

CORPORATE GOVERNANCE REPORT

STOCK CODE : 7028
COMPANY NAME : Zecon Berhad
FINANCIAL YEAR : June 30, 2018

OUTLINE:

SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.

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

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

SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.1

The board should set the company's strategic aims, ensure that the necessary resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards, and ensure that its obligations to its shareholders and other stakeholders are understood and met.

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| Application | : Applied |
| Explanation on application of the practice | <p>In ensuring effective discharge of its responsibilities, the Board has formalised in writing a Board Charter and delegates specific responsibilities to Board Committees formed to assist the Board, namely the Audit Committee, Remuneration & Nomination Committee and Risk Management Committee. The Board Charter and terms of reference of the Board Committees can be accessed at the following website: https://www.zecon.com.my</p> <p>The Company has also adopted a Code of Ethics which aims to reinforce ethical, prudent and professional behaviour by Directors.</p> <p>The Board recognises the key role it plays in charting the strategic direction of the Group. To achieve this, the Board carried out the following activities during the financial year under review and up to the date of this Corporate Governance Report:</p> <ul style="list-style-type: none"> • conduct of face-to-face pre-scheduled meetings to deliberate on Board matters, especially key matters reserved for the Board such as the Group's strategic direction, annual business plan, major capital expenditures, material acquisitions and divestitures exceeding Management authority limits, and review of the Group's corporate governance principles and policies; • review of quarterly and annual results of the Group prior to announcement to Bursa Malaysia Securities Berhad. During these meetings, the operational and financial performance of the Group, together with any material development and issues relating to the business of the Group, were discussed and, where applicable, responded to accordingly; • promotion of sustainable business practices covering economic, social and environmental aspects, which the Board believed would translate into better corporate performance; • oversight of the performance of Management in ensuring the business was properly managed through specific Key Performance Indicators ("KPIs") for Executive Management which aligned Management's performance with the Group's strategies and objectives. KPI-based performance incentive scheme for Executive Directors and Management was also deployed to ensure that the Group's business was conducted effectively towards meeting the strategic objectives of the Group; • through the Risk Management Committee ("RMC"), ensured appropriate risk management framework was in place for Management to identify, evaluate, manage, report and monitor business risks. The RMC reviewed and assessed the major risk exposures of the Group and significant risk matters were forwarded to the Board for deliberation and decisions; |

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| | <ul style="list-style-type: none"> • Audit Committee reviewed the effectiveness of the internal control system in safeguarding the Group’s assets and shareholders’ investment, including compliance with regulatory requirements and legislations. The internal audit findings were presented to the Board, via the Audit Committee, including corrective actions proposed by the internal audit function and Management’s action plans; • communication with shareholders via the Annual General Meeting, where the Chairman invited and encouraged shareholders present to participate in the voting of resolutions being tabled. In addition, the Company has a corporate website to serve as a platform for investors and shareholders to stay abreast of the Group’s development, including financial performance and other announcements made to Bursa Malaysia Securities Berhad (“Bursa Securities”); and • in ensuring the integrity of the Group’s financial and non-financial reporting, the Board drew guidance from relevant standards and guidelines issued by Bursa Securities, such as: <ul style="list-style-type: none"> ○ Guidance on Disclosures in Notes to Quarterly Report via the Issuers Communication Notes (ICN 1); ○ Management Discussion and Analysis Disclosure Guide; ○ Sustainability Reporting Guide and Toolkits; ○ Corporate Governance Guide 3rd Edition: Moving from Aspiration to Actualization; and ○ Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers. |
| 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 1.2

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>The Board is chaired by an Independent Director, Datu Haji Hamzah bin Haji Drahman, who presides over the Board and General Meetings of the Company.</p> <p>The Chairman is responsible for leadership of the Board in ensuring orderly conduct and full discharge of Board's responsibilities. The Chairman maintains regular dialogue with the Group Managing Director and Deputy Managing Director over operational matters and consults with the Board on any major concern that arises.</p> <p>In setting the agenda for Board meetings, the Chairman with the assistance of the Group Managing Director, Deputy Managing Director and Company Secretaries, ensures pertinent and relevant matters are included for discussion.</p> <p>The Chairman leads Board meetings and discussions, and encourages participation and deliberation by all members of the Board to enable the Board to make informed decisions. This includes ensuring dissenting views, with supporting rationale, to be freely expressed and considered. The Chairman ensures all Directors are properly briefed on issues arising at the Board meetings and ensure sufficient time is allotted for discussions on complex or contentious issues.</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 1.3

The positions of 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 Group Managing Director ("GMD") are held by two different individuals, namely Datu Haji Hamzah bin Haji Drahman and Datuk Haji Zainal Abidin bin Haji Ahmad respectively. The positions helmed by two different individuals provide a clear distinction and separation of the two roles, maintaining a balance of power and authority to the Board's dynamics, and ensuring no one individual has unfettered decision-making powers.</p> <p>The Group's Board Charter clearly delineates the roles of the Chairman and the GMD, where the Chairman focuses on ensuring effectiveness of the Board with the latter on overseeing the Group's day-to-day operations.</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 1.4

