

# CORPORATE GOVERNANCE REPORT

**STOCK CODE** : 5132  
**COMPANY NAME** : DELEUM BERHAD  
**FINANCIAL YEAR** : December 31, 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 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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| <b>Application</b>                                | : | Applied   |
| <b>Explanation on application of the practice</b> | : | <p>The Board establishes the vision and strategic objectives of the Group, directs the Company's strategic planning, financial, operational and resource management, key policies, risk assessment and management and provides effective oversight of Management and stewardship of the Group's resources towards realising the Vision of the Group.</p> <p>In preparing the strategies and budget for the Group for 2019, a pre-budget offsite meeting was held in October 2018 for the Board and the Group Managing Director to discourse on the business strategies and plans for 2019 and beyond, focusing on the challenging operating and trading environment. Prior to that, the Board held a meeting in September 2018 to engage with Key Management to discuss and set out the Group's strategies, operating and investments plans and budget for 2019 within the Group's risk tolerance levels.</p> <p>On 27 November 2018, the Board approved the Strategic Plan and Budget for 2019 of the Group. The Vision of the Group "To be the Market Leader in our Operating Segments domestically and a Regional Presence by 2020" remained unchanged.</p> <p>Details of the Board's leadership's role and responsibilities are disclosed in the Corporate Governance (CG) Overview Statement on pages 64 to 66 of the Annual Report.</p> |
| <b>Explanation for departure</b>                  | : |   |

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

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| <b>Measure</b> :   |  |  |
| <b>Timeframe</b> : |  |  |

### Intended Outcome

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

### Practice 1.2

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

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| <b>Application</b>   | : | Applied  |
| <b>Explanation on application of the practice</b>  | : | <p>The Chairman is appointed by the Board to preside over meetings of Directors and ensure the smooth functioning of the Board in the interest of good corporate governance. He encourages positive contributions of all Directors at Board meetings and promotes an environment for open, robust and effective debate between all Board members and allows for constructive and dissenting views to be freely expressed.</p> <p>He is primarily responsible for the orderly conduct and effective working of the Board, and acts as a liaison between the Board and Management.</p> |
| <b>Explanation for departure</b>   | : |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |  |
| <b>Measure</b>   | : |  |
| <b>Timeframe</b>   | : |  |

### Intended Outcome

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

### Practice 1.3

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

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| <b>Application</b>   | : | Applied  |
| <b>Explanation on application of the practice</b>  | : | Dato' Izham bin Mahmud is the Non-Independent Non-Executive Chairman who is the co-founder of the Company together with the Deputy Chairman. Encik Nan Yusri bin Nan Rahimy is the Group Managing Director of the Company. Their roles are separate and there is a clear division of responsibilities as defined in the Board Charter ensuring a balance of power and authority and further enhancing the independence of the Board. |
| <b>Explanation for departure</b>   | : |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |  |
| <b>Measure</b>   | : |  |
| <b>Timeframe</b>   | : |  |

### Intended Outcome

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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| <b>Application</b>   | : | Applied   |
| <b>Explanation on application of the practice</b>  | : | Ms Lee Sew Bee and Ms Lim Hooi Mooi, the Company Secretaries of the Company, are qualified Chartered Secretaries having the professional qualification of Institute of Chartered Secretaries and Administrators (ICSA), UK. They are members of The Malaysian ICSA (MAICSA) and each have more than thirty (30) years of experience in handling corporate secretarial matters.<br><br>They possess the necessary skill and knowledge in discharging their duties and undertake continuous professional development. |
| <b>Explanation for departure</b>   | : |   |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |
| <b>Measure</b>   | : |   |
| <b>Timeframe</b>   | : |   |

### Intended Outcome

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

### Practice 1.5

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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| <b>Application</b>   | : | Applied   |
| <b>Explanation on application of the practice</b>  | : | <p>Prior to the meetings, members of the Board are furnished with the meeting agenda that has been approved by the respective chairs together with the appropriate Board papers containing information relevant to the business of the meetings within a reasonable period and on average five (5) days before the meetings. Meeting papers are made available electronically and accessible via Company issued mobile devices. The papers are also available in hard copies when required.</p> <p>The minutes of Board and Board Committee meetings are circulated to all Directors in a timely manner for their perusal and comment, if any, prior to confirmation.</p> |
| <b>Explanation for departure</b>   | : |   |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |
| <b>Measure</b>   | : |   |
| <b>Timeframe</b>   | : |   |

