

# CORPORATE GOVERNANCE REPORT

**STOCK CODE** : 2224  
**COMPANY NAME** : Selangor Dredging Berhad  
**FINANCIAL YEAR** : March 31, 2020

## 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 TO 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.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The Board discharges its duties and responsibilities that are set out in the Board Charter which is available at the Company's website <a href="http://www.sdb.com.my">www.sdb.com.my</a> , with the objective of safeguarding the interest of shareholders and other stakeholders.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**Intended Outcome**

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

**Practice 1.2**

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The role of the Chairman of the Board is set out in Paragraph 3.3 of the Board Charter.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**Intended Outcome**

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

**Practice 1.3**

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	<p>The positions of Chairman and Managing Director (“MD”) are held by different individuals.</p> <p>The Chairman is primarily responsible for the orderly conduct and working of the Board whilst the MD has the overall responsibility for the day-to-day running of the business and implementation of Board policies and decisions. The separation of power seeks to facilitate an appropriate balance of power to prevent any single individual from dominating deliberations and the decision-making process.</p>	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

## Intended Outcome

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

## Practice 1.4

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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>Both Company Secretaries have the requisite credentials and are qualified to act as company secretary under Section 235(2) of the Companies Act 2016.</p> <p>The role and responsibilities of the Company Secretary are as follow: -</p> <p>(a) Ensure compliance of listing and related statutory obligations as well as updates on regulatory requirements, codes, guidance and relevant legislation;</p> <p>(b) Ensure adherence to board policies and procedures, rules, relevant laws and best practices on corporate governance;</p> <p>(c) Attend Board, Committees and General Meetings, and ensure the proper recording of minutes as well as follow-up on matters arising;</p> <p>(d) Ensure proper upkeep of statutory registers and records and maintain a secured retrieval system which stores meeting papers and minutes of meetings;</p> <p>(e) Assist the Chairman in the preparation for and conduct of meetings; in terms of policies and procedures, and updates on regulatory requirements, codes, guidance and relevant legislation.</p> <p>SDB also engages the services of Epsilon Advisory Services Sdn. Bhd., an external consultant, on corporate secretarial matters and compliance to provide additional advice on issues pertaining to compliance and Corporate Governance.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	

<b>Timeframe</b>	:		
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## 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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board meets regularly during the year, with the annual meeting diary tentatively made in advance to facilitate Directors' planning. There is a formal schedule of matters reserved for discussion at the scheduled Board meetings.</p> <p>The notice of the Board meetings is circulated to Board members at least seven (7) days before the meeting and the agenda and Board papers are circulated to the Directors five days before each meeting.</p> <p>The Directors are supplied with Board papers with necessary information that are accurate, clear and comprehensive to enable informed decision making at the Board meetings. In addition, Board members can seek further advice or clarification from Management when required.</p> <p>The deliberations and conclusions of issues discussed in the Board meetings are duly recorded in the Board minutes, the draft of which is circulated for the Chairman's review within a reasonable timeframe after the meeting. The meeting minutes capture the decisions made, including the key deliberations, rationale for each decision made, and any significant concerns or dissenting views.</p> <p>The decisions made at the Board meetings are also communicated to Management in a timely manner to ensure appropriate execution.</p>
<b>Explanation for departure</b>	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**Intended Outcome**

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.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	<p>The Board is mindful of the need to protect the interests of its shareholders and other stakeholders. In discharging its duties effectively, the Board is guided by its Board Charter which sets out the roles and responsibilities of the Board.</p> <p>The Board Charter would be periodically reviewed and updated in accordance with the needs of the Company and any new regulations that may have an impact on the discharge of the Board's responsibilities.</p> <p>The last review was carried out in 2018. The Board Charter is available on our website at <a href="http://www.sdb.com.my">www.sdb.com.my</a>.</p>	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