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>Zecon Berhad is jointly supported by two Company Secretaries, namely Ms. Koh Fee Lee and Ms. Voon Jan Moi. Both the Company Secretaries are members of The Malaysian Institute of Chartered Secretaries and Administrators (“MAICSA”), which satisfies the qualification as prescribed under Section 235 of the Companies Act, 2016.</p> <p>The appointment and removal of Company Secretary is a matter reserved for the Board as outlined in the Board Charter. The Company Secretaries are responsible to advise the Board on its roles and responsibilities as well as other governance matters, including corporate disclosure matters, compliance with company and securities regulations, listing requirements, and other relevant law, rules and regulations.</p> <p>The Company Secretaries organise and attend all Board and Board Committee meetings. All pertinent issues discussed at the Board and Board Committee meetings in arriving at the decisions and conclusions are properly recorded as minutes of meeting by the Company Secretaries, concurred by participating Directors and signed by the Chairman of the meeting.</p> <p>It is also the responsibility of the Company Secretaries to keep abreast of any development or updates to corporation governance practices and update the same to the Board. The Company Secretaries attend relevant continuous professional development programmes mandated by the Companies Commission of Malaysia (“CCM”) and keep the Board updated on relevant developments, either in writing or briefing at the Board meeting. All Board members are entitled to unlimited and unrestricted access to the professional advice and services of the Company Secretaries.</p> <p>The duties and responsibilities of the Company Secretaries are outlined in the Board Charter, which is available on the Group’s website http://www.zecon.com.my/about/board-charter/</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 1.5

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 Company Secretaries facilitate the provision of information, as may be requested by Directors from time-to-time.</p> <p>In advance of each upcoming financial year, the Company Secretaries, in consultation with all Directors, prepare an annual meeting calendar for circulation to all Directors. The annual meeting calendar includes the scheduled dates for meetings of the Board and Board Committees and any identified agenda for the said meetings.</p> <p>In order to ensure all Directors are supplied with necessary information and sufficient time to consider matters to be deliberated at Board and Board Committee meetings, the Company Secretaries circulate the meeting agenda, together with meeting materials (e.g. detailed reports and proposition papers) to all members of the Board and Board Committees at least four (4) business days in advance of the meeting as stipulated in the Board Charter. This practice aims to ensure effectiveness and efficiency of meetings, by providing sufficient time for Directors to review the information provided, to make enquiries and to seek additional information and clarification. Senior Management may be invited to join the meetings of the Board or Board Committees, to provide the detailed explanations and clarifications on certain matters being deliberated.</p> <p>The Company Secretaries are also responsible to ensure timely communication of Board-level decisions to Management not present at the Board or Board Committee meeting. The Company Secretaries prepare the Board and Board Committee meeting minutes, properly recording issues deliberated and their results, including how conclusions are arrived at, any dissenting views with their accompanying rationale, and whether any Director abstained from voting and deliberating on a particular matter. The draft meeting minutes are then circulated to members of the Board and Board Committee within reasonable timeframe upon conclusion of the meeting to enable them to go through, e.g. whether the meeting minutes accurately reflect the deliberations or otherwise, before the Chairmen of the meetings approve the meeting minutes.</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 Group has established a Board Charter, which acts as a source of reference and primary guide to the Board in delivering high standards of corporate governance. The Board Charter provides for, amongst others, the following:</p> <ul style="list-style-type: none"> • roles and responsibilities of the Board, Board Chairman, Group Managing Director, Independent Directors, Senior Independent Director and individual Directors; • delegation of responsibilities to Board Committees; • key matters reserved for the Board; • relationship with Management, shareholders and stakeholders; and • Board structure, size, composition and tenure. <p>The Board Charter is made available at the Group's website http://www.zecon.com.my/about/board-charter/ The Charter is kept under review and updated as practices on Corporate Governance and regulatory requirements develop and further guidelines on Corporate Governance are issued by the relevant regulators. The Board Charter was last reviewed on 25 August 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

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.

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| Application | : | Applied |
| Explanation on application of the practice | : | <p>In discharging its responsibilities, the Board is guided by the Code of Ethics for the Directors which is drafted based on the principles of transparency, integrity, accountability and social responsibilities.</p> <p>The Director's Code of Ethics covers the following three aspects:</p> <ol style="list-style-type: none"> 1) Corporate Governance, which outlines amongst others, the time commitment, responsibility and conduct expected of the Director; 2) Relationship with shareholders, employees and customers; and 3) Social responsibilities and the environment. <p>The Board has also put in place a Code of Conduct which sets out 10 principles to guide the conduct of its employees. The principles cover, amongst others, conflict of interest, abuse of power and insider trading.</p> <p>The Code of Ethics and Code of Conduct are included in the Board Charter as published at the Company's website.</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 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 | : | <p>In upholding high standards of corporate governance, the Board encourages genuine concerns regarding the ethics of business practices and employee conduct to be raised.</p> <p>As such, the Board has recently developed a Whistleblowing Policy to establish the underlying principles and processes for employees and stakeholders to raise concerns about illegal, unethical or questionable practices in confidence without fear of retaliation.</p> <p>Such misconducts may be reported electronically or in writing to Mr. Richard Kiew Jiat Fong, the Independent Chairman of the Audit Committee, who is the person authorised to receive all reports raised by whistle-blowers.</p> <p>Apart from setting out guidelines and confidential channels for suspicion of wrongdoings, malpractices or impropriety in the management of the Group’s business to be raised, the Whistleblowing Policy also provides for the investigation process of any alleged wrongdoings, providing confidentiality to the whistle-blower’s identity and protection against coercion or retaliation. All investigations are required to be completed within three (3) months after receiving the whistle-blower’s tip-off.</p> <p>The Board, together with Management, reviews the Whistleblowing Policy as and when the need arises to ensure it is kept contemporary.</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

