

CORPORATE GOVERNANCE REPORT



INTRODUCTION

CORPORATE GOVERNANCE APPROXIMATELY REFERS TO THE MECHANISMS, PROCESSES AND RELATIONS BY WHICH THE GROUP ARE ORGANISED AND DIRECTED. GOOD CORPORATE GOVERNANCE PRACTICES SHOULD ENCOMPASS BEYOND MERE COMPLIANCE AND SHOULD ATTAIN THE HIGHEST STANDARDS OF BUSINESS ETHICS, ACCOUNTABILITY, INTEGRITY AND PROFESSIONALISM ACROSS ALL THE GROUP'S ACTIVITIES AND CONDUCTS. IN ADDITION, THE BOARD CONSIDERS STRONG GOVERNANCE AS ONE OF THE KEY STRATEGIC DETERMINANTS IN BUILDING A COMPETITIVE ORGANISATION, ACHIEVING ITS SET OF CORPORATE AND BUSINESS OBJECTIVES AND ULTIMATELY IN REALISING SHAREHOLDERS' CONFIDENCE AND VALUE, WHILST TAKING INTO ACCOUNT THE INTERESTS OF OTHER STAKEHOLDERS.

The Group is fully committed to fair corporate governance by being transparent throughout the organisation and continuously strengthen the foundations of governance that has been established and uphold the highest standards of ethics, transparency and good governance.

The Board of Directors plays a key role in the governance process through its review and approval of the Group's direction and strategy, its monitoring of professional standards and business performance, its review of the adequacy and integrity of the Group's internal control systems, including the identification of principal risks and ensuring the implementation of appropriate systems to manage those risks and the acceptance of its underlying duty to ensure that the Company and the Group meet its responsibilities to its shareholders.

The Board of Directors of Kulim (Malaysia) Berhad continuously subscribes to and supports The Malaysian Code on Corporate Governance 2012 ("MCCG 2012") as the basis for the practices and enhancement of corporate governance.

The Board is pleased to report that it had continued to practice good corporate governance throughout the Group in strengthening Board's structure and composition, recognising the role of Directors as active and responsible fiduciaries. The Board believes that the Group has provided a narrative statement on corporate governance practices for shareholders benefit which conveyed the key elements and the state of the Group's Corporate Governance.

The Board, to the best of its knowledge, confirms that the Group has applied the Principles set out in the MCCG 2012 together with the Recommendations stated under each Principle.

Kulim's effort towards strong governance and the continual enhancement of shareholders' value is substantiated by the following recognition and accreditations conferred on the Group in 2016 and up to the reporting date in 2017:

- **National Annual Corporate Report Awards ("NACRA") 2016**
 - » Kulim's Integrated Annual Report 2015
 - Winner of Industry Excellence Awards (Main Board) – Plantation & Mining
- **Asia Sustainability Reporting Awards ("ASRA") 2016**
 - » Kulim's Integrated Annual Report 2015
 - Shortlisted for Asia's Best Integrated Report
- **MIA IR Recognition Award 2016**
 - » Recognition Award 2016 in "Pioneering Integrated Reporting (IR) in Malaysia"
- **The Edge-Billion Ringgit Club & Corporate Awards 2016**
 - » Highest Return on Equity Over 3 Years – Plantation Sector
 - » Highest Growth in Profit Before Tax Over 3 Years – Plantation Sector
- **8th Annual Global CSR Summit and Awards 2016**
 - » Best Workplace Practices Award (Bronze Award)
- **ACCA Malaysia Sustainability Reporting Awards ("MaSRA") 2016**
 - » Kulim's Integrated Annual Report 2015
 - Shortlisted for the Best Reporting Within an Annual Report
- **Loyalty Award 2016**
 - » Kulim received Loyalty Award 2016 by BSI Services Malaysia Sdn Bhd

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Being amongst the earliest plantation companies in the world to be certified as a sustainable palm oil producer under RSPO serve as a testament to the Group's commitment towards enhancing its governance standards. The Group took its sustainable commitment to the next level when it became the first within the plantation industry to publish sustainability report. This report emphasized the Group's commitment towards subscribing to the RSPO Principle and Criteria. The Group produced its inaugural Sustainability Report 2007/2008 in October 2008, published separately for both its Plantation operations in Malaysia and Papua New Guinea. The Group continuously produced the biennial Sustainability Report as an effort in fulfilling its responsibilities towards promoting sustainable palm oil practices. The publication year of the reports was listed as follows:

| | YEAR | THEME | GUIDELINES |
|---------------------------------------|-----------|--|------------|
| 1 st Sustainability Report | 2007/2008 | Embracing the Challenge Ahead | GRI G3.0 |
| 2 nd Sustainability Report | 2009 | We C.A.R.E – Unlocking Sustainable Value | GRI G3.0 |
| 3 rd Sustainability Report | 2010/2011 | A New Road for Sustainable Growth | GRI G3.1 |
| 4 th Sustainability Report | 2012/2013 | Expanding Horizon, Affirming Commitments | GRI G4.0 |
| 5 th Sustainability Report | 2014/2015 | Beyond The Benchmarks | GRI G4.0 |

The reports which are benchmarked against the international Global Reporting Index (“GRI”) guidelines seek to present transparent overview, performance evaluation and the Group's target towards Sustainable Palm Oil (“SPO”) practices. It also forms the basis of additional communications and engagement with Kulim's broader stakeholder groups. The Report is available upon request and also can be downloaded from the Company's website.

