

CORPORATE GOVERNANCE REPORT

STOCK CODE : 5186
COMPANY NAME : Malaysia Marine and Heavy Engineering Holdings 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 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.

Application	:	Applied
Explanation on application of the practice	:	<p>Together with senior management, promote good corporate governance culture within the company which reinforces ethical, prudent and professional behaviour</p> <p>The Group has in place policies and procedures which promotes a culture of good governance and ethical, prudent and professional behaviour. Such policies include the Code of Conduct and Business Ethics for our Directors and staff and our procedures on Whistleblowing.</p> <p>Review, challenge and decide on management's proposals for the company and monitor its implementation by management</p> <p>The Board plays an active roles in the development of the Group's strategic plans and direction. On annual basis, together with the Group's Senior General Managers and Heads of Divisions, the Board conducts dedicated sessions to discuss its long-term strategic objectives. These 'deep dive' sessions provide an opportunity for the Board to engage in robust discussions with members of the senior management to deliberate, challenge and approve the broad strategic proposals.</p> <p>Ensure that the strategic plan of the company supports the long-term value creation and includes strategies on the economic, environmental and social considerations underpinning sustainability</p> <p>The Board plays an active role in the development of the Company's strategies and business plan. A dedicated Special Board Meeting is held in the third quarter each year to consider the broad plans of the Company for growth and Management's proposed strategic initiatives covering short-term, medium term and long-term scenarios. Based on the guiding parameters provided by the Board and inputs obtained from the External Environment Analysis, Management develops the</p>

	<p>Company's business plan and budget as well as scorecard for the next financial year which are presented to the Board at another Special Board Meeting held before the end of the year. In the deliberations on the proposed business plans, budget and scorecard of the Company, the Board members will challenge Management's perspectives and assumptions applied in formulating the plan to ensure the best outcomes are achieved.</p> <p>Additionally, the Board places emphasis on the formulation of strategies to promote sustainable developments in areas covering health, safety and environment as well as social and economic progress.</p> <p>Supervise and assess management performance to determine whether the business is being properly managed</p> <p>The Group's operations and performance are measured and tracked against a set of approved targets set in the Key Performance Indicators ("KPIs") of Senior Management. KPIs are cascaded to all executive staff across the Group. At each Board meeting, the Managing Director & Chief Executive Officer ("MD & CEO") assisted by the respective Head of Divisions presents a business overview which encompasses each divisional performance, key operational issues and industry updates.</p> <p>Ensure there is a sound framework for internal controls and risk management</p> <p>The Board, through the Board Audit and Risk Committee ("BARC"), reviews the adequacy and integrity of the Group's internal control systems. Whereas risk management is internally reviewed and monitored through the Risk Committee ("RC"), a Board delegated Committee.</p> <p>Understand the principal risks of the company's business and recognise that business decisions involve the taking of appropriate risks</p> <p>The RC regularly monitors and reviews the management of principle risks. The implementation of risk management activities are undertaken at corporate and business units/subsidiaries level and risk reports are re- viewed and monitored by the Risk Management Unit ("RMU") on regular intervals prior to escalation to RC. Each appointed risk focal person owns the responsibility for risk management activities in their specific department/unit to ensure consistent implementation of risk management processes across the Group.</p> <p>Set the risks appetite within which the board expects management to operate and ensure that there is an appropriate risk management framework to identify, analyse, evaluate, manage and monitor significant financial and non-financial risks</p>
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	<p>The risk management process in Malaysia Marine and Heavy Engineering Holdings Berhad (“MHB” or “Company”) requires the Management to identify business risks at the strategic, operational and tactical levels, and assess these risks in terms of likelihood and magnitude of impact, as well as to identify and evaluate the adequacy of mechanisms in place to manage these risks. This process involves assessments at business unit process level before being examined on a strategic perspective.</p> <p>Ensure the company has in place procedures to enable effective communication with stakeholders</p> <p>The Group has a sound Investor Relations programme which reaches out to the investing community and other stakeholders through continuous engagement and through the maintenance of a comprehensive, informed website which is investor focused and driven.</p> <p>Ensure that senior management has the necessary skills and experience and there are measures in place to provide the orderly succession of board and senior management; and</p> <p>Through the Nomination and Remuneration Committee (“NRC”), the Board implements and ensures effective and orderly succession planning is in place for both Directors and Senior Management of the Group including development plans of the MD & CEO and Senior Management. The NRC reviews the Group’s Human Resource plan, which includes succession plans and bases their review of remuneration and hiring on competitive industry practices and meritocracy.</p> <p>Ensure the integrity of the company’s financial and non-financial reporting</p> <p>The Board is assisted by the BARC in overseeing the Groups financial reporting processes and the quality of the financial reporting. The BARC reviews the quarterly financial reports which are presented by the Chief Financial Officer in the presence of the Group Internal Auditor and the MD & CEO prior to recommending them for approval by the Board and issuance to Bursa Malaysia Securities Berhad (“Bursa Securities”). The Directors have also provided assurance that the financial statements prepared for each financial year give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year.</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 1.2