### Intended Outcome

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

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

### Practice 3.1

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

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	The Directors' Code of Conduct consist of three main areas, namely: <ul style="list-style-type: none"><li>• Corporate Governance;</li><li>• Relationship with shareholders, employees, creditors, customers and other stakeholders; and</li><li>• Social responsibilities and the environment.</li></ul> The Code of Conduct is published on the Company's website at <a href="http://www.sdb.com.my">www.sdb.com.my</a> .
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

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

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

### Practice 3.2

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Company also has in place a Whistleblowing Policy which provides a structured reporting channel and guidance to all employees and external parties to whistle blow without the fear of victimisation.</p> <p>The reportable activities include of fraud, bribery, abuse of power, conflict of interest, theft or embezzlement, misuse of company's property and non-compliance with company's policies.</p> <p>Policies are available for access on the Company's website.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### 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.

<b>Application</b>	:	Departure	
<b>Explanation on application of the practice</b>	:		
<b>Explanation for departure</b>	:	Although Mr Eddy Chieng is a Non-Independent Non-Executive Director, his willingness to challenge the Management with questions without fear and debate constructively during board meetings helps to reinforce the check and balance of Board's decision-making process.	
		The lack of majority independent directors in the current Board composition which comprises two (2) out of five (5) directors does not jeopardise independent Board's deliberations and all decisions are made in the best interests of company.	
Please provide an alternative practice and explain how the alternative practice meets the intended outcome.			
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:	Please explain the measure(s) the company has taken or intend to take to adopt the practice.	
<b>Timeframe</b>	:	Choose an item.	

### Intended Outcome

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.

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

**Intended Outcome**

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

**Practice 4.3 - Step Up**

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

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

**Intended Outcome**

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

**Practice 4.4**

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	<p>The Board pursues diversity in terms of skills, background, knowledge, industry experience, culture, independence, ethnicity, age and gender both the Board level and Senior Management.</p> <p>The Board recognises a diverse Board in the Company could offer greater depth and breadth compared to non-diverse Board whilst the diversity at Senior Management will lead to better decisions.</p> <p>Please refer to the Annual Report, Profile of Directors and the senior management on pages 12 to 17 for further information.</p>	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

### Intended Outcome

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

### Practice 4.5

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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>At present, out of five (5) directors, there are three (3) female directors, namely, Ms Teh Lip Kim, Ms Teh Lip Pink and Puan Selma Enolil binti Mustapha Khalil (i.e. 60%).</p> <p>The Company does not have a formalised Board gender diversity policy alongside targets and measures.</p> <p>The Board will take steps towards formalising such policy, targets and measures to reflect the Company's commitment towards gender diversity.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

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

### Practice 4.6

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Nominating Committee is responsible for recommending suitable candidates for Directorships to the Board.</p> <p>The responsibilities of the Nominating Committee in this regard are outlined in its Terms of Reference. The Nominating Committee is also open to referrals from external sources available, such as industry and professional associations, as well as independent search firms.</p> <p>In evaluating potential candidates, the Nominating Committee will assess directorship suitability based on objective criteria, including:</p> <ul style="list-style-type: none"> <li>- Skills, knowledge, expertise and experience;</li> <li>- Professionalism;</li> <li>- Integrity; and</li> <li>- In the case of candidates for the position of independent non-executive directors, the nominating committee should also evaluate the candidates' ability to discharge such responsibilities/functions as expected from independent non-executive directors.</li> </ul>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**Intended Outcome**

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.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	Dato' Christopher Chan Choun Sien, the current Chairman of Nominating Committee is an Independent Non-Executive Director.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

### Intended Outcome

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

### Practice 5.1

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

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>An assessment of the Board's performance is carried out for the year under review, including the Independent Directors' performance.</p> <p>The assessment criteria include board structure/mix, decision making and boardroom participation and activities, meeting administration and conducts, skill and competencies and role and responsibilities whilst the performance of the individual Directors are assessed in the areas of contribution and interaction with peer, quality of the input of the Director, understanding of role, etc.</p> <p>During the annual assessment exercise, the Directors are given performance evaluation sheet for Individual Director to complete. In addition, Directors who are members of the Board Committees are given additional performance evaluation section for the respective Board Committees. The Board assessment is conducted by way of self-assessment. Directors are required to fill up the self-assessment forms and provide their feedbacks, views and suggestions for improvement.</p> <p>The results of these self-assessment forms are compiled and tabled to the Nominating Committee for review and deliberation.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

The 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.