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 | : | Departure |
| Explanation on application of the practice | : | |
| Explanation for departure | : | Currently the Board consists of eight (8) Members, comprising two (2) Executive Directors, three (3) Non-Independent Non-Executive Directors and three (3) Independent Non-Executive Directors (i.e. 38% of the Board are Independent Directors). This fulfils the Main Market Listing Requirement’s provision for at least one-third of Directors or two, whichever is higher, to be Independent Directors. |
| | | <p>The Board is supported by three (3) Board Committees, namely the Audit Committee (“AC”), Remuneration & Nomination Committee (“RNC”) and Risk Management Committee (“RMC”), which assist and provide recommendations to the Board in the respective areas as delegated by clear Terms of Reference for each of the Board Committees. The AC and RNC comprise solely of Non-Executive Directors, majority of whom are Independent Directors whilst the RMC comprise of two (2) Independent Non-Executive Director and the Deputy Managing Director. In carrying out their respective roles and responsibilities, the Board Committees delivers unbiased and objective deliberations and recommendations to the Board, providing a check and balance in the Board’s decision-making process.</p> <p>The independence of each Independent Director is also assessed by the RNC on an annual basis, upon readmission or when new interest or relationship develops through the Independent Directors’ self-declaration. The declaration includes compliance with definition of independence defined in the Bursa Securities’ Main Market Listing Requirements. All three (3) Independent Non-Executive Directors satisfy the independence criteria as set out in the Main Market Listing Requirements of Bursa Securities and are able to continue to demonstrate independent judgement and objectivity in the Board’s decision-making process.</p> <p>Moreover, the Board has appointed a Senior Independent Director to ensure the concerns of Independent Directors are being communicated during the Board meeting. This is further enhanced by having an Independent Director to chair the Board. As such, the Board opines that its current composition and structure allows for objectivity and impartiality in its decision making.</p> |
| <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 | : | Departure |
| Explanation on application of the practice | : | |
| Explanation for departure | : | <p>A resolution to extent the continuance of an Independent Director beyond the cumulative 9-year tenure is normally submitted for Shareholders' approval at each Annual General Meeting ("AGM"). In addition, the Board, through the Remuneration & Nomination Committee, assesses the independence of the relevant Independent Director before proposing to the Board to retain the said Director as an Independent Director.</p> <p>Having served a cumulative term of more than nine (9) years each, Dato' Abdul Majit bin Ahmad Khan and Mr. Richard Kiew Jiat Fong are being proposed to be retained as Independent Directors at the forthcoming AGM. The Board is satisfied that Dato' Abdul Majit bin Ahmad Khan and Mr. Richard Kiew Jiat Fong are able to exercise independent judgement and have the ability to act in the best interest of the Company.</p> <p>In addition, Dato' Abdul Majit bin Ahmad Khan will have served for a cumulative term of more than 12 years on 16 May 2019. However, the Board will not be adopting the two-tier voting process in the coming AGM for the retention of Dato' Abdul Majit bin Ahmad Khan as Independent Director.</p> <p>The Board is of the view that there is only one class of ordinary shares in the Company and the rights of the shareholders, including the right to vote, shall rank pari passu. This is irrespective of whether a shareholder is a "Large Shareholder" (as defined in the MCGG) or a shareholder other than such a "Large Shareholder". A resolution which is passed by a majority of shareholders must be regarded as having been validly passed as a matter of law irrespective of whether a majority of both the "Large Shareholders" and other shareholders had voted in favour of such a resolution as required in the MCGG. The Board is of the view that adopting the 2-tier voting process as prescribed by the MCGG for Independent Directors beyond the cumulative 12-year tenure would be incompatible with the Companies Act 2016.</p> <p>Accordingly, the Board will only seek shareholders' approval at the forthcoming AGM for the continuance of Dato' Abdul Majit bin Ahmad Khan as an Independent Director via the usual single-tier voting. The Board opines that this process is sufficient for the shareholders to provide sounding to the Board on the Independent Director who has served beyond the 12th year.</p> |
| <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

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 Remuneration & Nomination Committee (“RNC”) is tasked to identify and recommend to the Board, candidates for directorship.</p> <p>The RNC sources candidates for directorship, normally through recommendations of fellow Directors or major shareholders, and evaluates candidates based on their qualities, experience, skills, education, level of commitment and other factors that will best qualify a nominee to serve on the Board. In making the recommendation to the Board, the RNC takes into consideration the size, composition, mix of skills, experience, competencies and other qualities of the existing Board to facilitates the making of informed and critical decisions by the Board.</p> <p>The appointment of Senior Management is also based on merit and leadership skills, with due regard for diversity in skills, experience, age, cultural background and gender.</p> <p>The Board believes that diversity in skills and experience is fundamental towards good governance and in enhancing the effectiveness of the Board and Senior Management.</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