### Intended Outcome

There is 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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| <b>Application</b>   | : | Applied   |
| <b>Explanation on application of the practice</b>  | : | <p>The Board charter is available on the Company's corporate website <a href="http://www.deleum.com">www.deleum.com</a> which sets out, amongst others:</p> <ul style="list-style-type: none"><li>- composition of the Board;</li><li>- duties and responsibilities of the Board;</li><li>- division of responsibilities and powers between Chairman, Deputy Chairman and Group Managing Director;</li><li>- responsibilities of the Independent Non-Executive Directors and Senior Independent Director;</li><li>- matters reserved for the Board as well as those which the Board may delegate to the Board Committees, Group Managing Director and Management;</li><li>- establishment of Board Committees; and</li><li>- processes and procedures for convening Board meetings as well as operations and processes of the Board to promote the standards of corporate governance in line with the Group's shared values.</li></ul> <p>The Board Charter which was adopted by the Board in 2012 was last reviewed and revised in March 2019.</p> |
| <b>Explanation for departure</b>   | : |   |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |
| <b>Measure</b>   | : |   |
| <b>Timeframe</b>   | : |   |

### Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

### Practice 3.1

The board establishes a Code of Conduct and Ethics for the company, and together with management implements its policies and procedures, which include managing conflicts of interest, preventing the abuse of power, corruption, insider trading and money laundering.

The Code of Conduct and Ethics is published on the company's website.

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| <b>Application</b>                                | : Applied   |
| <b>Explanation on application of the practice</b> | <p>Deleum has established a Code of Business Conduct (COBC) as a guidance to be followed by the Directors and employees as well as its contractors, subcontractors, consultants, agents and other service providers with regard to the Group's standard of integrity and rules of conduct to be observed in the performance of work and business practices.</p> <p>Employees were briefed on the COBC and other key policies of the Group by the Human Resource Department to ensure their awareness and conformity of the same. Employees are also required to ascertain their understanding of the COBC via annual awareness test through a set of questionnaires in bilingual (English and Bahasa Malaysia) administered by the Human Resource Department. The COBC and the questionnaires are accessible via the Group's intranet and corporate website. To ensure that all employees are aware of and familiar with the COBC, briefings are conducted at office locations in Miri, Labuan and Kemaman.</p> <p>During the financial year 2018, separate tests were conducted for Executive and Non-Executive employees accordingly, and all employees including Board of Directors had successfully participated in the test.</p> <p>In addition, the Board has also adopted and implemented a Directors' Code of Ethics which outlines certain standards of business conduct and ethical behavior to be observed by all Directors in discharging their duties and responsibilities.</p> <p>Both the COBC and Directors' Code of Ethics are available on the Company's corporate website.</p> |

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| <b>Explanation for departure</b> :   |  |  |
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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> |  |  |
| <b>Measure</b> :   |  |  |
| <b>Timeframe</b> :   |  |  |

## Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

### Practice 3.2

The board establishes, reviews and together with management implements policies and procedures on whistleblowing.

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| <b>Application</b>  | : | Applied  |
| <b>Explanation on application of the practice</b>   | : | <p>The Board has established a Whistleblowing Policy to provide an avenue to facilitate employees of the Group and external parties to report any wrongdoings and provide assurance of protection in accordance with the procedures of the policy. Key provisions of the policy include the commitment to non-victimization, maintenance of strict confidentiality and the procedures and processes governing any investigation. All cases will be dealt with in accordance with the policy and the investigation procedures. There was no case reported in 2018 via the Whistleblowing channel.</p> <p>The objective and purpose of the policy have been communicated and socialised to the employees and relevant parties.</p> <p>The policy is available on the Company's corporate website. It is reviewed regularly and was last updated in May 2018.</p> |
| <b>Explanation for departure</b>  | : |  |
| <p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p> |   |  |
| <b>Measure</b>  | : |  |
| <b>Timeframe</b>  | : |  |