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Board has in place remuneration policies to determine the remuneration of directors and senior management and the same is provided in the Company's website <a href="http://www.sdb.com.my">www.sdb.com.my</a>.</p> <p>The objective of the Group's remuneration policy is to attract and retain the Directors and Senior Management required to lead and control the Group effectively.</p> <p>In the case of Managing Director and Senior Management, the components of the remuneration package are linked to corporate and individual performance.</p> <p>For Non-Executive Directors, the level of remuneration is reflective of their experience and level of responsibilities. Directors' remuneration, details as set out in Overview Statement on Corporate Governance at pages 40 to 49 of the Annual Report 2020.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

### Intended Outcome

The 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.

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The Board has established its Remuneration Committee and has defined the terms of reference of this Committee which is published in the Company's website.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**Intended Outcome**

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

**Practice 7.1**

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The remuneration of individual directors on named basis and the breakdown of their remuneration includes fees, salary, bonus, benefits in-kind and other emoluments are disclosed in the Company's Annual Report 2020.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

### Intended Outcome

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

### Practice 7.2

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.

<b>Application</b>	:	Departure	
<b>Explanation on application of the practice</b>	:		
<b>Explanation for departure</b>	:	The Company had disclosed the top five (5) senior management's remuneration in bands of RM50,000 but not on named basis due to confidentiality and sensitivity of each remuneration package.	
		Please provide an alternative practice and explain how the alternative practice meets the intended outcome.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:	Please explain the measure(s) the company has taken or intend to take to adopt the practice.	
<b>Timeframe</b>	:	Others	

**Intended Outcome**

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

**Practice 7.3 - Step Up**

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

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

**Intended Outcome**

There is an effective and independent Audit Committee.

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

**Practice 8.1**

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	Dato' Christopher Chan Choun Sien, an Independent Non-Executive Director is the Chairman of the Audit Committee whilst the Chairman of the board is Mr. Eddy Chieng Ing Huong.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**Intended Outcome**

There is an effective and independent Audit Committee.

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

**Practice 8.2**

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

<b>Application</b>	:	Departure	
<b>Explanation on application of the practice</b>	:		
<b>Explanation for departure</b>	:	The Audit Committee does not have such policy as it has no intention to appoint any former key audit partner handling the audit of the Company and its group to be a member of the Audit Committee.	
		Please provide an alternative practice and explain how the alternative practice meets the intended outcome.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:	Please explain the measure(s) the company has taken or intend to take to adopt the practice.	
<b>Timeframe</b>	:	Choose an item.	

### Intended Outcome

There is an effective and independent Audit Committee.

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

### Practice 8.3

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>Annually, the Audit Committee will review the appointment, performance and remuneration of the External Auditors before recommending them to the shareholders for re-appointment in the AGM. In assessing the External Auditors, the Audit Committee will consider the adequacy of resources of the firm, quality of service and competency of the staff assigned to the audit as well as the auditors' independence and fee.</p> <p>As part of the Audit Committee review processes, the Audit Committee will also obtain assurance from the External Auditors confirming that they are, and have been, independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements.</p> <p>During the presentation of the External Auditors' report on 29 June 2020, the Audit Committee had undertaken the above procedures in assessing the External Auditors and recommended to the Board for approval for seeking shareholders' approval at the forthcoming AGM on the re-appointment of the existing External Auditors, BDO PLT.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**Intended Outcome**

There is an effective and independent Audit Committee.

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

**Practice 8.4 - Step Up**

The Audit Committee should comprise solely of Independent Directors.

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

### Intended Outcome

There is an effective and independent Audit Committee.