Kulim has been certified with the International Sustainability and Carbon Certification (“ISCC”) in February 2013 and all the certified Palm Oil Mills will be audited every year for re-certification. The ISCC standard is for biomass and bioenergy and meets the Renewable Energy Directive of the European Union. The report on ISCC is contained on page 121 of this Integrated Annual Report.

The Group continuously maintained its commitment towards sustainability and transparency and was the first Malaysian Plantation Company to use RSPO's PalmGHG Calculator in the Carbon Footprint Report 2012. The report was published in November 2013. The second biennial Carbon Footprint Report was published in November 2015 and it covered Kulim's oil palm operations in Malaysia in 2014. The report showed a significant reduction of GHG's emissions as compared to the 2012 reporting.

CLEAR ROLES AND RESPONSIBILITY

BOARD OF DIRECTORS

SIZE AND COMPOSITION OF BOARD

Kulim (Malaysia) Berhad is led by an effective Board of Directors. The Board, as at the date of this Statement, consists of:

| EXECUTIVE DIRECTOR | NON-INDEPENDENT NON-EXECUTIVE DIRECTORS | INDEPENDENT NON-EXECUTIVE DIRECTOR |
|--------------------|---|------------------------------------|
| Zulkifly Zakariah | Dato' Kamaruzzaman Abu Kassim Ahamad Mohamad Zulkifli Ibrahim Jamaludin Md Ali Mohamad Salleh Mohamad Yusof Wan Su Ali | Dr. Radzuan A. Rahman |

PRINCIPAL DUTIES AND RESPONSIBILITIES

Kulim recognised the value of good governance and that is the reason why the Company is committed to promoting and sustaining a strong culture of corporate governance. Kulim has embarked on a journey to continuously improve its corporate governance framework by gradually adopting the recommendations in the MCCG 2012.

The Board, representing the shareholders, is entrusted with the power and authority to make decisions in running the company to ensure proper management of the entity, including optimising long-term financial returns. The Board is responsible for ensuring that the Group is managed to achieve this result.

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In addition to fulfilling its obligations for increased shareholders' value, the Board has responsibility to the Group's customers, employees and suppliers and to the communities where it operates, all of whom are fundamental to a successful business. All of these responsibilities are founded upon the successful continuation of the business.

The Board assumes the following responsibilities:

1. Reviewing and adopting a strategic plan for the Company

The Board will review and approve the annual budget and strategic plan for the Group.

It has in place an annual strategic planning process, whereby a comprehensive strategic plan will be tabled and debated at divisional level before the management presents to the Board its recommended strategy and proposed business and regulatory plans. At this session, the Board reviews and deliberates upon both the Management's and its own perspectives, as well as challenges the Management's views and assumptions, to deliver the best outcomes.

Additionally, on an ongoing basis, the Board will assess whether projects, purchases and sale of equity as well as other strategic consideration being proposed at Board meetings during the year are in line with the objectives and broad outline of the adopted strategic plans. Details on the Group's Business Strategies are on pages 6 to 11 of this Integrated Annual Report.

2. Overseeing the conduct of the Company's business to determine whether the business is being properly managed.

At Board meetings, all operational matters will be discussed and expert advice will be sought if necessary.

The performances of the various companies and operating units within the Group represent the major element of Board's agenda. Where and when available, data are compared against national trends and performance of similar companies.

The Group uses Key Performance Indicators ("KPI") system as the primary driver and anchor of its performance management system, of which is continually refined and enhanced to reflect the changing business circumstances.

3. Identifying principal risks and ensuring the implementation of appropriate internal control and mitigation measures.

The Group has set up a Risk and Issues Management Committee ("RIMC") in order to assist the Board in identifying, evaluating, reviewing and managing the principal risks.

The RIMC met three (3) times in 2016 to review the Group's risks. Details on RIMC are on pages 140 to 144 of this Integrated Annual Report.

4. Succession planning

The Board's responsibility in this aspect is being closely supported by the Human Capital Management Department. More importantly, after several years of continuous effort in emphasising and communicating the importance of succession planning, the subject has now become an ongoing agenda being reviewed at various high-level management and operational meetings of the Group.

Each year, the department assesses the performance of the identified potential candidates undergoing the Johor Corporation Leadership Programme ("JLP"). The JLP is a two (2)-year structured leadership programme designed to enable participants to improve their decision-making skills and expand their leadership capacity. Participants will be exposed to business challenges from different angles and will have the opportunity to share their leadership experiences. In 2016, a total of five (5) employees were selected for the JLP Cohort III 2017/2019, the third edition of the programme, joining an earlier batches of 14 candidates.

5. Overseeing the development and implementation of a shareholder communications policy for the Company

Various strategies and approaches are employed by the Group so as to ensure that shareholders are well-informed about the Group's affairs and developments.