### Intended Outcome

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

### Practice 4.1

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

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| <b>Application</b>   | : | Applied  |
| <b>Explanation on application of the practice</b>  | : | <p>Throughout the financial year 2018, the Board comprised of seven (7) Directors with four (4) Independent Directors and three (3) Non-Independent Directors. The Board has a majority Independent Directors. The Independent Directors provide unbiased views and objectivity in deliberations. They bring a wide range of experience and expertise to the Group's affairs, and carry significant weight in the Board's decision.</p> <p>The Board composition is well balanced to achieve the promotion of shareholders' interest and effective governance of the business.</p> |
| <b>Explanation for departure</b>   | : |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |  |
| <b>Measure</b>   | : |  |
| <b>Timeframe</b>   | : |  |

### Intended Outcome

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

### Practice 4.2

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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| <b>Application</b>   | : | Applied - Annual shareholders' approval for independent directors serving beyond 9 years  |
| <b>Explanation on application of the practice</b>  | : | <p>During the financial year 2018, two (2) Independent Directors, Datuk Ishak bin Imam Abas and Datuk Chin Kwai Yoong, have served more than nine (9) years but less than 12 years.</p> <p>The Joint Remuneration and Nomination Committee and the Board had assessed, reviewed and determined that Datuk Ishak and Datuk Chin have remained objective and continued to be independent and unbiased in expressing their views and in participating in deliberations. The Board then recommended the resolutions to the shareholders at the AGM held on 16 May 2018 (13<sup>th</sup> AGM) to seek approval from the shareholders to retain them as Independent Directors.</p> <p>The members present at the 13th AGM supported the recommendation to retain them with a majority of 99.9%.</p> |
| <b>Explanation for departure</b>   | : |   |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |
| <b>Measure</b>   | : |   |
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**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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| <b>Application</b>                             | : | Not Adopted |
| <b>Explanation on adoption of the practice</b> | : |             |

## Intended Outcome

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

### Practice 4.4

Appointment of board and senior management are based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender.

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| <b>Application</b>  | : | Applied  |
| <b>Explanation on application of the practice</b>   | : | <p>Appointments to the Board are based on good blend of competencies, skills, merits, extensive experience and knowledge and contribution to the overall working of the Board and the needs of the Group. Due considerations are given to the individual's skills, industry experience and knowledge, character, integrity and time to effectively discharge his or her role and responsibilities.</p> <p>No Director was appointed in financial year 2018.</p> <p>Diversity in relation to the Group's workforce is covered under the Equal Opportunity Policy of equal pay for equal value. Deleum is committed to provide fair and equal opportunity in employment and nurturing with the Group regardless of race, nationality, ethnic origin, age, religion or belief, gender, marital status, disability, or any other characteristic unrelated to the performance of the job. Recruitment and appointment of Senior Management and staff are based on a candidate's background, qualifications, experience and competency per the requirements of the job function taking into consideration workforce diversity and any applicable regulatory requirements.</p> <p>As at 31 December 2018, the workforce of the Group comprised 1,818 employees in the proportion of 87% male and 13% female. The higher ratio of male employees is due to the nature of the Group's activities which are largely performed offshore. Currently, there are 29 employees holding senior management positions of the Group, of which seven (7) are female.</p> |
| <b>Explanation for departure</b>  | : |  |
| <p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p> |   |  |
| <b>Measure</b>  | : |  |

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### 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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| <b>Application</b>   | : | Applied   |
| <b>Explanation on application of the practice</b>  | : | <p>The Company's Board gender diversity policy is to have at least one (1) female Director. The Company has on 1 January 2015 appointed Datuk Noor Azian binti Shaari, its first female Director to the Board.</p> <p>The Board will endeavour to meet the target of at least 30% women directors based on merits and effective blend of skills, experience and knowledge in areas identified, the size of the Board and the needs of the Company. The Board will do so to ensure there is greater women representation on the Board if the candidates are of equal standing.</p> |
| <b>Explanation for departure</b>   | : |   |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |
| <b>Measure</b>   | : |   |
| <b>Timeframe</b>   | : |   |

## Intended Outcome

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

### Practice 4.6

In identifying candidates for appointment of directors, the board does not solely rely on recommendations from existing board members, management or major shareholders. The board utilises independent sources to identify suitably qualified candidates.