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 | : | Departure | |
| Explanation on application of the practice | : | | |
| Explanation for departure | : | The Board has not established a formal policy on gender diversity. | |
| | | <p>The Board believes that the on-boarding process of Directors needs to be evaluated based on the competency, time commitment, integrity and experience of the candidates in meeting the Company's needs.</p> <p>In evaluating candidates, the Remuneration & Nomination Committee applies the concept of meritocracy, with no specific preference to, nor discrimination against, any age group, cultural background or gender, in order to identify the right qualities in candidates without bias.</p> <p>With respect to addressing the gender diversity agenda, the Board has tasked itself to identify suitably qualified female Director, whenever the opportunity arises.</p> | |
| <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 | : | Departure |
| Explanation on application of the practice | : | |
| Explanation for departure | : | <p>In searching for suitably qualified candidates for the Group, a high regard and emphasis is placed on the ability of the candidate, who shall have the relevant skills and knowledge. In practice, upon the need to seek for a candidate for appointment to Directorship, the Remuneration & Nomination Committee will source for candidates via recommendations from existing Board members, Management or major shareholder.</p> <p>Before being appointed as a Director, the Board, via the Remuneration & Nomination Committee, assesses each candidate regardless of the source of the recommendation, based on amongst others, the candidate's qualities, experience, skills and education.</p> <p>The Board is of the view that this process has been working well towards enhancing the effectiveness of the Board. Moreover, through the recommendation of familiar parties, the Board is to a certain extent assured of the integrity of the candidates for directorship.</p> <p>Going forward, the Board will, nonetheless, consider sourcing candidates from external sources as one of the avenues, as promulgated by the Malaysian Code on Corporate Governance.</p> |
| <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 current Chairman of the Remuneration & Nomination Committee is Dato' Abdul Majit bin Ahmad Khan, a Senior Independent Director ("SID"), who was elected based on his exemplary leadership, experience with the Board and seniority amongst the Directors.</p> <p>Dato' Abdul Majit bin Ahmad Khan's roles and responsibilities as a SID are outlined in the Board Charter, which include the following:</p> <ul style="list-style-type: none"> • Ensures all Independent Directors are provided opportunity to provide input on the agenda and advise Board Chairman on the quantity, quality and timeliness of the information provided; • Consult Board Chairman on Board meeting schedules to ensure Independent Director can perform their duties and has sufficient time for discussion; • Serve as the principal conduit between the Independent Directors and the Chairman on sensitive issues; and • Serve as a designated contact for consultation and direct communication with shareholders and other stakeholders on areas that cannot be resolved through the normal channels of contact with the Board Chairman or Group Managing Director. |
| Explanation for departure | : | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | |
| Measure | : | |
| Timeframe | : | |

Intended Outcome

Stakeholders are able to form an opinion on the overall effectiveness of the board and individual directors.

Practice 5.1

The board should undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committees and each individual director. The board should disclose how the assessment was carried out and its outcome.

For Large Companies, the board engages independent experts periodically to facilitate objective and candid board evaluations.

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| Application : | Applied | | | |
| Explanation on application of the practice | The Remuneration & Nomination Committee ("RNC") facilitates and oversees the annual assessment of the Board, Board Committees, and individual Directors, including whether the Independent Directors fulfil the independence criteria set out in the Listing Requirements of Bursa Securities. Details of the assessment are as follows: | | | |
| | Assessment on | Performed by | Method | Assessment criteria |
| | Board and Board Committee performance | RNC and concurrence by the Board | Questionnaire with ratings and comments | <ul style="list-style-type: none"> • Board structure • Board roles and responsibilities • Independence and conflicts of interest among Directors • Quality and adequacy of information • Communication channel • Conduct of Boardroom activities |
| | Director's assessment | Assessment by RNC and self-assessment and concurrence by the Board | Questionnaire with ratings and comments | <ul style="list-style-type: none"> • Contribution during meetings • Time commitment • Quality of input • Effectiveness in discharge of duties • Understanding of roles |
| | Audit Committee ("AC") evaluation | RNC and concurrence by the Board | Questionnaire with ratings and comments | <ul style="list-style-type: none"> • Expertise • Quality, adequacy and timeliness of information • Adequacy of policies and procedures • Time commitment • Independence • Communication amongst the AC and to the Board • AC's roles and responsibilities |
| | Through the assessment conducted, the Board was satisfied that the Board Committees and members have carried out their duties in accordance with the Terms of Reference of the respective committees. | | | |
| Explanation for departure | | | | |
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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

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 recognises that in order to attract and retain the right talent to drive the Company's long-term objectives, it is important to have a fair and competitive remuneration package that is commensurate with Directors' and Senior Management's experience, skills, responsibilities, performance and contribution. In view of this, the Board has recently formalised a Remuneration Policy which outlines the guiding principles for determining the remuneration of Senior Management and Directors, including Executive and Non-Executive Directors.</p> <p>The Remuneration & Nomination Committee ("RNC") with guidance from the Group's Remuneration Policy, recommends the remuneration packages of the Executive and Non-Executive Directors as well as Senior Management for the Board's approval. During these meetings, individual Directors abstain themselves from the discussion in respect of their remuneration.</p> <p>The revised Group's Remuneration Policy was approved by the Board on 25 August 2018 and is made available on the Group's website at https://www.zecon.com.my</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 level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

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

Practice 6.2

The board has a Remuneration Committee to implement its policies and procedures on remuneration including reviewing and recommending matters relating to the remuneration of board and senior management.