6. Reviewing the adequacy and the integrity of the management information and internal control system of the Company

The Board's function in fulfilling the above responsibility is supported and reinforced through the various Committees established at both the Board and the management's level. Aided by an independent function of the Internal Audit Department, the active functioning of these Committees through their regular meetings and discussions would provide a strong check and balance and reasonable assurance on the adequacy of the Company's internal controls. Details on the Internal Audit functions are further discussed in the Statement on Risk Management and Internal Control and Audit Committee Report in this Integrated Annual Report.

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Schedule of Matters / Agenda Reserved for Collective Decision of the Board

The authorities of the Board are specified below. The authorities may be varied from time to time as determined unanimously by the Board.

1. Conduct of Board

- Appointment and resignation of Directors based on recommendations of the Board Nomination and Remuneration Committee;
- Appointment and resignation of Company Secretaries;
- Appointment and resignation of Board Members in Board Committees are based on the recommendations of the Board Nomination and Remuneration Committee;
- Approval of terms of references of Board Committees and amendments to such items;
- Appointment and resignation of Senior Executive positions, including the Executive Director, their duties and the continuation of their service; and
- Disclosure of the corporate governance practices of the Company in the Integrated Annual Report.

2. Remuneration

- Approval of the remuneration arrangements for Non-Executive Directors. The Non-Executive Directors whose remuneration is being deliberated by the Board should play no part in the deliberations;
- Approval of the remuneration structure and policy for Executive Directors and key executives based upon recommendations of the Board Nomination and Remuneration Committee;
- Approval of remuneration packages for Executive Directors and Senior Executives;
- Approval of any proposed new Employees' Share Option Scheme ("ESOS"); and
- Approval of allocation and share grants in ESOS.

3. Operational

- Approval of business strategy and Group's operational plans and budgets;
- Ongoing review of performance against business strategy and Group's operational plans, including monitoring of marketing, key risks and risk management policies and actions;
- Approval of capital expenditure;

- Approval of asset write-off;
- Approval of investment or divestment in a company / business / property / undertaking;
- Approval of investment or divestment of a capital project which represents a significant diversification from existing business activities;
- Approval of changes in the major activities of the Company; and
- Approval of treasury policies and Bank mandate.

4. Financial

- Approval of quarterly and annual financial statements based on recommendations of the Audit Committee;
- Approval of the release of financial announcements;
- Approval of the Integrated Annual Report and Statutory Financial Statements;
- Approval of interim dividends, the recommendation of final dividends and the making of any other distribution;
- Adoption of accounting policies;
- Approval of corporate policies and procedures, including the Group's system of internal control;
- Review of the effectiveness of the Group's system of internal control; and
- Disclosure of the state of internal controls of the Group to be included in the Integrated Annual Report.

5. Other matters to be considered including:

- The granting of powers of attorney by the Company;
- The entering into any indemnities or guarantees;
- Recommendations for the alteration of the Memorandum and Articles of Association of the Company;
- Alteration of the accounting reference date, registered office and name of the Company;
- Purchase of own shares by the Company;
- Issuance of any debt instruments;
- Political or charitable contributions;
- Scheme of reconstruction or restructuring;
- Any other significant business decision; and
- Any other matters requiring the convening of a general meeting of shareholders or any class of shareholders.

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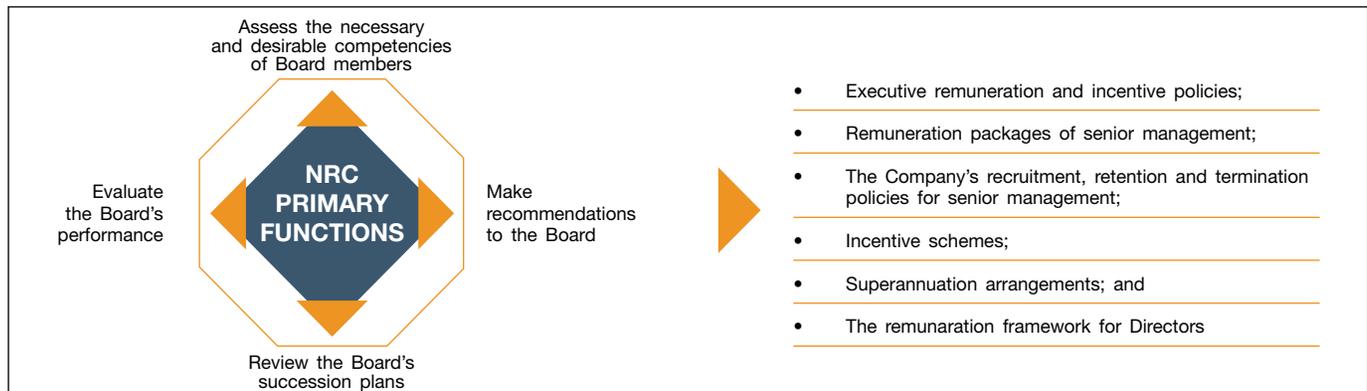
BOARD COMMITTEES

The Board Committees are essentially the cornerstone in governing the direction of the Group strategies and operations in line with the regulatory guidelines and requirements. The Board delegates its responsibility for specified matters to individual members or committees of the Board. The Board Committees were supported by several committees to facilitate the operations of the Group. Each committee has written terms of reference which state clearly the extent and limits of their responsibilities and authority and whether they act on behalf of the Board or report back to the Board. The committees are reviewed regularly and changes are approved by the Board. Apart from the Board Committees, there are internal or management committees established at Kulim Corporate Office level and within the Group's significant or strategic subsidiaries which facilitate the functions of Board of Kulim as well as the respective companies. These internal or management committees and their primary functions are set out on pages 144 to 146 of this Integrated Annual Report.