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| <b>Application</b>  | : | Applied  |
| <b>Explanation on application of the practice</b>   | : | <p>During financial year 2018, there was no appointment of Directors to the Board.</p> <p>Selection of candidates to be considered for appointment as Directors is facilitated through recommendations from the Directors, major shareholders, Management or external parties including the Company's contacts in related industries, finance, legal and accounting professions. The Board will also consider sourcing candidates from other independent channels.</p> |
| <b>Explanation for departure</b>  | : |  |
| <p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p> |   |  |
| <b>Measure</b>  | : |  |
| <b>Timeframe</b>  | : |  |

### Intended Outcome

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

### Practice 4.7

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

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| <b>Application</b>   | : | Applied   |  |
| <b>Explanation on application of the practice</b>  | : | The Nominating Committee of Deleum is combined with the Remuneration Committee and known as Joint Remuneration and Nomination Committee (JRNC). The JRNC is chaired by Datuk Ir (Dr) Abdul Rahim bin Hashim, the Senior Independent Director. |  |
| <b>Explanation for departure</b>   | : |   |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |  |
| <b>Measure</b>   | : |   |  |
| <b>Timeframe</b>   | : |   |  |

## Intended Outcome

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

### Practice 5.1

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

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

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| <b>Application</b>                                | : | Applied   |
| <b>Explanation on application of the practice</b> | : | <p>The Board through the Joint Remuneration and Nomination Committee (JRNC) and facilitated by the Company Secretary, annually assesses the effectiveness of the Board as a whole, Board Committees and the contribution of each individual Director.</p> <p>In January 2019, questionnaires were digitalised for completion by each member of the Board and Board Committees for online assessment in respect of the Board of Directors, individual Directors and Board Committees for the financial year 2018. The parameters used in the assessment are as below:</p> <ul style="list-style-type: none"><li>• Board as a whole - structure, operation and interaction as well as Board's roles and responsibilities;</li><li>• Individual Directors - contribution to interaction, quality of input, understanding of his/her role and training needs;</li><li>• Independent Directors are further measured on his/her ability to exercise independent judgement and ability to demonstrate the values and principles associated with independence; and</li><li>• Board Committees namely Audit Committee, JRNC and Board Risk Committee - structure and composition, operation and interaction, accountability and responsibilities.</li></ul> <p>During the meeting held in February 2019, summary of results of the assessments were tabled at the JRNC meeting for deliberation. Subsequently, the Chairman of the JRNC made an oral presentation to the Board based on the results of the assessments at the Board meeting held on 25 February 2019.</p> <p>The outcome of the evaluation highlighted certain key focus areas and future priorities for the Board's consideration, amongst others, including the following:</p> <ul style="list-style-type: none"><li>• enhancement in risk assessment holistically and ensuring effective implementation of mitigation action plans and meeting business objectives.</li></ul> |

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|  | <ul style="list-style-type: none"> <li>• consideration for Board membership, persons with IT knowledge and expertise especially one with exposures to cyber security and risks, and with skills of a qualified engineer with operational experience on platforms and rigs.</li> <li>• revisit the LTIP which was aimed at driving performance and as a retention strategy for senior management and key personnel.</li> </ul> <p>At the Board meeting held on 25 February 2019, the Board confirmed that:</p> <ul style="list-style-type: none"> <li>• the Board's size and composition is appropriate given the scale of the Group's business and operations, and well balanced, thereby constituting an effective Board able to discharge its duties professionally and efficiently;</li> <li>• individual Directors of the Company possessed the required competence and character to manage the Group's affairs and created value for the organisation and its shareholders; and</li> <li>• the Board Committees are effective in discharging their duties and responsibilities in accordance with their Terms of Reference.</li> </ul> |
| <b>Explanation for departure</b> :   |   |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |
| <b>Measure</b> :   |   |
| <b>Timeframe</b> :   |   |

## Intended Outcome

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

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

### Practice 6.1

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

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|---|---|---|
| <b>Application</b>                                | : | Applied   |
| <b>Explanation on application of the practice</b> | : | <p>The Company has in place procedures to determine the remuneration of Executive Director and Senior Management as follows:</p> <ol style="list-style-type: none"><li>1. Group Managing Director (GMD)'s remuneration is reviewed and deliberated by Joint Remuneration and Nomination Committee (JRNC) and approved by the Board of Directors on recommendation of the JRNC.</li><li>2. Senior Management's remuneration is proposed and recommended by GMD and presented to JRNC for review and recommendation to Board for approval.</li></ol> <p>Where the Senior Management personnel is not direct reportee of GMD, the respective Chief Executive Officers of the subsidiaries of the Group or the functional heads will propose and give recommendation to GMD.</p> <p>The Company has in place a remuneration framework for the Directors and the Key Senior Management personnel which takes into account the demands, complexities and performance of the Company as well as skills and experience required. The objective of the Group's remuneration policies is to provide fair and competitive remuneration to its Board and Senior Management for retaining a high quality team for the Group.</p> <p>The Non-Executive Directors' Remuneration Framework and the Remuneration Framework for Executive Directors and Key Senior Management are available on the Company's corporate website. The detailed remuneration of GMD, Non-Executive Directors and the top five (5) Key Senior Management personnel are disclosed in the CG Overview Statement on pages 81 to 85 of the Annual Report.</p> |