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

Application	:	Applied
Explanation on application of the practice	:	<p>The Chairman of the Board is a Non-Executive Director. There is a clear division of responsibilities between the Chairman and MD & CEO in MHB's Board Charter.</p> <p>The Chairman's main role is to ensure effective conduct of the Board through the execution of the following:</p> <ul style="list-style-type: none">• instilling good corporate governance practices, leadership and effectiveness of the Board;• setting the agenda for each Board meeting together with the Company Secretary and MD & CEO;• leading the Board and general meetings and discussions;• encouraging active participation and allowing dissenting views to be freely expressed;• leading the Board in setting and monitoring good corporate governance practices, values and standards in the Company;• maintaining a relationship of trust with and between the Executive Director ("ED") and Non-Executive Directors ("NED");• facilitating the effective contribution of NEDs and ensuring constructive relations be maintained between ED and NEDs; and• ensuring appropriate steps are taken to provide effective communication with stakeholders and that their views are communicated to the Board as a whole. <p>The Chairman's key responsibilities are set out in the MHB's Board Charter which can be found on its website at www.mhb.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

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.

Application	:	Applied	
Explanation on application of the practice	:	<p>The positions and roles and responsibilities of Chairman and CEO are held by two (2) different individuals.</p> <p>The Chairman of the Board namely, Datuk Nasarudin Md Idris is an Independent Non-Executive Director (“INED”). The MD & CEO of the Company is Cik Wan Mashitah Wan Abdullah Sani, who is also an Executive Director.</p> <p>The Company ensures that there is a clear and proper balance of power and authority between the two (2) positions. The Chairman has never assumed any executive position in the Company.</p>	
Explanation for departure	:		
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.			
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.

Application	:	Applied
Explanation on application of the practice	:	<p>In the beginning of FY2018, the Company Secretaries were Puan Fadzillah Kamaruddin, Vice President, Legal Corporate Secretarial and Compliance of MISC Berhad and Encik Ausmal Kardin, Senior General Manager, Legal, Corporate Secretarial Affairs & Human Resource of MHB. On 22 October 2018, Puan Fadzillah Kamaruddin had resigned as the Joint Company Secretary of MHB. Currently the Company Secretary of MHB is Encik Ausmal who is qualified to act as company secretary under Section 235(2) of the Companies Act 2016 and possess legal qualifications. The roles and responsibilities of the Company Secretary include, but are not limited to the following:</p> <ul style="list-style-type: none">• managing process for all Board and Board Committee meeting logistics, attend and record minutes of all Board and Board Committee meetings and facilitate board communications;• advising the Board on its roles and responsibilities;• facilitating the orientation of new Directors and assist in Directors' training and development;• advising the Board on corporate disclosures and compliance in relation to the Companies Act 2016, securities regulations and listing requirements;• managing processes pertaining to the annual shareholders' meeting;• monitoring corporate governance developments and assists the Board in applying governance practices to meet the Board's needs and stakeholders' expectations; and• serving as focal point for stakeholders' communication and engagement on corporate governance issues. <p>The Company Secretary keeps himself abreast with regulatory changes and developments in corporate governance and the Main Market Listing Requirements ("MMLR") of Bursa Securities, Malaysian Code on Corporate Governance, the Companies Act 2016 and any other rules and regulations through continuing education and professional trainings.</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 1.5

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.

Application	:	Applied
Explanation on application of the practice	:	<p>All Board meetings follow an agenda which, together with set of Board papers containing information for each item on the agenda, is distributed to the Board members within a reasonable period prior to the Board meeting to ensure that Directors have sufficient time to evaluate the matters and be prepared for discussion at the meetings. However, sensitive matters may be tabled at the meeting itself. Members of senior management who may provide additional insights into the matters at hand will be present at the relevant time during the Board meeting.</p> <p>The Directors have direct access to the Management and unrestricted access to any information relating to the Company and its Group in discharging their duties.</p> <p>Minutes of the Board meetings which include a record of the decisions and resolutions of the Board meetings are properly maintained and distributed by the Company Secretaries in a timely manner.</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 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.