The Committee has written Terms of Reference which deals with its authority and duties and these Terms are disclosed on the company's website.

| | | |
|--|---|--|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board has in place a Remuneration & Nomination Committee ("RNC") to ensure that remuneration policies and packages for Directors and Senior Management support the strategic aims of the Group's businesses and to enable the recruitment, motivation and retention of the right talents.</p> <p>The RNC is chaired by the Senior Independent Director and comprises solely Independent Directors. RNC is tasked to review and make recommendations to the Board with respect to the remuneration packages and benefits of individual Directors and Senior Management.</p> <p>It is the ultimate responsibility of the entire Board to approve the remuneration of the Executive Directors and Senior Management, and for the Board to recommend the Directors' fees and benefits to Shareholders for approval at the Annual General Meeting.</p> <p>The Terms of Reference of the RNC are made available on the Group's website at https://www.zecon.com.my/</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

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

Practice 7.1

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

| | | | | | | | |
|---|--|-------------|-----------------|----------------|-------------------------|-------------------------|------------------|
| Application : | Applied | | | | | | |
| Explanation on application of the practice : | The remuneration received by each of the Directors, on a named basis, from the Group and the Company for the financial year under review is set out in the tables below: | | | | | | |
| | Directors | Fees | Salaries | Bonuses | Other emoluments | Benefits in-kind | Total |
| | GROUP | RM | | | | | |
| | Non-Executive Director | | | | | | |
| | Datu Haji Hamzah bin Haji Drahman | 30,000 | - | - | 117,600 | - | 147,600 |
| | Datuk Dr. Haji Yusof @ Josree bin Haji Yacob <i>(Resigned on 26 April 2018)</i> | 12,000 | - | - | 92,500 | - | 104,500 |
| | Dato' Abdul Majit bin Ahmad Khan | 14,400 | - | - | 45,100 | - | 59,500 |
| | Richard Kiew Jiat Fong | 14,400 | - | - | 57,600 | - | 72,000 |
| | Datuk Haji Bolhassan bin Haji Di @ Ahmad bin D | 14,400 | - | - | 45,600 | - | 60,000 |
| | Hui Kok Yuan | 14,400 | 207,336 | - | 39,600 | - | 261,336 |
| | Sim Kheng Boon <i>(Resigned on 07 August 2018)</i> | 1,200 | - | - | 2,800 | - | 4,000 |
| | Haji Sazali bin Md Salleh <i>(Appointed on 02 October 2018)</i> | 10,800 | - | - | 29,700 | - | 40,500 |
| | Executive Director | | | | | | |
| | Datuk Haji Zainal Abidin bin Haji Ahmad | 14,400 | 1,392,720 | - | 64,476 | - | 1,471,596 |
| | Haji Zainurin bin Haji Ahmad | 14,400 | 575,424 | - | 60,876 | - | 650,700 |

| | COMPANY | RM | | | | | |
|--|--|--------|---------|---|---------|---|----------------|
| | Non-Executive Director | | | | | | |
| | Datu Haji Hamzah bin Haji Drahman | 30,000 | - | - | 117,600 | - | 147,600 |
| | Datuk Dr. Haji Yusof @ Josree bin Haji Yacob <i>(Resigned on 26 April 2018)</i> | 12,000 | - | - | 41,000 | - | 53,000 |
| | Dato' Abdul Majit bin Ahmad Khan | 14,400 | - | - | 45,100 | - | 59,500 |
| | Richard Kiew Jiat Fong | 14,400 | - | - | 57,600 | - | 72,000 |
| | Datuk Haji Bolhassan bin Haji Di @ Ahmad bin Di | 14,400 | - | - | 45,600 | - | 60,000 |
| | Hui Kok Yuan | 14,400 | - | - | 39,600 | - | 54,000 |
| | Sim Kheng Boon <i>(Resigned on 07 August 2018)</i> | 1,200 | - | - | 2,800 | - | 4,000 |
| | Haji Sazali bin Md Salleh <i>(Appointed on 02 October 2018)</i> | 10,800 | - | - | 29,700 | - | 40,500 |
| Executive Director* | | | | | | | |
| | Datuk Haji Zainal Abidin bin Haji Ahmad | 14,400 | 792,720 | - | 4,476 | - | 811,596 |
| | Haji Zainurin bin Haji Ahmad | 14,400 | 335,424 | - | 876 | - | 350,700 |
| <i>* The remuneration paid to the Executive Director were in respect of his employment with the Company/Group.</i> | | | | | | | |
| Explanation : for departure | | | | | | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | | | | | |
| Measure : | | | | | | | |
| Timeframe : | | | | | | | |