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| <b>Explanation for departure</b> :   |  |  |
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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> |  |  |
| <b>Measure</b> :   |  |  |
| <b>Timeframe</b> :   |  |  |

## Intended Outcome

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

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

### Practice 6.2

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

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

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| <b>Application</b>   | : | Applied   |  |
| <b>Explanation on application of the practice</b>  | : | <p>The Joint Remuneration and Nomination Committee (JRNC) reviews and recommends matters relating to the remuneration of Board and Senior Management.</p> <p>The JRNC has written Terms of Reference which deals with its authority and duties and is available on the Company's corporate website.</p> |  |
| <b>Explanation for departure</b>   | : |   |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |  |
| <b>Measure</b>   | : |   |  |
| <b>Timeframe</b>   | : |   |  |

**Intended Outcome**

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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| <b>Application</b>   | : | Applied   |  |
| <b>Explanation on application of the practice</b>  | : | The details of the remuneration of each individual Director on named basis are disclosed in the CG Overview Statement on pages 81 to 84 of the Annual Report. |  |
| <b>Explanation for departure</b>   | : |   |  |
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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> |   |   |  |
| <b>Measure</b>   | : |   |  |
| <b>Timeframe</b>   | : |   |  |

### Intended Outcome

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

### Practice 7.2

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

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| <b>Application</b>   | : | Departure  |
| <b>Explanation on application of the practice</b>  | : |  |
| <b>Explanation for departure</b>   | : | <p>While the Company notes the need for corporate transparency on the remuneration of key senior management executives, the disclosure of details on a named basis may be detrimental to its business interests, given the competitive human capital environment for personnel with the requisite knowledge, expertise and experience of the Company's business activities.</p> <p>The Board believes that the interest of the shareholders will not be prejudiced as a result of the non-disclosure on a named basis the remuneration within the disclosure bands of the Group's top five (5) senior management who are not Directors.</p> <p>To provide an insight of the level of remuneration paid to the top five (5) senior management, the alternative disclosure is adopted whereby their aggregate total remuneration with breakdowns and in the bands RM50,000 in number are disclosed in the CG Overview Statement on pages 84 and 85 of the Annual Report instead of on named basis. This is in line with the spirit of the disclosure guidelines and in the interest of the employees concerned and shareholders.</p> |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |  |
| <b>Measure</b>   | : | Please explain the measure(s) the company has taken or intend to take to adopt the practice.   |
| <b>Timeframe</b>   | : | 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.

|  |   |             |
|--|---|-------------|
| <b>Application</b>                             | : | Not Adopted |
| <b>Explanation on adoption of the practice</b> | : |             |

**Intended Outcome**

There is an effective and independent Audit Committee.

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

**Practice 8.1**

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

|  |   |   |  |
|--|---|---|--|
| <b>Application</b>   | : | Applied   |  |
| <b>Explanation on application of the practice</b>  | : | The Chairman of the Company’s Audit Committee is neither the Chairman of the Board nor other Board Committees as the Board acknowledges that the Audit Committee should function as an independent and objective body to ensure the integrity of financial reporting process and accounting records of the Group. |  |
| <b>Explanation for departure</b>   | : |   |  |
|  |   |   |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |  |
| <b>Measure</b>   | : |   |  |
| <b>Timeframe</b>   | : |   |  |

**Intended Outcome**

There is an effective and independent Audit Committee.

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

**Practice 8.2**

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

|  |   |  |  |
|--|---|--|--|
| <b>Application</b>   | : | Applied  |  |
| <b>Explanation on application of the practice</b>  | : | The Board and the Audit Committee has a policy requiring a former key audit partner to observe a "cooling-off" period of at least two (2) years before being appointed as a member of the Audit Committee. |  |
| <b>Explanation for departure</b>   | : |  |  |
|  |   |  |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |  |  |
| <b>Measure</b>   | : |  |  |
| <b>Timeframe</b>   | : |  |  |

**Intended Outcome**

There is an effective and independent Audit Committee.