The list of Board Committees includes:

| | |
|--|---|
| AUDIT COMMITTEE ▶ | <p>The Audit Committee facilitates the Board of Directors to fulfill its corporate governance and overseeing responsibilities in relation to the Group's financial reporting, internal control system, risk management system and internal and external audit functions. The role of the Audit Committee is to provide advice and recommendations to the Board within the scope of its terms of reference.</p> <p>The Audit Committee Report for the financial year which sets out the composition and a summary of activities of the Audit Committee, is contained on pages 149 to 151 of this Integrated Annual Report.</p> |
| BOARD OPTION COMMITTEE ▶ | <p>The Board Option Committee was formed following the establishment of Kulim's ESOS on 31 December 2013. The ESOS was approved by the shareholders in the EGM held on 13 December 2013 and exercisable for the period of five (5) years. The ESOS however was fully exercised upon the completion of SCR and the delisting of Kulim on 4 August 2016.</p> <p>The composition of the Board Option Committee is as follows:</p> <ul style="list-style-type: none"> • Dato' Kamaruzzaman Abu Kassim – Chairman • Ahamad Mohamad • Dr. Radzuan A. Rahman • Zulkifli Ibrahim |
| NOMINATION AND REMUNERATION COMMITTEE ▶ | <p>The Board of Directors of the Company established its own Nomination and Remuneration Committee ("NRC") in order to exercise best practices of corporate governance by assisting and advising the Board in connection with its responsibilities and obligations towards the Company's shareholders and employees.</p> |

The NRC is accountable to the Board of the Company and not to the executive management. The primary functions of the NRC are to:



In performing its duties, the NRC shall have direct access to the resources of the Company as it may reasonably require and shall seek to maintain effective working relationships with the management.

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FORMALISED ETHICAL STANDARDS THROUGH CODE OF ETHICS

In general, the Code of Ethics defines the standards of conduct in assisting the employees to make the right decision at the highest standards of ethic, integrity and governance as per stated on page 148.

The Board has set up guidelines which are designed to legalise acceptable behaviours for the committee members to increase confidence in the Group by showing that the Board members are committed in following basic ethical guidelines in the course of discharging its duties that cover:

- Corporate Governance
- Relationships: Shareholders, Employees, Creditors, Customers
- Social Responsibilities & Environment

The Directors adhere to the Code of Ethics which is contained in the Board Policy Manual comprising the important aspects of which are as follows:

- Members must represent non-conflicted loyalty in the interests of the Group;
- Members must avoid conflict of interest with respect to their fiduciary responsibility;
- Members may not attempt to exercise individual authority over the Group except as explicitly set forth in the Board Policy; and
- Members will respect the confidentiality appropriate to issues of a sensitive nature.

In the context of this Code, a Company's Director means any person occupying the position of Director of a corporation by whatever name called and includes a person in accordance with whose directions and instructions the Directors of a corporation are accustomed to act and an alternate or substitute Director. A Director also includes both Executive and Non-Executive Director as well as Executive and Non-Executive Chairman.

The Group is strongly committed to an environment of sound governance, sound internal controls and a culture that will safeguard shareholders' investments, stakeholders' interests and the Group's assets. The safe guarding against loss by fraud or negligence and establishing an environment which effectively minimises fraud risk is a key responsibility of the management. All employees have an obligation to support the effort.

The Group also upholds the principles of integrity, respect and accountability which includes the maintenance of a workplace that is free from fraud. This involves embedding fraud control into the organisation's decision making culture and practices through the following policies and exercises:

| | |
|---------------------------------------|---|
| WHISTLEBLOWING POLICY | In 2013, the Whistleblowing Policy was introduced by the Group to support transparent ethical conduct. The policy is intended to provide guidance to employees on how to report and deal with fraud and misconduct. |
| GRIEVANCE POLICY AND PROCEDURE | Kulim has established a Grievance Policy and Procedure as well as Women OnWards to ensure that throughout the Group, there is a transparent process for ensuring stakeholders' grievances and complaints are dealt with fairly, consistently and promptly. The corporate climate is also continuously nourished by value-centred programmes for team-building and active subscription to core values. |
| ETHIC DECLARATION FORM | The Group has also long established a formal avenue for all employees to report directly to the Executive Director of any misconduct or unethical behaviour conducted by any employees of the Group through a declaration in the Ethic Declaration Form. |
| CORPORATE INTEGRITY PLEDGE | The Group has made a commitment to uphold the Anti-Corruption Principles through the Corporate Integrity Pledge that was signed in January 2014. The Group will work towards creating a business environment that is free from corruption, protect the interests of the Company and the Board of Directors and will uphold the Anti-Corruption Principles in the conduct of its business. |
| NO GIFT POLICY | As part of the Group's continuous effort to uphold the Anti-Corruption Principles through the Corporate Integrity Pledge, the No Gift Policy was established in July 2014 with the primary objective to avoid conflict of interest and to indicate the Group's commitment to accord equal treatment to all individuals and organisations in their dealings with the Group. |

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BOARD MEETINGS AND SUPPLY OF INFORMATION

All Board meetings for the ensuing year are scheduled by December in the year before, so as to allow Directors to plan ahead. Board meetings are held at least four (4) times a year. Apart from the regular scheduled meetings, additional meetings are convened as and when necessary to deliberate and approve ad-hoc, urgent and important issues.