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

### Practice 8.5

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

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>All Audit Committee members are financially literate and are able to understand matters under the purview of the Audit Committee including financial reporting process. The qualification and experience of the individual Audit Committee members are disclosed in the Profile of Board of Directors in the Annual Report.</p> <p>During the Audit Committee Meetings, the members were briefed by the external auditors, BDO PLT on the following key areas:</p> <ul style="list-style-type: none"><li>• Financial Reporting developments;</li><li>• Malaysian Financial Reporting Standards; and</li><li>• Other changes in regulatory environment.</li></ul> <p>For the financial year under review, all Audit Committee members have attended training / seminar to keep themselves abreast with the latest development and changes to regulatory requirements and to ensure that they are equipped with the relevant knowledge.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

## Intended Outcome

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

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

### Practice 9.1

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

<b>Application</b>	: Applied
<b>Explanation on application of the practice</b>	<p data-bbox="544 696 1412 741"><b>ENTERPRISE RISK MANAGEMENT ("ERM")</b></p> <p data-bbox="544 741 1412 1346">The Group has established an ERM Framework to proactively identify, evaluate, mitigate and manage key risks to an optimal level. In line with the Group's commitment to deliver sustainable value, this ERM Framework aims to provide an integrated and organised approach group-wide. It outlines the ERM methodology which is in line with the Principles and Guidelines of ISO31000:2009 Risk Management, mainly promoting the risk ownership and continuous monitoring of key risks faced by the Group that were identified via the Risk and Control Self-Assessment ("RCSA") process. The ERM assessment reviews are carried out on a quarterly basis to address major risk factors of concern together with the necessary action plan, if any from the perspectives of regulatory and legal, governance &amp; operational controls, financial, customers, products and services, suppliers, project management, information technology, branding and human capital. And all these factors will ultimately be evaluated based on the objective of achieving sustainability in conducting business.</p> <p data-bbox="544 1346 1412 1391"><b>BOARD RESPONSIBILITY</b></p> <p data-bbox="544 1391 1412 2016">The Board reaffirms its overall responsibility for the Group's risk management and internal control systems covering not only financial controls but also strategic, operational and compliance to regulatory requirement. This also includes ensuring the adequacy and effectiveness of such systems to safeguard shareholders' investments and the Group's assets through regular reviews. The implementation of these control systems is undertaken by the management which regularly reports on key risks identified and actions taken to mitigate and/or minimise such risks. The oversight of these critical areas is carried out by the Board and assisted with the establishment of the Risk Management Committee ("RMC") at Senior Management level, which are empowered by their respective terms of reference since 2016. And on 26 August 2019, the RMC was renamed to Risk Management and Sustainability Committee ("RMSC") and tabled for review to the Board, and approved for adoption by Board to also encompass the sustainability criteria. The RMSC is chaired by the Managing Director</p>

	<p>and its other members comprises of the Group General Manager, the Head of Finance and the Risk Management Manager (“RM”).</p> <p>The Group’s risk management and internal control systems are designed to efficiently and effectively manage risks that may prevent the achievement of the Group’s business objectives, and to provide information for accurate reporting, decision making and ensuring compliance with regulatory and statutory requirements. The Board also ensures that there is a robust framework of ongoing risk management processes in identifying, evaluating and managing significant risks faced by SDB to promote a sustainable long-term success of the Group. Due to inherent limitations in the systems of internal control and risk management, the Board recognises that these systems can only manage rather than eliminate all risks of failure to achieve business objectives, and as such, can only provide reasonable but not absolute assurance against material misstatement, loss or fraud. Furthermore, consideration is given to the cost of implementation as compared to the expected benefits to be derived from the implementation of the internal control system.</p> <p>The risk management and internal control framework is regularly evaluated by the Board for adequacy and effectiveness, assisted by the RMSC and Risk Manager.</p> <p>Details of the Group’s Risk Management and Internal Control Framework and further information such as on SDB’s ERM governance structure and the ERM process are further illustrated in 2 tables, in its Statement on Risk Management and Internal Control, which is on pages 50 to 54 of the Company’s Annual Report 2020.</p>	
<p><b>Explanation for departure</b></p>	<p>:</p>	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<p><b>Measure</b></p>	<p>:</p>	
<p><b>Timeframe</b></p>	<p>:</p>	