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

**Practice 8.3**

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

|  |   |   |  |
|--|---|---|--|
| <b>Application</b>   | : | Applied   |  |
| <b>Explanation on application of the practice</b>  | : | The "Policy for Evaluation of Suitability and Independence of External Auditors" has been established as a guide to assess the suitability, objectivity and independence of the external auditor. |  |
| <b>Explanation for departure</b>   | : |   |  |
|  |   |   |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |  |
| <b>Measure</b>   | : |   |  |
| <b>Timeframe</b>   | : |   |  |

**Intended Outcome**

There is an effective and independent Audit Committee.

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

**Practice 8.4 - Step Up**

The Audit Committee should comprise solely of Independent Directors.

|  |   |  |
|--|---|--|
| <b>Application</b>                             | : | Adopted  |
| <b>Explanation on adoption of the practice</b> | : | During the financial year 2018, the Audit Committee comprised solely of three (3) Independent Non-Executive Directors. |

## Intended Outcome

There is an effective and independent Audit Committee.

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

### Practice 8.5

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

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

|   |   |   |
|---|---|---|
| <b>Application</b>                                | : | Applied   |
| <b>Explanation on application of the practice</b> | : | <p>Throughout the financial year 2018, the Audit Committee comprised solely of three (3) Independent Non-Executive Directors who come from different professional and business backgrounds with two (2) members from the accounting background and are members of the Malaysian Institute of Accountants (MIA).</p> <p>The members of the Audit Committee have sufficient understanding of the Group's business to continuously apply a critical and probing view on the Company's financial reporting process, transactions and other financial information.</p> <p>The members of the Audit Committee are briefed by Management, external and internal auditors and external consultants on corporate governance practices, changes to accounting, taxation, auditing and reporting requirements as well as the Listing Requirements and Companies Act 2016.</p> <p>During the financial year 2018, the Audit Committee members attended seminars and training sessions offered by regulators and other appropriate bodies or organisations including the following:</p> <ul style="list-style-type: none"><li>- Updates on Changes to Company Law and Listing Requirements</li><li>- Breakfast Series "Companies of the Future - The Role for Boards</li><li>- Budget Dialogue with the Minister of Finance and PwC</li><li>- Corporate Governance Briefing Sessions : MSSG Reporting &amp; CG Guide</li></ul> |
| <b>Explanation for departure</b>                  | : |   |

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

**Intended Outcome**

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

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

**Practice 9.1**

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

|   |   |  |
|---|---|--|
| <b>Application</b>  | : | Applied  |
| <b>Explanation on application of the practice</b>   | : | <p>The Board through the Board Risk Committee oversees the implementation of the Group’s risk management framework. It ensures the Group has in place a sound enterprise risk management framework and such framework has been effectively implemented to enhance the Group’s ability to achieve its strategic objectives. Management Risk Committee is charged with managing risk on a day-to-day basis.</p> <p>The Group has established the Enterprise Risk Management (ERM) Framework which is consistent with The Committee of Sponsoring Organizations of the Treadway Commission’s (COSO) ERM framework in running the risk management functions. The Group has also adopted the Project Risk Management Guideline.</p> |
| <b>Explanation for departure</b>  | : |  |
| <p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p> |   |  |
| <b>Measure</b>  | : |  |
| <b>Timeframe</b>  | : |  |