The Chairman, assisted by the Company Secretary takes responsibility in ensuring that the Directors receive all notices, agendas and minutes of the previous meetings and is supplied with pertinent information well in advance of each meeting. The agenda for each meeting shall be circulated at least seven (7) working days before each meeting to the Board Members and all those who are required to attend the meeting. Written materials including information requested by the Board from the management and/or external consultants shall be received together with the agenda for the meetings. The Executive Director in consultation with the Chairman would decide on the agenda and accordingly structure and prioritise the respective matters based on their relevance and importance so as to enable quality and in-depth discussion of the matters. All decisions and conclusions of the Board meetings are to be duly recorded and minutes are kept by the Company Secretary.

In conjunction with the scheduled meetings or on separate occasions, the Directors also visit locations of operating units, sites of new projects and other operations sites to allow them to have better assessments of the operational progress, status of developments and any important issues to be addressed on new proposals. In between meetings, the Executive Director meets regularly with the Chairman and other Board members to keep them abreast of current development. Circular Resolutions are used for determination of matters arising in between meetings. This is in accordance with Principle 1 of the MCCG 2012.

The Directors, in the event that they have interest in proposals considered by the Board, will be required to make declaration to that effect. The interested Directors will there upon abstain from deliberations and decisions of the Board on the said proposals. The Board met five (5) times during the financial year 2016. The members of the Board of Directors and their attendances at Board meetings in 2016 are set out below:

| | Special BOD 28.01.2016 | 285 th BOD 25.02.2016 | Special BOD 03.05.2016 | 286 th BOD 27.07.2016 | 287 th BOD 22.11.2016 | % |
|--|------------------------------|--|------------------------------|--|--|-----|
| Dato' Kamaruzzaman Abu Kassim | / | / | / | / | / | 100 |
| Ahamad Mohamad | / | / | / | / | / | 100 |
| Tan Sri Dato' Seri Utama Arshad Ayub | / | / | / | / | NA | 100 |
| Tan Sri Datin Paduka Siti Sa'diah Sh Bakir | / | / | / | / | NA | 100 |
| Zulkifli Ibrahim | / | / | / | / | / | 100 |
| Jamaludin Md Ali | / | / | / | / | / | 100 |
| Datuk Haron Siraj | / | / | / | / | NA | 100 |
| Dr. Radzuan A. Rahman | / | / | / | / | NA | 100 |
| Leung Kok Keong | / | / | / | / | NA | 100 |
| Abdul Rahman Sulaiman | / | / | / | / | / | 100 |
| Rozaini Mohd Sani | / | / | / | / | / | 100 |

Notes:-

- Tan Sri Dato' Seri Utama Arshad Ayub, Tan Sri Datin Paduka Siti Sa'diah Sh Bakir, Datuk Haron Siraj, Dr. Radzuan A. Rahman and Leung Kok Keong resigned from the Board as Independent Non-Executive Directors on 1.10.2016;
- Abdul Rahman Sulaiman resigned from the Board as Executive Director on 1.1.2017;
- Rozaini Mohd Sani resigned from the board as Non-Independent Non-Executive Director on 1.3.2017;
- Zulkifly Zakariah was appointed to the Board as Executive Director on 1.1.2017;
- Ahamad Mohamad and Jamaludin Md Ali were re-designated to Non-Independent Non-Executive Director on 1.1.2017;
- Dr. Radzuan A. Rahman was re-appointed to the Board as Independent Non-Executive Director on 16.1.2017.
- Mohamad Salleh Mohamad Yusof and Wan Su Ali were appointed to the Board as Non-Independent Non-Executive Director on 1.3.2017.

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The Board recognises the importance of providing timely, relevant and up-to-date information in ensuring an effective decision making process by the Board. In this regard, the Board is provided with not just quantitative information but also those of qualitative nature that is pertinent and of a quality necessary to allow the Board to effectively deal with matters that are tabled in the meeting. All Directors have unrestricted access to all information within the Company in furtherance of their duties. In addition, all Directors have access to the advice of the Company Secretary and where necessary, in furtherance of their duties, obtain independent professional advice at the Group's expense.

Access to Independent Professional Advice

In discharging Directors' duties, each member of the Board is entitled to obtain independent professional advice at the cost of the Company.

If a member considers such advice is necessary, the member shall first discuss it with the Chairman and having done so, the member shall bring this matter up to the Board. The reason(s) for seeking independent professional advice and the proposed cost involved should be presented to the Board for approval. Once Board approval is obtained, the member is free to proceed.