Application	:	Applied	
Explanation on application of the practice	:	<p>The Board’s roles and responsibilities are documented in the Board Charter which reflects the corporate governance structure and practices of the MHB Group. The Charter also outlines, amongst others, the roles of the Board Committees, the MD & CEO, the role of the Company Secretary, Board processes, Board functions and Board development.</p> <p>The Board Charter is available on MHB’s website at www.mhb.com.my.</p> <p>In addition, the matters reserved for the Board, MD & CEO and Management are set out in the Limits of Authority Manual (Version 1.4).</p>	
Explanation for departure	:		
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.			
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.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board is committed to a culture of integrity and ethics. We have in place a set of Code of Conduct and Business Ethics ("CoBE"), which includes the Whistleblowing Policy and the No Gift Policy. The CoBE is applicable to all Directors and employees within the Group as well as third parties performing works or services for and on behalf of the Company. It governs the desired standard of behaviour and ethical conduct expected from each individual to whom the CoBE applies.</p> <p>In 2014, the Board approved the adoption of the Anti-Bribery and Corruption Policy & Guidelines ("ABC Policy & Guidelines") which applies to all Directors and employees of the Group as well as the Group's agents and contractors. The ABC Policy & Guidelines supplements the CoBE and provides the basis on which the Company will be able to defend itself against any corruption charges that may be brought by any parties against the Company.</p> <p>The Company has also embarked on a journey towards achieving the ISO 37001:2016 Anti-Bribery Management System Certification which specifies requirements and provides guidance for establishing, implementing, maintaining, reviewing and improving an anti-bribery management system. The certificate give assurance that the Company has the necessary system and processes which are in accordance with international standards. The certification is expected to be completed in the first half of 2019.</p> <p>The Board also approved the setup of a Compliance Department whose roles and responsibilities include:-</p> <ul style="list-style-type: none">• compliance and ethics function;• management of the Policies & Manual; and• management of the ethical risk assessment. <p>Additional details on these codes and policies can be found on the Company's website at www.mhb.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 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.

Application	:	Applied
Explanation on application of the practice	:	<p>The Group has in place a Whistleblowing Policy to encourage transparent and ethical conduct within the Group. The main objectives of the Whistleblowing Policy are:</p> <ul style="list-style-type: none"> • To provide avenues for employees and members of the public to report improper conduct (misconduct or criminal offence) committed or about to be committed within MHB. • To assure the whistleblowers that they will be accorded with protection under the Policy provided that the disclosure is made in good faith. Such protection is accorded even if the investigation later reveals that the Whistleblowers is mistaken as to the facts and the rules and procedures involved. • To provide a formal mechanism for action on all reports made. • To take necessary action of any matter of wrongdoing reported by other sources. <p>Any alleged or suspected improper conduct & misconduct or criminal offence including but not limited to the following:</p> <ul style="list-style-type: none"> • Fraud • Bribery • Abuse of Power • Conflict of Interest • Theft or embezzlement • Misuse of Company's Property • Non Compliance to procedure <p>The Whistleblowing Policy is available on the Company's website at www.mhb.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

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.

Application	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	<p>At present, the Board of MHB comprises nine (9) Directors, four (4) of whom are Independent Non-Executive Directors. This is in compliance with Paragraph 15.02(1) of the MMLR of Bursa Securities which states that at least two (2) directors or one-third (1/3) of the Board of Directors of a listed issuer, are independent directors.</p> <p>Pursuant to the definition of independence under the MMLR of Bursa Securities, all the four (4) INEDs have satisfied their independence in yearly assessment of the Independent Directors ("ID") during the financial year ended 31 December 2018 through the following:</p> <ul style="list-style-type: none">(i) Self-Assessment; and(ii) Independence Declaration Form.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	Candidates to be appointed as Independent Directors are still being identified in order to fulfil the criteria under the definition of 'independent director' and especially with backgrounds required under Paragraph 15.09(1)(c) of the MMLR of Bursa Securities.
Timeframe	:	Within 2 years

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.

Application	:	Not applicable - No independent director(s) serving beyond 9 years	
Explanation on application of the practice	:		
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 4.3 - Step Up

The board has a policy which limits the tenure of its independent directors to nine years.

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.