## Intended Outcome

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

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

### Practice 9.2

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

|   |   |  |
|---|---|--|
| <b>Application</b>  | : | Applied  |
| <b>Explanation on application of the practice</b>   | : | <p>The Board through the Statement on Risk Management and Internal Control has described how risk management and internal control frameworks have been effectively implemented through the establishment of Board Risk Committee and Management Risk Committee.</p> <p>The Board Risk Committee shall review the effectiveness of the risk management process and reports arising from risk management activities and also to discuss new and emerging risks. The Management Risk Committee was established to manage risks on a dynamic basis given that risks are inherent in Deleum's businesses.</p> <p>Risk activities conducted during the year included the following:</p> <ol style="list-style-type: none"> <li>1. management of Group's key risks;</li> <li>2. Control Self-Assessment Checklist; and</li> <li>3. risk briefings and awareness sessions.</li> </ol> <p>The Board has put in place various control structure such as:</p> <ol style="list-style-type: none"> <li>1. the Board Committees with its defined responsibilities;</li> <li>2. strategic business planning, budget and reporting;</li> <li>3. Group values and Code of Business Conduct;</li> <li>4. Whistleblowing policy;</li> <li>5. authorisation limits;</li> <li>6. documented internal policies and procedures; and</li> <li>7. quality systems.</li> </ol> <p>Detail information on the Group's risk management and internal control is presented in the Statement on Risk Management and Internal Control on pages 90 to 96 of the Annual Report.</p> |
| <b>Explanation for departure</b>  | : |  |
| <p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p> |   |  |

|                  |   |  |  |
|------------------|---|--|--|
| <b>Measure</b>   | : |  |  |
| <b>Timeframe</b> | : |  |  |

### **Intended Outcome**

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

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

### **Practice 9.3 - Step Up**

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

|  |   |  |
|--|---|--|
| <b>Application</b>                             | : | Adopted  |
| <b>Explanation on adoption of the practice</b> | : | The Board Risk Committee was established since July 2009.<br>Throughout the financial year 2018, the Board Risk Committee has a majority of Independent Directors comprising two (2) Independent Directors and one (1) Non-Independent Director. |

## Intended Outcome

Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

### Practice 10.1

The Audit Committee should ensure that the internal audit function is effective and able to function independently.

|   |   |  |
|---|---|--|
| <b>Application</b>  | : | Applied  |
| <b>Explanation on application of the practice</b>   | : | <p>The Company engaged the services of BDO Governance Advisory Sdn. Bhd. (BDO), a well-established firm that complies with the International Professional Practices Framework issued by the Institute of Internal Auditors (IIA), as the outsourced Internal Audit Function (IAF). The IAF reports directly to the Audit Committee and is independent of Management. It has full access to the Group's entities, records and personnel.</p> <p>The IAF is effective and able to function independently of the activities it audits. It has, and has exercised, direct access to the members of the Audit Committee as deemed necessary.</p> <p>The leaderships and key members of the IAF team have worked on the Company's internal audit engagements consistently and has built up a good understanding of the Group's business and the peculiarities of the industry in which the Group operates.</p> |
| <b>Explanation for departure</b>  | : |  |
| <p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p> |   |  |
| <b>Measure</b>  | : |  |
| <b>Timeframe</b>  | : |  |

## Intended Outcome

Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

### Practice 10.2

The board should disclose–

- whether internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence;
- the number of resources in the internal audit department;
- name and qualification of the person responsible for internal audit; and
- whether the internal audit function is carried out in accordance with a recognised framework.

|  |   |   |  |
|--|---|---|--|
| <b>Application</b>   | : | Applied   |  |
| <b>Explanation on application of the practice</b>  | : | <p>As disclosed in Practice 10.1 above, the Audit Committee is supported by BDO Governance Advisory Sdn. Bhd. (BDO) as the outsourced Internal Audit Function (IAF). The IAF is free from any relationships or conflicts of interest, which could impair their objectivity and independence.</p> <p>BDO has no relationship with the Group and is independent from Management, staff, Directors and substantial shareholders. The Audit Committee is of the opinion that BDO is independent and objective in carrying out its role as IAF.</p> <p>The IAF is carried out in accordance with The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. In carrying out the internal audit for the Group, the IAF team is headed by an Executive Director of BDO who possesses the relevant qualifications and experience and assisted by no fewer than four (4) staff including a senior manager.</p> |  |
| <b>Explanation for departure</b>   | : |   |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |  |
| <b>Measure</b>   | : |   |  |
| <b>Timeframe</b>   | : |   |  |