The member should provide proper notice to the Company Secretary of the intention to seek independent advice and shall provide the names(s) of the professional advisors that he/she intends to contact, together with a brief summary of the subject matter for which professional advice is sought. The Company Secretary shall provide written acknowledgement of acceptance of notification. In the event that one (1) or more Directors seek to appoint one (1) or more advisors, the Chairman should take steps to facilitate discussions to arrive at a consensus. Fees for the independent professional advice will be payable by the Company but approval of the Board will be required.

The above restriction shall not apply to Executive Directors acting in the furtherance of their executive responsibilities and within their delegated powers.

For the purposes of this section, independent professional advice shall include legal, accounting or other professional financial advice. Independent professional advice shall exclude any advice concerning the personal interests of the Directors (such as with respect to their contracts or disputes with the Company), unless these are matters affecting the Board as a whole and have the unanimous agreement of the Board.

Access to the Management and Information

Board members must have complete unimpeded access to the Company's Management. Board members must have unrestricted access to information pertaining to the Company including the Company's auditors and consultants.

In accessing its rights to information and the management, Board members must use judgement to ensure that such access is not distracting the operations of the Company and that such contact, be copied to the Executive Director and Chairman.

Furthermore, during deliberations, the Board should encourage the management when necessary, to bring managers into Board meetings who:

- Can provide additional insight into the items being discussed because of personal involvement in these areas; and/or
- Have potential for future senior managerial positions that senior management believes would be enhanced by exposure to the Board.

Access to the Company Secretary

The appointment or resignation of Company Secretary or Secretaries of the Board shall be the prerogative of the Board as a whole.

The Secretary is responsible for ensuring that Board procedures are followed, that the application rules and regulations for the conduct of the affairs of the Board are complied with and for all matters associated with the maintenance of the Board or otherwise required for its efficient operation. The Secretary is also responsible for ensuring compliance by the Company with the relevant regulations affecting the Company, including but not limited to the Companies Act 2016.

All members, particularly the Chairman, have unrestricted access to the advice and services of the Secretary for the purposes of the Board's affairs and business.

Board discussions should be open and constructive, recognising that genuinely held differences of opinion could, in circumstances, bring greater clarity and lead to better decisions. The Chairman will, nevertheless, seek a consensus in the Board but may, where considered necessary, call for a vote. All discussions and their record will remain confidential unless there is a specific direction from the Board to the contrary or disclosure is required by law. Subject to legal or regulatory requirements, the Board will decide the manner and timing of the publication of its decisions.

STRENGTHEN COMPOSITION AND REINFORCE INDEPENDENCE

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The number and composition of Board membership are reviewed on a regular basis appropriate to the prevailing size, nature and complexity of the Group's business operations so as to ensure the relevance and effectiveness of the Board in accordance with Principle 2 of MCCG 2012 where the Board should have transparent policies and procedures that will assist in the selection of the Board members.

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The composition of the Board will reflect the duties and responsibilities it has to discharge and perform as representative of the interests of the shareholders. The composition of the Board shall reflect as much as possible or practicable, proportional representation of investments in the Group. Directors are not required to hold any qualification share.

A formal invitation to join the Group as a Board member would be extended by the Chairman after approval from the Board. The Chairman should ensure that all Board members, when taking up office, are fully briefed on the terms of their appointment, duties and responsibilities. New members will also be briefed on the operations of the Group to increase their understanding of the business and the environment and markets in which the Group operates. The new members will be given a copy of the Board Policy Manual, which consists of the following information:-

1. Group Organisation;
2. Board Organisation;
3. Board Responsibilities;
4. Board Procedures;
5. Board's and Director's Evaluation; and
6. Additional information including the latest business plan and budget, the latest Integrated Annual Report and accounts and minutes of past three (3) Board of Directors' meetings and applicable Committee Meetings.

The new members will be required to meet key members of the management. Members are expected to keep themselves abreast of changes and trends in the business and with the Group's business environment and markets, and changes and trends in the economic, political, social, legal and regulatory climate that could affect the business of the Group.

In selecting potential new directors and directors to be nominated for re-election, the Board Nomination and Remuneration Committee will consider the skills and industry knowledge that the candidate will be able to bring to the Board. As a guide, the Board Nomination and Remuneration Committee would be required to ensure that the proposed candidates meet the requirements on knowledge and skills as set out in the Director Assessment Form. In selecting new directors to replace a member who resigns or for any reason ceases to be a member of the Board, the Board Nomination and Remuneration Committee may consider the candidate nominated by the existing Board members.

In addition, the Articles of Association provide that the office of any Director shall become vacant if such Director:

- becomes bankrupt;
- be found to be lunatic or become of unsound mind;

- ceases to be a Director under the provisions of the Companies Act 2016;
- be convicted of any sizeable offences;
- by notice in writing given to the Company, resigns from his office;
- is removed by ordinary resolution of the Company subject to the provisions of Article 104; and
- is absent for more than 50% of the total Board of Directors' meeting held during a financial year.

