

# CORPORATE GOVERNANCE REPORT

**STOCK CODE** : 5005  
**COMPANY NAME** : UNISEM (M) BERHAD  
**FINANCIAL YEAR** : December 31, 2017

## OUTLINE:

### **SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE**

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

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

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

## SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

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

### Intended Outcome

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

### Practice 1.1

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

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| <b>Application</b>                                | : | Applied   |
| <b>Explanation on application of the practice</b> | : | <p>The Board of Directors (the "Board") has the overall responsibility for the performance of the Group by maintaining full and effective control over strategic, financial, operational, compliance and governance issues. The principal roles and responsibilities of the Board include the followings:</p> <ul style="list-style-type: none"><li>• <i>Review and adopt strategic plans and objectives for the Group.</i> Through the worldwide sales meetings held every half-yearly, the directors review thoroughly and deliberate the Group's marketing strategies, mid-term and long-term prospects of our products, operating plan of the 3 main plants, capital expenditure strategies and the annual budget &amp; projections. The execution and challenges of all these are reported to the Board throughout the year, and a half year review of the plan and strategies are conducted to monitor the implementation of the approved plans by the management.</li><li>• <i>Promote ethical and responsible decision-making,</i> monitor compliance with all relevant laws, tax obligations, regulations, applicable accounting standards and significant corporate policies (including the Code of Conduct and Ethics).</li><li>• <i>Oversee the conduct of the Group's business, including its control and accountability systems.</i> The Group's performance and key focus areas are reviewed on a monthly basis by the Group COO and the Executive Directors at Executive Management Committee meetings and management meetings together with COOs of the major plants.</li><li>• <i>Monitor succession planning.</i> The Nomination Committee reviews the performance of the Board and Board Committees. The Board together with the Nomination Committee evaluates</li></ul> |

the suitability and experience of potential candidates, to fill any gaps as and when the need arises. Succession plans for key management positions are in place and continue to be monitored by Corporate HR.

- *Identify principal risks and ensure the implementation of appropriate internal controls.* Through the Internal Auditors the Board monitors any risks that might be faced by the business and the Group as a whole, while the Audit & Risk Management Committee is updated on any risk issues after the Enterprise Risk Management reviews. The Board through the Audit & Risk Management Committee and Internal Auditors ensures appropriate management of risks, and constantly monitors the review and management of principal risks to ensure sustainability of the Company's business.
- *Review the adequacy and the integrity of the management information and internal controls system.* The Internal Audit function of the Company is managed by the Internal Auditor who is tasked with monitoring the internal control systems inherent throughout the Company and to report its findings directly to the Audit & Risk Management Committee. The Internal Auditor has jurisdiction to audit any business units as a whole or review projects and systems at any time and report their findings directly to the Audit & Risk Management Committee upon completion. The Audit & Risk Management Committee will review the adequacy and integrity of the internal control systems and ensure the implementation of appropriate internal control systems. The external auditors will evaluate the design and implementation of controls relevant to the audit.
- *Ensure that the market and shareholders are fully informed of material developments.* Unisem is committed to provide accurate, timely, consistent and fair disclosure of corporate information to enable informed and orderly market decisions by investors. The Company has established policy and guidelines to raise awareness amongst its management and employees on disclosure requirements and procedures, provide structured guidelines in disseminating corporate information to third party and thus help ensure compliance with legal and regulatory requirements on disclosure.

During the year :

- The Company released its quarterly results announcements and various disclosures and announcements to the Exchange and these announcements were posted on the Company's website at [www.unisemgroup.com](http://www.unisemgroup.com).
- During the year the Company held 4 analyst briefings after release of its quarterly financial results.
- During the year, the Company granted requests from fund managers and analysts for plant visits, discussions and

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|  | <p>telephone conference.</p> <ul style="list-style-type: none"> <li>• The Company participated in investors conferences organised by local and international stockbroking houses, such as CIMB Invest Malaysia 2017, CLSA Exporters' Day.</li> <li>• The Abridged annual reports were dispatched to shareholders on 3 April 2017. We also sent out printed copies of the annual report upon requests from Shareholders.</li> <li>• The annual general meeting was held on 26 April 2017 and the Company met with members of the press after the annual general meeting.</li> </ul> |  |
| <b>Explanation for departure</b>   | :  |  |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |  |  |
| <b>Measure</b>   | :  |  |
| <b>Timeframe</b>   | :  |  |