### Intended Outcome

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

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

### Practice 11.1

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

|   |   |   |
|---|---|---|
| <b>Application</b>                                | : | Applied   |
| <b>Explanation on application of the practice</b> | : | <p>The Board values the need to have effective open dialogue with its stakeholders and has established processes to ensure disclosures and announcements and other communications made are clear, accurate, relevant and timely for the stakeholder to make informed decisions and enjoy equal access to the information.</p> <p>During the financial year 2018, the Group held two (2) analyst briefings to provide updates to the investment community. Additional group briefings, private meetings, tele-conferences, and media related interviews were also held as and when required. During AGM, the Chairman provided ample time for shareholders to participate in the Questions and Answers session.</p> <p>Deleum's corporate website at <a href="http://www.deleum.com">www.deleum.com</a> provides quick access to the corporate information of the Group and is regularly updated to incorporate the latest development of the Group. The Group's corporate information, financial results, governance information, statutory announcements, stock information, press release and corporate related activities are assessable via the Company's corporate website. The website also has an e-mail alerts service where shareholders and anyone who are interested may register to receive the latest announcements on the Group via e-mail.</p> <p>Details on the shareholders and investors relations are disclosed in Section C - "Integrity in Corporate Reporting and Meaningful Relationship with Stakeholders" of the CG Overview Statement on pages 88 to 89 of the Annual Report.</p> |
| <b>Explanation for departure</b>                  | : |   |

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

|                  |   |  |  |
|------------------|---|--|--|
| <b>Measure</b>   | : |  |  |
| <b>Timeframe</b> | : |  |  |

## Intended Outcome

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

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

## Practice 11.2

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

|  |   |  |  |
|--|---|--|--|
| <b>Application</b>   | : | Applied  |  |
| <b>Explanation on application of the practice</b>  | : | As Deleum Berhad is not under the "Large Companies" category, it has not adopted integrated reporting. |  |
| <b>Explanation for departure</b>   | : |  |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |  |  |
| <b>Measure</b>   | : |  |  |
| <b>Timeframe</b>   | : |  |  |

## Intended Outcome

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

### Practice 12.1

Notice for an Annual General Meeting should be given to the shareholders at least 28 days prior to the meeting.

|  |   |   |
|--|---|---|
| <b>Application</b>   | : | Applied   |
| <b>Explanation on application of the practice</b>  | : | <p>The last AGM was held on 16 May 2018 and the Notice convening the AGM was sent to shareholders on 17 April 2018 which is at least 28 days prior to the AGM in accordance with the Code, which also meets the criteria of the Listing Requirements and Companies Act 2016, which require the Notice of AGM to be sent 21 days prior to the AGM.</p> <p>The forthcoming Fourteenth AGM of the Company will be convened and held on 14 May 2019. The Notice of the 2019 AGM has been sent to shareholders on 15 April 2019 together with the Audited Financial Statements and agenda for the meeting.</p> |
| <b>Explanation for departure</b>   | : |   |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |
| <b>Measure</b>   | : |   |
| <b>Timeframe</b>   | : |   |

**Intended Outcome**

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

**Practice 12.2**

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

|  |   |  |  |
|--|---|--|--|
| <b>Application</b>   | : | Applied  |  |
| <b>Explanation on application of the practice</b>  | : | All Directors including the Chairman of the Audit Committee, Joint Remuneration and Nomination Committee and Board Risk Committee as well as the external auditors were present at the last AGM held on 16 May 2018. |  |
| <b>Explanation for departure</b>   | : |  |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |  |  |
| <b>Measure</b>   | : |  |  |
| <b>Timeframe</b>   | : |  |  |

## Intended Outcome

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

### Practice 12.3

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

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

|  |   |   |
|--|---|---|
| <b>Application</b>   | : | Applied   |
| <b>Explanation on application of the practice</b>  | : | <p>Deleum Berhad having a shareholders base of approximately 5,000 is not considered as having a large number of shareholders.</p> <p>Voting in absentia is not practised as Annual General Meetings (AGM) have always been held at the same venue at Sime Darby Convention Centre, Kuala Lumpur for the past many years which is easily accessible and familiar to most shareholders. Shareholders who are unable to attend the meetings are allowed to appoint any person(s) as their proxies to attend and vote on their behalf. The need to leverage and adopt the latest technology is not viable at this juncture.</p> <p>The Company had implemented poll voting at the 13th AGM held on 16 May 2018 for all resolutions as set out in the notice of the AGM and leveraged on the technology to facilitate electronic voting for the conduct of poll. The poll results of each resolution were announced to Bursa Malaysia Securities Berhad after the AGM via Bursa LINK on the same day and posted on the Company's corporate website.</p> <p>Summary of key matters discussed at the 13th AGM were made available on the Company's website.</p> |
| <b>Explanation for departure</b>   | : |   |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |
| <b>Measure</b>   | : |   |
| <b>Timeframe</b>   | : |   |

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

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

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