Intended Outcome

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

Practice 7.2

The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

| Application : | Departure | | | | | | | | | | | |
|--|---|-----------------------|---------------------------------------|---------------------|---|------------------------|---|------------------------|---|------------------------|---|--|
| Explanation on application of the practice : | | | | | | | | | | | | |
| Explanation for departure : | The Board is of the view that such disclosure may not be in the best interest of the Group due to confidentiality and security concerns, for example, vulnerability of these personnel being poached by competitors as well as potential disgruntlement amongst the personnel concerned when they note how much their fellow colleagues are drawing, notwithstanding that the disclosure is in bands of RM50,000 each. | | | | | | | | | | | |
| | As an Alternative, the Board believes that disclosure of its top 6 Senior Management's compensation and benefits packages received from the Group for the financial year under review in the bands of RM50,000 on an unnamed basis would provide pertinent insights to shareholders on whether such personnel, being top 6 Senior Management of the Group, are being remunerated responsibly and fairly with a view of attracting, motivating and retaining talents. Accordingly, the remuneration of the top 6 Senior Management in bands of RM50,000 on an unnamed basis, is set out below: | | | | | | | | | | | |
| | <table border="1"> <thead> <tr> <th>Range of Remuneration</th> <th>No. of Senior Management of the Group</th> </tr> </thead> <tbody> <tr> <td>Less than RM250,000</td> <td>2</td> </tr> <tr> <td>RM300,000 to RM350,000</td> <td>2</td> </tr> <tr> <td>RM400,000 to RM450,000</td> <td>1</td> </tr> <tr> <td>RM450,000 to RM500,000</td> <td>1</td> </tr> </tbody> </table> | Range of Remuneration | No. of Senior Management of the Group | Less than RM250,000 | 2 | RM300,000 to RM350,000 | 2 | RM400,000 to RM450,000 | 1 | RM450,000 to RM500,000 | 1 | |
| Range of Remuneration | No. of Senior Management of the Group | | | | | | | | | | | |
| Less than RM250,000 | 2 | | | | | | | | | | | |
| RM300,000 to RM350,000 | 2 | | | | | | | | | | | |
| RM400,000 to RM450,000 | 1 | | | | | | | | | | | |
| RM450,000 to RM500,000 | 1 | | | | | | | | | | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | | | | | | | | | | |
| Measure : | | | | | | | | | | | | |
| Timeframe : | | | | | | | | | | | | |

Intended Outcome

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

Practice 7.3 - Step Up

Companies are encouraged to fully disclose the detailed remuneration of each member of senior management on a named basis.

| | |
|--|-------------|
| Application : | Not Adopted |
| Explanation on adoption of the practice : | |

Intended Outcome

There is an effective and independent Audit Committee.

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

Practice 8.1

The Chairman of the Audit Committee is not the Chairman of the board.

| | | | |
|--|---|---|--|
| Application | : | Applied | |
| Explanation on application of the practice | : | The Audit Committee (“AC”) is chaired by Mr. Richard Kiew Jiat Fong, who is a member of the Malaysian Institute of Accountants, and is not the Chairman of the Board. The Chairman of the Board, Datu Haji Hamzah bin Haji Drahman is not a member of the AC. | |
| Explanation for departure | : | | |
| | | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

There is an effective and independent Audit Committee.

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

Practice 8.2

The Audit Committee has a policy that requires a former key audit partner to observe a cooling-off period of at least two years before being appointed as a member of the Audit Committee.

| | | | |
|--|---|--|--|
| Application | : | Departure | |
| Explanation on application of the practice | : | | |
| Explanation for departure | : | The Audit Committee ("AC") does not have a formalised 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 AC. | |
| | | Although this Practice does not form part of the AC's Terms of Reference, the Board has never appointed any former key audit partner as a member of its AC. The Company also does not have any intention to recruit a former key audit partner as its director in the foreseeable future. Nonetheless, the Board will consider formalisation of such policy if the need arises in the future. | |
| <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>On an annual basis, the AC assesses the performance of the External Auditors encompassing areas such as adequacy of their technical expertise, experience, skills, independence and objectivity as well as their audit fees and quality of communication.</p> <p>The AC has also obtained assurance from the External Auditors, Messrs. Crowe Malaysia, that they have remained independent throughout the engagement as External Auditors of the Company in accordance with the relevant professional and regulatory requirements in respect of the audited financial statements of the Group and Company for the financial year 2018.</p> <p>The AC was satisfied with the suitability, objectivity and independence of the External Auditors and recommended the re-appointment of Messrs. Crowe Malaysia as the External Auditors of the Company for the financial year 2019.</p> <p>The Board had endorsed the AC's recommendation for shareholders' approval to be sought for the re-appointment of Messrs. Crowe Malaysia at the forthcoming AGM in 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 : | 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 8.5

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 Chairman, Mr. Richard Kiew Jiat Fong, is a member of the Malaysian Institute of Accountants and fellow of The Institute of Chartered Accountants in England and Wales, The Association of Chartered Certified Accountants, United Kingdom, The Institute of Singapore Chartered Accountants and The Chartered Tax Institute of Malaysia. Accordingly, the Company complies with Paragraph 15.09(1)(c)(i) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.</p> <p>The members of the Audit Committee ("AC") are financially literate and are able to understand and grasp issues brought to their attention, including the financial reporting standards and processes.</p> <p>From time to time, whenever there are developments in financial reporting standards and requirements, the AC members are kept updated via the platform of their professional bodies, by the External Auditors or the Company Secretaries. For example, the members of the AC were briefed on the relevant changes to the financial reporting standards by the External Auditors at the AC meeting held during the financial year.</p> <p>The AC and its members are evaluated annually by the Remuneration & Nomination Committee ("RNC"), the criteria of which include structure, size, balance and composition of the AC, the required mix of skills and experience to discharge their responsibilities effectively and efficiently, the terms of office and performance of the AC and each of its members, to determine whether the AC and its members have carried out their duties in accordance with their terms of reference.</p> <p>The AC members are aware of the need to devote sufficient time to update their knowledge and enhance their skills through appropriate continuing education programmes, so as to enable them to sustain active participation during deliberations.</p> <p>The RNC has evaluated the performance and effectiveness of the AC, including contribution by each individual member. The RNC collectively resolved that the AC has discharged its responsibilities and functions as required and its members are financially literate with good experiences.</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 9.1