EFFECTIVENESS OF BOARD

The effectiveness of the Board is vital to the success of the Group that symbolises good governance. For that reason, a large portion of the Board Policy Manual is devoted to explaining and outlining the format and procedure for evaluating Board members' performance. The availability of the structured format for Board members' evaluation assists the members in discharging their duties effectively and efficiently.

The Group believes that the Board has carried out its duties and responsibilities in ensuring the Group is properly managed and constantly improved so as to protect and enhance shareholder's value and to meet the Group's obligations to all parties with which the Group interacts – its stakeholders.

The Board views that the number and composition of the current Board members is sufficient and well-balanced for the Company to carry out its duties effectively, whilst providing assurance that no individual or small group of individuals can dominate the Board's decision making.

The Position Description for the Chairman and for the Executive Director is prescribed in the Board Policy Manual. At the end of each financial year the Board will set KPI that should be achieved by the management for the next financial year.

There is clear segregation of duties between the Chairman and the Executive Director. The Board is led by the Chairman, Dato' Kamaruzzaman Abu Kassim whose principal responsibility is to ensure the effective running of the Board and independent of the management. The current Chairman has never held the post of the Executive Director of the Company.

The Non-Independent Non-Executive Directors are from varied business and professional backgrounds and bring with them a wealth of experience that bear favourably in Board's decisions and policy formulations. Together, the Directors bring a wide range of business and financial experience relevant to the direction of the expanding Group.

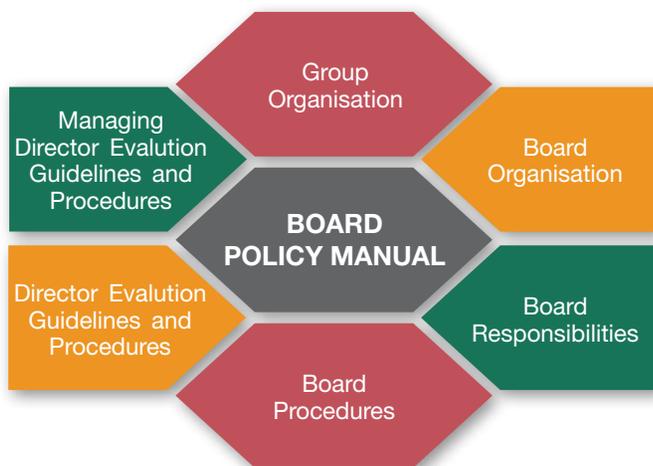
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The independence of the Independent Non-Executive Director is safeguarded as he is not involved in the day-to-day management of the Group and he does not engage in any business dealings or have other relationships with the Group.

The profiles of the Directors' are set out in pages 58 to 62 of the Integrated Annual Report.

Recommendation 1.7 of the MCCG 2012 states that the Board should formalise, periodically review and make public its Board Charter. The Company has in place a Board Policy Manual or Board Charter to assist the Board in discharging its duties effectively. The revised Board Charter has been approved by the Board of Directors of Kulim (Malaysia) Berhad on 24 June 2014. The Board Charter will adopt any changes to the MCCG 2012, the Companies Act 2016 or any other relevant rules and regulations from time to time for best practices.

Among others, the Board Policy Manual covers the following important scopes:



Over and above the issue of independence, each Director has a continuing responsibility to determine whether he has a potential or actual conflict of interest in relation to any material transaction or matter which comes before the Board. Such situation may arise from external associations, interests or personal relationships. Each Director is required to disclose any interest in a transaction. If so, the Director must abstain from the deliberations and decisions of the Board on the subject.

DIRECTORS' REMUNERATION

The Board believes that the levels of remuneration offered by the Group are sufficient to attract Directors of calibre and with sufficient experience and talents to contribute to the performance of the Group. Comparison with similar position within the industry and other major public listed companies is made in order to arrive at a fair rate of remuneration. The Board will determine the level of remuneration paid to members, taking into consideration the recommendations of the Board Nomination and Remuneration Committee.

Non-Executive members will be paid a basic fee as ordinary remuneration and will be paid a sum based on their responsibilities in Committees and the Board and/or special skills and expertise they bring to the Board. The fee shall be fixed in sum and not by a commission on or percentage of profits or turnover. Any fee paid to an alternate Director shall be agreed between himself and the Director nominating him and shall be paid out of the remuneration of the latter.

Directors shall also be entitled to be paid all reasonable travelling, hotel and other expenses incurred by them respectively in or about the performance of their duties as Directors, including any expenses incurred in attending Board meetings or a Committee of Directors or general meetings.

In determining the level of remuneration for non-executive members, the Board may commission a survey of the remuneration levels of the Non-Executive Directors, to be carried out either by external consultants or senior management. The survey should cover the remuneration level of Non-Executive Directors of an organization in a similar industry, size and location. This report shall be tabled and a presentation shall be made to the Board for deliberation. The considerations that the Board should take into account include:

- membership of Non-Executive Directors in committees;
- whether the Director is an ordinary member or chairman of the committee; and
- any special responsibilities that the Board has assigned to the member.

The Executive Director will receive no fees but will be paid as employees of the Company in accordance with their contracts of employment with the Company. The remuneration package for the Executive Director shall be reviewed by the Board Nomination and Remuneration Committee and may not include a commission on or percentage of turnover.