## Intended Outcome

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

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

## Practice 9.2

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

<b>Application</b>	: Applied
<b>Explanation on application of the practice</b>	<p>During the financial year, the Board was updated on a quarterly basis on the latest status of the corporate risk scorecard for which management of each department have identified their risks, the probability of those risks occurring, the impact if they do occur and the action plans being taken to manage those risks to the desired level, through the RCSA process with verification from Risk &amp; Compliance Department (“RCD”) after reviewing it. And all departments are required to report to RCD on any occurrence of incident, with some of these departments have additional reporting on a certain number of identified relevant KRI on a set timeline to RCD. After which all these reports will be consolidated by the RM into a report known as the Risk Management &amp; Controls Report, and presented to RMSC and the Board for deliberation and guidance on it.</p> <p><b>KEY ELEMENTS OF INTERNAL CONTROL AT SDB:</b></p> <ul style="list-style-type: none"> <li>• <b>Terms of Reference</b> Clear definition of the terms of reference, i.e. functions, authorities and responsibilities of the various committees of Senior Management and the Board have been established.</li> <li>• <b>Organisational Structure and Accountability Levels</b> The Group has a well-defined organisational structure with clear reporting lines of responsibility. Delegation of authority and key business functions of the Group are centralised, to ensure accountability and quick impartment of risk management strategies. Including the setting up of the RMSC and appointing all Head of Departments as a Risk and Compliance Officer (“RCO”) in their respective departments’ in ensuring accountability. In addition, the Head of Departments are also required to appoint an Alternate Risk &amp; Compliance Officer (“ARCO”) within their respective departments to assist them with managing risk and implementing control activities.</li> <li>• <b>Limits of Authority (“LOA”)</b></li> </ul>

	<p>The LOA has been established as part of SDB’s effort in ensuring an optimal balance between strong corporate governance practices and operational efficiency. It is a written delegation of authority by the Board to the Investment Committee and Management within the SDB Group. Its key objectives are to provide a holistic view of the authority limits set, to encourage delegation, empowerment and accountability, and to eliminate guesswork, confusion hence providing clarity. The LOA document is subject to periodical review to incorporate any changes that affect the authority limits.</p> <ul style="list-style-type: none"> <li>• <b>Management Styles and Control Procedures</b> Weekly operational meetings are conducted among senior management to discuss and review the business plans, budgets, financial and operational performances of the Group.</li> </ul> <p>Operating policies and procedures are made available to guide staff in their day-to-day work processes. Such operating policies and SOPs have been established, as well as reviewed and updated periodically to meet changing business, operational needs and regulatory requirements.</p> <p>Establishment of dual control and clear line on segregation of duties via independent checks, review and reconciliation activities to prevent unauthorized activities, power abuse, fraud, corruption, bribery and human errors.</p> <p>Quality control and progress of the project is monitored via frequent schedule site visits by the relevant teams, regular site meetings with the contractors and deployment of fulltime staff on site. And a monthly project site report is presented to management for review. Moreover, external certification/standards such as the Building Quality Assessment System (“BuildQAS”) standards are adopted to strengthen and improve the output processes and quality.</p> <ul style="list-style-type: none"> <li>• <b>Human Resource Policy</b> There are proper guidelines within the Group for recruitment and selection, compensation and benefits, performance management, code of conduct, and other relevant procedures in line with its brand promise and core values. Training and development programmes are identified and scheduled for employees to acquire the necessary knowledge and competency to meet their job expectations and to multi task when necessary, which is a step-in succession planning. The Whistleblowing Policy and Procedure has been revised in line with the established Anti-Bribery and Anti-Corruption Policy in compliance to the Malaysian Anti-Corruption Commission Act 2009 and its amendments.</li> <li>• <b>Business Continuity Management</b> Business Continuity Plan and Disaster Recovery Plan are in place with daily backup and system vendors support to provide assurance for business continuity. There are also offline</li> </ul>
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procedures to implement in case of system failure. And annual testing is conducted at least twice without fail.

