, he started practicing law and is now currently a lawyer by profession and is practising law in Mai & Co.</p> <p>The Chairman and members of the Audit Committee are financially literate and have carried out their duties in accordance with the Terms of Reference of the Audit Committee.</p> <p>The Nomination Committee is satisfied that the Audit Committee have discharged their functions, duties and responsibilities in accordance with the Audit Committee's Terms of Reference and supported the</p> |

| | | |
|---|---|--|
| | <p>Board in ensuring the Company upholds appropriate Corporate Governance standards.</p> <p>All members of the Audit Committee are mindful that they should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.</p> <p>The composition of the Audit Committee, attendance of meetings by the individual members and the summary of activities are set out in the Audit Committee Report on page 35 to 36 the Annual Report 2017.</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

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 | : | <p>The Board recognises its overall responsibility for the Company's system of internal control and for reviewing the adequacy and integrity of those system.</p> <p>However, in view of the limitations that are inherent in any system of internal control, the system of internal control is designed to manage risk within tolerable levels rather than eliminate the risk of failure to achieve business objectives. Hence, such system by its nature can only provide reasonable and not absolute assurance against material misstatement, error or losses.</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 9.2

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 Board has established an ongoing process for identifying, evaluating and managing the significant risks faced, or potentially exposed to, by the Company in pursuing its business objectives. This process has been in place throughout the financial year and up to the date of approval of the annual report. The adequacy and effectiveness of this process have been continually reviewed by the Board.</p> <p>The Statement on Risk Management and Internal Control is set out on page 33 to 34 of the Annual Report 2017 which provides an overview on the state of risk management and internal controls within the Company.</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 | : | Not Adopted |
| Explanation on adoption of the practice | : | |

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 | : | <p>The Company outsourced its internal audit (“IA”) function to GovernanceAdvisory.com Sdn. Bhd. (“GA”) and subsequently appointed Smart Focus Group Sdn. Bhd. (“Smart Focus”) in place of GA in February 2018.</p> <p>Both GA and Smart Focus is an independent firm which are able to perform its duties in an objective manner and provide impartial advice directly to the Audit Committee.</p> <p>To ensure that the responsibilities of IA are fully discharged, the Audit Committee: -</p> <ul style="list-style-type: none">(i) ensures that the person responsible for the IA function has relevant experience, sufficient standing and authority to discharge his function effectively;(ii) review the IA plan, processes and results of the IA assessment;(iii) review any appraisal or assessment of the performance of the IA function;(iv) approve any appointment or termination of the IA function;(v) take cognisance of resignations of IA function; and(vi) ensure the IA function has sufficient resources to carry out its role effectively. |
| 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 | : | <p>QES had on 4 December 2017 appointed GovernanceAdvisory.com Sdn. Bhd. as the Internal Auditor for the Company. The internal audit exercise is led by Mr. Jason Tee, the Director of Risk & Internal Controls Specialist. He holds a B.C. (Hon) in Accounting.</p> <p>During the year, GovernanceAdvisory.com Sdn. Bhd. presented its Internal Audit Report on internal audit review pertaining to the Procurement Function (Trading Equipment) performed by QES (Asia-Pacific) Sdn. Bhd.</p> <p>On 26 February 2018, the Audit Committee deliberated on the appointment of the new Internal Auditor, Smart Focus Group Sdn Bhd and had approved their appointment based on Internal Audit Appointment Assessment Forms as well as recommendation of the management. Smart Focus had the opportunity of brief the Audit Committee on their recommended proposed Risk Management and Internal Audit Strategic Plan for the financial year ending 2018.</p> <p>Smart Focus Group Sdn Bhd is led by Dr. Bala Sekar Nadarajan, the Project Director. He has a Ph.D. in Finance and Auditing.</p> <p>The principal responsibility of the internal audit is to undertake regular and systematic review of the systems of internal control, risk management process and compliance with the Company's established policies and procedures so as to provide reasonable assurance that such systems continue to operate satisfactorily and effectively in the Company. Functionally, the Internal Audit reviews and assesses the Company's systems of internal control and report to the Audit Committee directly.</p> <p>The final report containing the audit findings and recommendations together with responses by management were circulated to all members of the Audit Committee. Areas of improvement identified were communicated to the management for further action. All internal audit reports were reviewed by the Audit Committee and discussed at</p> |

| | | |
|--|---|--|
| | the Audit Committee Meetings and recommendations were duly acted upon by the management. Follow-up reviews would subsequently be performed to ascertain the extent of implementation of the recommended corrective action for improvements. | |
| 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 | : | <p>The Board ensures there is effective, transparent and regular communication with its stakeholders.</p> <p>The Board recognises the importance of maintaining transparency and accountability to its shareholders and investors and to disseminate information on the Company's performance and any significant developments to ensure that they are informed of all material business matters on a timely manner.</p> <p>Presently, the Board and management of the Company communicate regularly with its shareholders and other stakeholders through the following channels of communication:</p> <p>(i) Bursa Malaysia Securities Berhad The Company releases all material information publicly through Bursa Malaysia Securities Berhad and the shareholders and the public in general may obtain such announcements and financial information from the website of Bursa Malaysia Securities Berhad.</p> <p>(ii) Corporate Website The Company's corporate website, www.gesnet.com, incorporates an Investor Relations section which provides all relevant information on the Company and is accessible by for both shareholders and the public.</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 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 | : | The Board is mindful on the benefit of integrated reporting which is applicable for Large Companies. As QES is not under the category of Large Companies, the Board has not prepared the Integrated Report. | |
| | | Currently, the Group has yet to adopt an integrated reporting as the Company is not a Large Companies as defined by MCG. We believe that the Company's integrated reporting journey should be built on the foundational steps in tandem with the growth of 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

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 | : | The Board is endeavour to dispatch its notice of Annual General Meeting (“AGM”) at least 28 days before the meeting and are mindful that the sufficient notice and time given would allow the shareholders to make necessary arrangements to attend and participate either in person, by corporate representative, by proxy or by attorney. This would also enable the shareholders to properly consider the resolutions that will be discussed and decided at the meeting. |
| 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 | : | The Board took note that the presence of all Directors will provide opportunity for shareholders to effectively engage each director. Accordingly, barring unforeseen circumstances, all Directors as well as the Chairman of respective Board Committees will be present at the forthcoming AGM of the Company to enable the shareholders to raise questions and concerns directly to those responsible. | |
| 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 assessed and of the opinion that meetings in remote location is not necessary and it is costly to the Company in view of the current number of shareholders of the Company. Furthermore, the Company's AGM is held in the city centre and not in remote location. | |
| | | In line with the Practice 12.3 of the MCCG 2017 in promoting electronic voting, the Board will consider adopting electronic voting in future. | |
| <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.

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