In determining the remuneration of the Executive Director, the Board Nomination and Remuneration Committee should consider the contributions made by the Executive Director, and the effectiveness of the Executive Director in meeting established objectives and goals. The Board Nomination and Remuneration Committee should then recommend the remuneration package of the Executive Director to the Board for approval.

CORPORATE GOVERNANCE REPORT

The details of the remuneration of each Director paid by the Company during the year are as follows:

| | Basic Salary | Fees/ Allowances/ ESOS/Other Emoluments | Bonuses | Benefit in-kind | Total |
|--|--------------|--|--------------|--------------------|--------------|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Executive Directors | | | | | |
| Ahamad Mohamad | 1,105 | 544 | 986 | 34 | 2,668 |
| Abdul Rahman Sulaiman | 486 | 290 | 467 | 36 | 1,279 |
| Jamaludin Md Ali | 682 | 335 | 573 | 14 | 1,605 |
| Non-Independent Non-Executive Directors | | | | | |
| Dato' Kamaruzzaman Abu Kassim | - | 554 | - | 35 | 589 |
| Zulkifli Ibrahim | - | 136 | - | - | 136 |
| Rozaini Mohd Sani | - | 108 | - | - | 108 |
| Independent Non-Executive Directors | | | | | |
| Tan Sri Dato' Seri Utama Arshad Ayub | - | 121 | - | - | 121 |
| Tan Sri Datin Paduka Siti Saadah Sh Bakir | - | 136 | - | - | 136 |
| Datuk Haron Siraj | - | 123 | - | - | 123 |
| Dr. Radzuan A. Rahman | - | 139 | - | - | 139 |
| Leung Kok Keong | - | 142 | - | - | 142 |
| Grand Total | 2,273 | 2,628 | 2,026 | 119 | 7,046 |

Notes: Total Directors' Remuneration of RM7,046,000 differs from those reported under Audited Financial Statement of RM7,287,000 mainly due to recognition of cost of ESOS pursuant to FRS2: Share-based Payment, which was determined by the fair value at the date when the grant is made using an appropriate valuation model.

UPHOLD INTEGRITY IN FINANCIAL REPORTING

FINANCIAL REPORTING

In presenting the annual financial statements and quarterly announcements to the shareholders, the Directors aim to present a balanced and candid assessment of the Group's position and prospects. This is in accordance with Principle 5 of the MCGG 2012 and also applies to other price-sensitive public reports and reports to regulators. Timely release of announcements reflects the Board's commitment to provide up-to-date and transparent information on the Group's performance.

In the preparation of the financial statements, the Directors will consider compliance with all applicable Financial Reporting Standards, provisions of the Companies Act 2016 and relevant provision of laws and regulations in Malaysia and the respective countries in which the subsidiaries operate. The Board is assisted by the Audit Committee who reviews both annual financial statements and the quarterly announcements to ensure the reports reflect a true and fair view of the state of affairs of the Group and Company.

The Audit Committee Report for the financial year which sets out the composition and a summary of activities of the Audit Committee, is contained on pages 149 to 151 of this Integrated Annual Report.

CORPORATE GOVERNANCE REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITY IN PREPARING AUDITED FINANCIAL STATEMENTS

The Directors are required by Companies Act 2016 to prepare financial statements for each financial year which have been made out in accordance with the applicable approved accounting standards and give a true and fair view of the state of affairs of the Group and the Company at the end of the financial year and of the results and cash flows of the Group and Company for the financial year.

In preparing the financial statements, the Directors have:

- adopted suitable accounting policies and applied them consistently;
- made judgment and estimates that are reasonable and prudent;
- ensured that all applicable Financial Reporting Standards in Malaysia have been followed; and
- prepared the financial statements on the going concern basis as the Directors have a reasonable expectation, having made enquiries that the Group and Company have resources to continue in operational existence for the foreseeable future.

The Directors have responsibility for ensuring that the Group and the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Group and the Company which enable them to ensure that the financial statements comply with the Companies Act 2016.

The Directors have overall responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group to prevent and detect fraud and other irregularities.

RECOGNISE AND MANAGE RISKS

The Group recognised that it is obliged to systematically manage and regularly review its risk profile at a strategic, financial and operational level. The Group has done this by developing and adopting risk management framework that determines the process and identifies tools for realising its objectives. Not only does it minimise its risk but also maximises its opportunities. It enhances the Company's capability to respond timely to the changing environment and its ability to make better decision. This is in accordance with Principle 6 of the MCCG 2012.

The Board has also established an internal audit function which is led by a Certified Internal Auditor ("CIA") who reports directly to the Board of Audit Committee and is responsible for providing independent assurance to the Board on the adequacy and effectiveness of internal control.

The Group's Statement on Risk Management and Internal Control are set out on pages 140 to 148.

RELATED PARTY TRANSACTIONS

All related party transactions entered into by the Group were made in the ordinary course of business and on the same terms as those prevailing at the time for comparable transactions with other persons or charged on the basis of equitable rates agreed between the parties.

Details of the transactions entered into by the Group during the financial year ended 31 December 2016 are set out on pages 258 to 262 of this Integrated Annual Report.