- **Internal Audit**

On a quarterly manner, an independent internal audit function provides assurance to the Audit Committee through the execution of internal audit checks based on an approved risk-based internal audit plan. Findings arising from these checks are presented, together with management's response and proposed action plans, to the Audit Committee for its review. Further details of the activities of the internal audit function are provided in the Audit Committee's Report.

- **Tender**

Review and award of major contracts are carried out through a rigorous tendering process by a Tender Committee. A minimum of three tenderers are called for and tenders are awarded based on selection criteria including quality, pricing, track record and speed of delivery. The tenders are reviewed by a Tender Committee, which comprises a few key selected members of the senior management to ensure transparency and independence in the award of contracts.

- **Insurance on Key Assets**

Adequate insurance of the major assets and resources of the Group are in place to ensure that these are sufficiently covered against any mishap that may result in material losses to the Group.

- **Safety and Security**

Management has always placed importance in complying to the Occupational Safety and Health Act, 1994 to ensure that all the employees are aware of the safety procedures that are in place for their own safety during any emergencies and that the Group's assets and resources are well protected from any accident or mishap.

It also important to note that the Internal Audit independently reviews the ERM framework and internal control systems to provide to the Audit Committee with sufficient assurance that the systems of internal control are effective to address the risks identified.

The Board is satisfied with the Group's system of risk management and the internal controls, and is of the view that the system which is in place for the year under review is sound and adequate to safeguard shareholders' investments, customers' interests, employee's well-being and the Group's assets. The Board is conscious of the fact that the system of risk management and internal control practices must continuously be evolve and enhance to support the Group's operations and adapt to suit changing business environment. Therefore, the Board with the assistance of RMSC, will when necessary, put in place

	<p>appropriate measures to further strengthen the system of internal control.</p> <p>Further details are available in the Statement of Risk Management and Internal Control which is on pages 50 to 54 of the Company's Annual Report 2020.</p>	
<b>Explanation for departure</b>	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**Intended Outcome**

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

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

**Practice 9.3 - Step Up**

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

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

## Intended Outcome

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

### Practice 10.1

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

<b>Application</b>	: Applied
<b>Explanation on application of the practice</b>	<p>Reviewing the internal audit function's effectiveness and independence is part of Audit Committee's ('AC') oversight responsibilities as stipulated in the AC Charter approved by the Board.</p> <p>The internal audit ('IA') function is outsourced to an established company, NGL Tricor Governance Sdn Bhd. And has direct access to the Board through the Chairman of the AC and is independent of the activities it audits.</p> <p>This is as per the Internal Audit Charter that is approved by the AC. IA's authority, scope and responsibilities are governed by an Internal Audit Charter.</p> <p>The AC reviews and subsequently approves the Annual Internal Audit Plan and ensures IA is accorded with appropriate standing, resources and authority to facilitate the discharge of its duties.</p> <p>Comprehensive audits of the practices, procedures, expenditure and internal controls of all business and support units and subsidiaries are undertaken on a regular basis. IA provides assurance and recommendations to the Audit Committee on the Group's governance, risk management and internal control systems.</p> <p>The representative from the Internal Auditors attended all the meetings to table the internal audit reports, internal audit progress reports and annual audit plan during the financial year.</p> <p>The activities of the Internal Auditors during the financial year ended 31 March 2020 were as follows:</p> <ul style="list-style-type: none"><li>• Conducted discussions with management in identifying significant concerns and risk areas perceived by management for inclusion in the Internal Audit Plan for the Group;</li><li>• Developed and proposed an Internal Audit Plan for the year which was discussed and accepted by the AC and Board;</li><li>• Conducted periodic audits on internal controls relating to operating system and standard operating procedures to monitor compliance</li></ul>