Application	:	Applied	
Explanation on application of the practice	:	<p>The NRC is responsible for making recommendations for the appointment of Directors to the Board including the election/re-election of retiring Directors at the Annual General Meeting (“AGM”).</p> <p>In making these recommendations, the NRC considers the required mix of skills, experience, knowledge, competencies and other necessary qualities including gender diversity to the Board. The Board supports the philosophy of gender diversity and recognizes the benefits that it can bring, nevertheless the Board believes that any new appointments should be based on merits and capability.</p> <p>The appointment of the Company’s Senior Management will also be tabled to the NRC for recommendation to the Board for approval.</p>	
Explanation for departure	:		
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.			
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.

Application	:	Applied	
Explanation on application of the practice	:	Currently, MHB has three (3) female Directors on the Board and has met the target of achieving 30% women representation on the Board of MHB to support the Malaysian Government's aspiration to champion diversity. The current composition of female directors stands at 33%. The Board had on 20 February 2019 approved a board diversity policy. The diversity policy which is embedded in the Board Charter is available online on the Company's website at www.mhb.com.my .	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 4.6

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

Application	:	Applied	
Explanation on application of the practice	:	The Company is in the midst of identifying the suitable candidates as the Board member through recommendation from recruitment agency.	
Explanation for departure	:		
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.			
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.

Application	:	Applied	
Explanation on application of the practice	:	The Chairperson of the NRC of the Company is Dato’ Halipah Esa, an INED of the Company.	
Explanation for departure	:		
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.			
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.

Application	:	Applied
Explanation on application of the practice	:	<p>The annual evaluation to determine the effectiveness of the Board was conducted via annual review of the Board performance, composition, effectiveness and independence. For FY2018, the assessment of the individual directors' performance had been carried through an evaluation on the quality of the Board's proceedings and deliberation.</p> <p>The NRC had, at its meeting held on 19 February 2018 also reviewed the composition of the Board in relation to the required mix of skills, experience and independence.</p> <p>The Company will explore the use of independent consultants to assist in conducting Board and individual Director's performance evaluation and finalize the appointment by next Board meeting in July 2019. The propose implementation is targeted by the fourth quarter 2019.</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 6.1

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.

Application	:	Applied
Explanation on application of the practice	:	<p>The new remuneration structure for the NEDs of MHB was approved by the Board and Shareholders at its respective meeting held on 19 February 2018 and 17 April 2018.</p> <p>The policy for remuneration of its Non-Executive Directors is based on the PETRONAS Public Listed NED's Remuneration Guidelines and Packages.</p> <p>Further information on the above remuneration structure is set out in the Corporate Governance Overview Statement ("CG Overview Statement") of the Company's Annual Report 2018, which can be viewed online on the Company's website at www.mhb.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 Nomination and Remuneration Committee of MHB were established on 9 July 2010. The Board had, on 5 February 2013, approved the merger of the Nomination Committee and the Remuneration Committee as a single committee known as the NRC. The NRC comprises exclusively of NEDs.</p> <p>With the introduction of the new recommended practices under the MCGG 2017, the Terms of Reference ("TOR") of the NRC was revised on 30 October 2017, in the areas of the Board's composition, evaluation, remuneration and appointment of a Senior ID.</p> <p>The revised TOR of the NRC is published on the Company's website at www.mhb.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 of the NEDs of MHB comprises fees, meeting allowances and other benefits received by the respective NEDs of MHB on named basis for the financial year ended 31 December 2018 is detailed out in the Annual Report 2018 of the Company under the CG Overview Statement.	
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	:	<p>The Company opts not to disclose the Senior Management's remuneration components (salary, bonus, benefits-in-kind and other emoluments) as it not in the best interest of the Company and Senior Management personnel.</p> <p>In addition, the Company is of the view that prior written consent from each Senior Management personnel has to be obtained as it involves the disclosure of their personal data to the public at large.</p> <p>The Company has identified its Top five (5) Senior Management as follows:-</p> <ul style="list-style-type: none">(i) Cik Wan Mashitah Wan Abdullah Sani, MD & CEO;(ii) Ahmad Zaki Abd Malik, Chief Operating Officer;(iii) Nik Azlan Nik Abd Aziz, Chief Financial Officer;(iv) Stephane Denoun, Senior General Manager – International Heavy Engineering and EPCIC Business; and(v) Ausmal Kardin, Senior General Manager – Legal, Corporate Secretarial Affairs & Human Resource. <p>The remuneration of the MD & CEO who is also the ED of the Company is disclosed in the Company's 2018 Annual Report under CG Overview Statement without giving the detailed breakdown of the remuneration.</p> <p>Management staff and/or executives of the Company who are on secondment from MISC Berhad where their remuneration package has been benchmarked with the industry and it is in line with the industrial practice.</p>
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		

Measure	:	The Company does not have any alternative plan to meet the intended outcome.	
Timeframe	:	Others	Not Applicable

Intended Outcome

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

Practice 7.3 - Step Up

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

Application	:	Not Adopted
Explanation on adoption of the practice	:	

Intended Outcome

There is an effective and independent Audit Committee.