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

| | | |
|---|---|--|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>The Board acknowledges that it is ultimately responsible for the adequacy and effectiveness of the Group's system of risk management and internal controls to safeguard stakeholders' interests and the Group's assets. This is vital to ensure that the achievement of the overall Group objectives is supported by a robust risk management and internal control system where losses and liabilities arising from risks, uncertainty and random events are minimised, protected against and even avoided, if deemed necessary. However, such a system is designed to manage the Group's key risks to an acceptable level, rather than to eliminate the risks. Accordingly, due to inherent limitations in any system, the system of risk management and internal control can only provide reasonable but not absolute assurance against material misstatement of financial information and records or against financial losses or fraud.</p> <p>The Board, with the assistance of the Risk Management Committee ("RMC"), has established an ongoing process to identify, analyse, evaluate, manage, monitor and report key risks faced by the Group and has put in place a structured risk management framework.</p> <p>The system of internal control is continually reviewed and assessed by the Internal Audit Division, which was established as an in-house function of the Company. The Internal Audit Division reports directly to the Audit Committee and provides reasonable assurance through its internal audit works, which include the audit activities, presenting findings and recommendations, and follow-up on action plans devised to address any weaknesses in the internal control system, as agreed by Management. In carrying out its activities, the internal audit function has unrestricted access to relevant records, personnel and physical properties.</p> <p>Further details of the Group's Risk Management and Internal Control Frameworks can be found in the Statement of Risk Management and Internal Controls in the 2018 Annual Report.</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 9.2

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 recognises the immense importance of, and acknowledges its responsibility in, maintaining a sound and robust risk management and internal control system to safeguard shareholders’ investments and the Group’s assets. The Board, with the assistance of the Risk Management Committee (“RMC”) and Audit Committee (“AC”) ensures that a sound risk management and internal control system is in place.</p> <p>The Risk Management Framework outlines the Group’s risk management process which includes the identification and evaluation of risks, development of gross risks, identification of controls in place, evaluation of residual risks and formulation of management action plan. The Risk Management Framework also includes the setting of risk appetite through a Risk Assessment Matrix which quantifies the likelihood and impact of risks.</p> <p>As for the Group’s internal control system, it consists of continuous review and assessment of internal control by the Internal Audit Division, a formalised Financial Policies and Procedures Manual, risk management committees at various levels, ISO certifications and a structured process to monitor financial performance and related party transactions.</p> <p>Further details on the features of risk management and internal control are provided in the Statement on Risk Management and Internal Control in the 2018 Annual Report.</p> |
| Explanation for departure | : |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | |
| Measure | : |
| Timeframe | : |

Intended Outcome

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

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

Practice 9.3 - Step Up

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

| | | |
|--|---|---|
| Application | : | Adopted |
| Explanation on adoption of the practice | : | <p>The Board has established a Risk Management Committee ("RMC") which consists of three (3) members, comprising two (2) Independent Director and an Executive Director.</p> <p>With its composition made up of majority Independent Directors, the RMC is well positioned to oversee the risk management process, including having more objective deliberation of Group's exposure to significant risks and risk management initiatives from fresh perspectives.</p> |

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 Board has established an in-house Internal Audit (“IA”) Division for the Group which reports directly to the Audit Committee (“AC”). The IA Division is guided by an Internal Audit Manual (“IA Manual”) adopted to provide guiding principles and standards for the IA Division.</p> <p>The primary role of the Internal Audit Division, based on the IA Manual, is to provide independent, objective assurance and consulting services designed to improve and add value to the Group’s operations. A key responsibility of the IA function is to conduct periodic reviews and appraisals of the effectiveness of the governance, risk management and internal control system of the Group. The IA function and its activities are guided by the International Professional Practices Framework promulgated by the Institute of Internal Auditors Inc., a globally recognised professional body for internal auditors.</p> <p>Guided by the IA Manual, the IA Division is independent of the activities it audits to ensure it forms impartial views and unbiased judgements in its recommendations to the AC. As such, the IA Division, including all of its staff, is not involved in performing the day-to-day managerial operations of the Group.</p> <p>To ensure that the responsibilities of IA are properly discharged, the AC reviews the IA plan, programmes, processes, results of internal audit assessments, investigations undertaken and whether appropriate actions have been taken on IA’s recommendations.</p> <p>For the financial year under review, internal auditing activities of the Group were carried out based on the IA plan as approved by the AC. The results of these internal audit activities, including findings and action plans where necessary, were documented and reported to the AC.</p> <p>Further details on the function and activities undertaken by the Internal Audit Division are provided in the Audit Committee Report and Statement on Risk Management and Internal Control set out in the 2018 Annual Report.</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 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>The Internal Audit (“IA”) Manual specifies that the IA function shall be independent of the activities it audits to ensure that it forms impartial views and unbiased judgements in its recommendations to the AC. As such, the IA function, including all of its staff, is not involved in performing the day-to-day managerial operations of the Group. To ensure its independence, the IA Division reports directly to the Audit Committee (“AC”).</p> <p>The AC has, through the AC Report, disclosed that it has reviewed the adequacy of the scope, functions, competency and resources of the internal audit function to meet the requirement of the Group’s current operations structure and size.</p> <p>The IA function has three (3) personnel, headed by a General Manager, Mr. Rayan Narong, who is a Member of the Malaysian Institute of Accountants (“MIA”) and the Institute of Internal Auditors Malaysia (“IIAM”).</p> <p>All internal audit works are guided by the International Professional Practices Framework promulgated by the Institute of Internal Auditors Inc., a globally recognised professional body for internal auditors.</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 11.1