	<p>and assess the adequacy and effectiveness of controls implemented by various companies within the Group;</p> <ul style="list-style-type: none"> <li>• Attended and reported to the AC at all quarterly meetings held during the financial year ended 31 March 2020; and</li> <li>• Highlighted areas of concern to the AC and ensuring that recommendations provided by the Internal Auditors are duly attended to and adhered by management within stipulated time frame. In the Internal Audit Progress Reports, the Internal Auditors had reported their findings in their subsequent follow-up reviews to the Audit Committee.</li> </ul> <p>It also important to note that the IA is independent in performing its internal audit task. And has direct access to communicate to the AC at all times.</p> <p>Further details are available in Audit Committee Report which is on pages 57 to 58 of the Company's Annual Report 2020.</p>	
<p><b>Explanation for departure</b></p>		
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
<p><b>Measure</b></p>		
<p><b>Timeframe</b></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 10.2

The board should disclose–

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Internal Audit Function reports functionally to the Audit Committee (“AC”) and is independent in reporting to the AC.</p> <p>As the Internal Audit Function has been outsourced to NGL Tricor Governance Sdn Bhd since 2018, and the Internal Audit task is carried out in accordance with the International Professional Practices Framework for Internal Auditing promulgated by the Institute of Internal Auditors (“IIA”).</p> <p>The Internal Audit Function adheres to IIA's mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit function’s performance. And the Internal Audit Function conducts a risk based internal audit plan which will stipulate the audit coverage, resources and time frame, as per AC’s approval. Every audit task is handled by well experienced personnel and the resources are allocated appropriately to cater to the planned audit schedule.</p> <p>Further details are available in Audit Committee Report which is on paged 57-58 of the Company’s Annual Report 2020.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	

<b>Timeframe</b>	:		
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### Intended Outcome

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

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

### Practice 11.1

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	<p>The Group maintains a website at <a href="http://www.sdb.com.my">www.sdb.com.my</a>. Shareholders and investors may access the information on the Group on corporate information, latest financial results, annual reports, announcements to Bursa Securities, Board Charter and code of conduct under "Investor Relations" link.</p> <p>The personnel have been identified as the investor contact persons of the Group, as shown in the website at <a href="http://www.sdb.com.my">www.sdb.com.my</a> under "Investor Relations" link.</p>
<b>Explanation for departure</b>	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	
<b>Timeframe</b>	:	

**Intended Outcome**

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

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

**Practice 11.2**

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

<b>Application</b>	:	Not adopted	
<b>Explanation on application of the practice</b>	:		
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**Intended Outcome**

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

**Practice 12.1**

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	The notice for the upcoming Annual General Meeting in 2020 has been provided to shareholders on 28 August 2020, more than 28 days before the meeting to be held on 29 September 2020.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**Intended Outcome**

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

**Practice 12.2**

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

<b>Application</b>	:	Applied	
<b>Explanation on application of the practice</b>	:	During the last Annual General Meeting, the Chairmen of the Board and the respective Board Committees were present to facilitate discussions and address any questions shareholders may have on matters that fall under the purview of the Board Committees.	
<b>Explanation for departure</b>	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
<b>Measure</b>	:		
<b>Timeframe</b>	:		

**Intended Outcome**

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

**Practice 12.3**

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

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

<b>Application</b>	:	Applied
<b>Explanation on application of the practice</b>	:	In view of the current COVID-19 pandemic situation, the Company will leverage on technology to host the upcoming Annual General Meeting (“AGM”) fully virtual. This will enable its shareholders to participate at the AGM remotely, including voting in absentia.
<b>Explanation for departure</b>	:	
		Please provide an alternative practice and explain how the alternative practice meets the intended outcome.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
<b>Measure</b>	:	Please explain the measure(s) the company has taken or intend to take to adopt the practice.
<b>Timeframe</b>	:	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.*

Not applicable to Selangor Dredging Berhad
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