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

Practice 8.1

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

Application	:	Applied	
Explanation on application of the practice	:	<p>The Board Audit Committee (“BAC”) of MHB was established on 21 June 2010. On 4 December 2017, the BAC has been re-established as the Audit & Risk Management Committee (“ARMC”) and subsequently on 19 February 2018, the Board renamed the ARMC to BARC.</p> <p>The Chairman of the BARC is Mr Choy Khai Choon, who is also the Senior INED of MHB.</p>	
Explanation for departure	:		
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.			
Measure	:		
Timeframe	:		

Intended Outcome

There is an effective and independent Audit Committee.

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

Practice 8.2

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

Application	:	Applied	
Explanation on application of the practice	:	<p>The policy on the cooling-off period of at least two (2) years before appointed as members of the BARC was incorporated in the revised TOR of the BARC, which was approved by the Board on 4 December 2017.</p> <p>The revised TOR of the BARC can be viewed on the Company's website at www.mhb.com.my.</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 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>The policy on the assessment of the external auditors was approved by the Board on 6 February 2018.</p> <p>The assessment on suitability, objectivity and independence of the external auditors is conducted on annual basis as provided in the Terms of Reference of the Board Audit and Risk Committee of MHB.</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>Based on the diverse background and experience, the members of the BARC of MHB possess wide range of necessary skills and financially literate.</p> <p>Both, Mr Choy Khai Choon and Puan Rozainah Awang are members of the Malaysian Institute of Accountants. Therefore, the requirement of Paragraph 15.09(1)(c) of the MMLR of Bursa Securities where at least one (1) member of the BARC must be a qualified accountant has been complied with.</p> <p>The Directors' profiles and the trainings attended by the members of the BARC can be obtained from the Annual Report 2018 under CG Overview Statement.</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 recognises its responsibilities and the importance of sound risk management practices and internal control, and reviewing the adequacy and integrity of those systems. The Board has established procedures to implement the recommendations from "Statement on Risk Management and Internal Control ("SORMIC"): Guidelines for Directors of Listed Issuers".</p> <p>These procedures, which are subject to regular review, are intended to provide an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. However, the Board recognised that such a system is a concerted and continuing process, designed to manage and reduce, rather than eliminate, the risks identified to acceptable levels.</p> <p>Therefore, the system of risk management and internal control implemented can only provide reasonable and not absolute assurance against the occurrence of any material misstatement or loss.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

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

Practice 9.2

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

Application	:	Applied	
Explanation on application of the practice	:	<p>MHB Group place a systematic risk management framework as recommended under the above Practice 9.2 which is adopted from the PETRONAS Risk Governance Framework to identify, evaluate and manage the Group’s principal risks. The BARC together with support from the RC have discharged their functions on the risk management and internal control framework.</p> <p>Further details in relation to the activities and risk management framework of the Company are outlined under SORMIC of the Annual Report 2018.</p>	
Explanation for departure	:		
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.			
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>On 4 December 2017, the BAC has been re-established as the ARMC to include oversight of the risk management and internal control framework and other new practices under the MCCG 2017 and approved the revision to the TOR of the BAC and be renamed as the TOR of the ARMC.</p> <p>Subsequently, on 19 February 2018, the Board of MHB had renamed the ARMC to BARC.</p> <p>The function of the BARC among others is to review the adequacy and effectiveness of the Group's risk management framework and the ongoing activities.</p> <p>Further details on the functions of the BARC in relation to Risk Management are disclosed in the SORMIC and BARC Reports of the Annual Report 2018.</p> <p>The TOR of the BARC in relation to risk management can be viewed on the MHB's website at www.mhb.com.my.</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 MHB GIA, which is functionally reporting directly to the BARC, performs independent planned approved audits and initiatives within the Group in evaluating and assessing the effectiveness of risk management, internal control and governance processes. GIA also conducts additional assurance assignments, and special review arising from any potential irregularities upon request by the Management or the BARC.</p> <p>The BARC reviews, deliberates and endorses the annual and long term audit plan and strategy including scope of work and resources. Results of the audit engagement are presented and deliberated during quarterly BARC meetings. The Group focuses on disciplined execution of audit plans, submission of audit findings, recommendations on audit issues and close follow-up of the Agreed Corrective Actions (“ACAs”) which are encompassed in the audit reports. The GIA monitors the status of implementation of these ACAs through the Quarterly Audit Status Report of which they are recorded and analysed. The consolidated reports are submitted and presented to the BARC for deliberations and endorsement on quarterly basis. In addition, the BARC conducts half yearly and yearly review and assessment on the adequacy of GIA’s scope of work, functions and resources including its annual plan and strategy. The conduct of internal audit work is governed by the Internal Audit Charter and the Internal Audit Charter Memorandum.</p> <p>The activities carried out by the BARC of MHB in relation to internal audit functions during the financial year ended 31 December 2018 are set out in the Annual Report 2018 under the BARC 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	:	The detailed disclosures in relation to the above Practice 10.2 can be found in the BARC Report of the Company’s Annual Report 2018.	
Explanation for departure	:		
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.			
Measure	:		
Timeframe	:		