The board ensures there is effective, transparent and regular communication with its stakeholders.

| | | |
|---|---|---|
| Application | : | Applied |
| Explanation on application of the practice | : | <p>As part of the Group’s commitment towards ensuring that its communication with shareholders and various stakeholders is transparent, timely and of quality, the Group actively engages with all its stakeholders through various platforms, including via its corporate website at https://www.zecon.com.my/</p> <p>The Group has a dedicated “Investors Relations” section on its corporate website, which provides the relevant information of the Group, including disclosure of material information, quarterly financial reports, annual reports and Bursa Securities announcements. Any enquiries on investor related matters may be directed via the corporate website at https://www.zecon.com.my/contact/</p> <p>The annual report of the Company is also another main channel of communication between the Company and its shareholders as well as stakeholders. The annual report communicates comprehensive information on the financial results and activities undertaken by the Group.</p> <p>The Board also recognises the importance of shareholders’ participation in general meetings and encourages such participation. The Annual General Meeting of the Company provides the principal forum for dialogue and interaction between the Board and the shareholders. The participation of shareholders, both individuals and institutions at general meetings on clarifications of pertinent and relevant information is encouraged.</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 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 Group, which is not a Large Company under the definition of Paragraph 2.6 of the Malaysian Code on Corporate Governance, has yet to adopt integrated reporting. |
| | | To enable stakeholders to make informed decisions, the Group has disclosed in its Annual Report 2017 various statements in accordance with the requirements under the Main Market Listing Requirements of Bursa Securities. These include the Management Discussion and Analysis, Corporate Governance Overview Statement, Sustainability Statement, Audit Committee Statement and Statement on Risk Management and Internal Control. |
| <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

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 Company's 2017 AGM was held on 30 November 2017 and the notice for the AGM was issued on 27 October 2017, 34 days prior to the date of the AGM, in advance of the 21-day requirement of the Companies Act 2016 and the Listing Requirements, and 28 days recommended by the MCGG. The additional time given to the shareholders would allow them to have sufficient time to scrutinise the Annual Report and to consider the proposed resolutions tabled at the AGM. It also allowed the Shareholders to make the necessary arrangements to attend and participate in the AGM, either in person or through proxies. | |
| Explanation for departure | : | | |
| | | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.2

All directors attend General Meetings. The Chair of the Audit, Nominating, Risk Management and other committees provide meaningful response to questions addressed to them.

| | | | |
|--|---|---|--|
| Application | : | Applied | |
| Explanation on application of the practice | : | <p>All the Directors of the Company attended the Annual General Meeting (“AGM”) held on 30 November 2017. The Chairmen of the Audit Committee, Remuneration and Nomination Committee and Risk Management Committee were present to respond to any questions addressed to them.</p> <p>During the questions and answers (“Q&A”) session of the AGM, the Chairman of the Board invited shareholders to raise questions on matters deliberated before putting the resolution to vote. The Directors, including the Group Managing Director, Deputy Managing Director, Vice President of Corporate Finance & Account, Management and External Auditors were present to respond to shareholders’ queries. The Board and Management also presented the Group’s response to any written queries raised by the shareholders and Minority Shareholder Watchdog Group at the AGM.</p> | |
| Explanation for departure | : | | |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> | | | |
| Measure | : | | |
| Timeframe | : | | |

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.3

Listed companies with a large number of shareholders or which have meetings in remote locations should leverage technology to facilitate–

- including voting in absentia; and
- remote shareholders' participation at General Meetings.

| | | |
|--|---|--|
| Application | : | Departure |
| Explanation on application of the practice | : | |
| Explanation for departure | : | The Group has a relatively small base of shareholders. The last Extraordinary General Meeting on 6 April 2018 and Annual General Meeting (“AGM”) on 30 November 2017 were held in Kuching, the capital city of Sarawak, which is largely accessible by the Group’s shareholder base. As such, the Board has not applied the process of voting in absentia. |
| | | Nevertheless, the Board will consider the feasibility of leveraging on technology to facilitate voting in absentia and remote shareholders’ participation at the Group’s General Meeting, considering amongst others, the cost-benefit of such facilities, security concerns, etc. |
| <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. |

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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