Intended Outcome

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

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

Practice 11.1

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

Application	:	Applied
Explanation on application of the practice	:	<p>The Board values its dialogue and engagement with both institutional shareholders and private investors and recognises the importance of providing timely and equal dissemination of relevant information to them.</p> <p>The AGM is the principal forum of dialogue with the shareholders and also an avenue for the Chairman and Board members to respond personally to all queries and provide sufficient clarification on issues and concerns raised by the shareholders. Shareholders are encouraged to attend, speak and vote at the Company's general meetings. In compliance with the requirement under Paragraph 8.29A(1) of the MMLR of Bursa Securities, voting at the AGM will be conducted by poll through e-voting system.</p> <p>Other than the forum of the AGM, the other medium of communication between the Company and shareholders and/or investors are as follows:</p> <ul style="list-style-type: none">• quarterly financial statements and circulation of annual reports;• announcements on major corporate developments in accordance with the MMLR of Bursa Securities;• the Company's general meetings;• posting on the Company's website at www.mhb.com.my; and• briefing sessions between the Company's Senior Management, analysts and/or investors.
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

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

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

Practice 11.2

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

Application	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	The Company has initiated its journey towards Integrated Reporting. It has envisaged to properly venture into Integrated Reporting within a period of two (2) years.	
		The adoption of Integrated Reporting has been implemented on staggered basis starting from 2018 and certain sections of MHB Annual Report 2018 have already been prepared based on the Integrated Reporting framework.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:	All efforts are geared towards the endeavor to meet the requirements set under the International Integrated Reporting Council Frameworks.	
Timeframe	:	To be adopted in FY2020	

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	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	<p>The Notice of the 29th AGM of MHB for AGM in FY2018 was issued and dated on 20 March 2018 i.e. 27 days prior to the AGM date.</p> <p>The notice period is well in advance of the 21-day requirements of the Listing Requirement. The additional time given to the shareholders would allow them to have sufficient time to scrutinize the Annual Report.</p> <p>The Notice of the AGM of the Company is available for viewing on the Company's Annual Report and website at www.mhb.com.my.</p>
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	For the FY2019's AGM, the Company will issue a-28 day Notice of AGM to the shareholders.
Timeframe	:	FY2019

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 Directors, including the Chairpersons of the respective Board Committees have attended and will continue to attend the AGMs of the Company.</p> <p>In addition to the above, the MD & CEO, members of the senior management and external auditors of the Company have also attended and will continue to attend the AGM to respond to the shareholders' queries including the responses in respect to the questions raised by the MSWG prior to the AGM and/or during the AGM.</p>	
Explanation for departure	:		
Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.			
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 Company holds its AGM in a central location which is accessible to all shareholders. Additionally, the number of foreign shareholders is of a percentage which does not warrant additional arrangements for participation in the AGM.	
		For these shareholders, they have the channel through proxy voting to vote on resolutions on their behalf. This also applies to votes in absentia whereby the shareholders can appoint the Chairman as their proxies to attend and vote on their behalf at the forthcoming AGM by filling up the Proxy Form and send it to the Share Registrar of the Company within the stipulated time period.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:	In relation to the recommendation by MCGG 2017 to leverage on technology to facilitate voting including voting in absentia and remote shareholders’ participation at general meetings, MHB will consider the recommendations subject to the availability of the technology and also its practicality to the company.	
Timeframe	:	Others	-

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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