**Intended Outcome**

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

**Practice 1.2**

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

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| <b>Application</b>   | : | Applied   |  |
| <b>Explanation on application of the practice</b>  | : | The roles and responsibilities of the Chairman/Group Managing Director and the Executive Directors are established and there is a clear and defined division of responsibilities between the Chairman/Group Managing Director, and the Executive Directors of the Company. The Chairman/Group Managing Director is primarily responsible for the effective functioning of the Board and related corporate affairs and for formulating general Company policies and making strategic business decisions sanctioned by the Board of Directors. He is supported by the 3 Executive Directors who are responsible for the execution of these decisions and policies and the day-to-day operations of the Group. |  |
| <b>Explanation for departure</b>   | : |   |  |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |  |
| <b>Measure</b>   | : |   |  |
| <b>Timeframe</b>   | : |   |  |

### Intended Outcome

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

### Practice 1.3

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

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| <b>Application</b>   | : | Departure   |  |
| <b>Explanation on application of the practice</b>  | : |   |  |
| <b>Explanation for departure</b>   | : | The practice of a combined role of a Chairman and Chief Executive is common in the semiconductor industry and among multinational corporations.   |  |
|  |   | Whilst the Chairman of the Company is not an independent director, the independent directors and non-executive directors form the majority of the Board. We believe these majority board members have the ability to exercise their duties unfettered by any business or other relationship and are free to express their opinions at the Board table free of concern about their position or the position of any third party and act in the best interest of the Company. No individual or small group of individuals can dominate the Board's decision making process. It is a practice that all decisions of the Board are unanimous. In the event of even a single dissenting voice a resolution will not be put to a vote and will be deferred or aborted. |  |
| <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**

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

**Practice 1.4**

The board is supported by a suitably qualified and competent Company Secretary to provide sound governance advice, ensure adherence to rules and procedures, and advocate adoption of corporate governance best practices.

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| <b>Application</b>   | : | Applied  |
| <b>Explanation on application of the practice</b>  | : | The Board is supported by suitably qualified and competent Company Secretaries to provide sound governance advice, ensure adherence to rules and procedures, and advocate adoption of corporate governance best practices. The Directors have access to the advice and services of the Company Secretaries and other professionals so as to ensure that Board meeting procedures are followed and that applicable rules and regulations are complied with. The Company Secretaries regularly update the Board on new statutes and directives issued by the regulatory authorities and keep the Board informed of their responsibilities. The Company Secretaries regularly attend trainings to keep themselves abreast with the many developments around corporate and securities laws, listing rules and corporate governance practices and issues. |
| <b>Explanation for departure</b>   | : |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |  |
| <b>Measure</b>   | : |  |
| <b>Timeframe</b>   | : |  |

**Intended Outcome**

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

**Practice 1.5**

Directors receive meeting materials, which are complete and accurate within a reasonable period prior to the meeting. Upon conclusion of the meeting, the minutes are circulated in a timely manner.

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| <b>Application</b>   | : | Applied   |  |
| <b>Explanation on application of the practice</b>  | : | At least 5 business days prior to Board meetings, all Directors are provided with the necessary information which often includes the monthly management accounts, manufacturing performance and marketing reports, annual budget and business plans, updates on statutory regulations and requirements and other administrative matters. This is to enable the Directors to participate actively in the overall management of the Company and to discharge their duties and responsibilities. The minutes of the Board meetings are circulated to the Directors within 1 month. |  |
| <b>Explanation for departure</b>   | : |   |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |  |
| <b>Measure</b>   | : |   |  |
| <b>Timeframe</b>   | : |   |  |

## Intended Outcome

There is demarcation of responsibilities between the board, board committees and management.

There is clarity in the authority of the board, its committees and individual directors.

## Practice 2.1

The board has a board charter which is periodically reviewed and published on the company's website. The board charter clearly identifies–

- the respective roles and responsibilities of the board, board committees, individual directors and management; and
- issues and decisions reserved for the board.

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| <b>Application</b>                                | : | Applied  |
| <b>Explanation on application of the practice</b> | : | <p>The Board Charter sets out the role, composition and responsibilities of the Board of Directors of the Company. It outlines processes and procedures for the Board and its committees in discharging their stewardship effectively and efficiently.</p> <p>The Board Charter is reviewed periodically incorporating updates and enhancements, and continues to be relevant to the existing rules and regulations as well as standards of corporate governance.</p> <p>We have adopted policies, revised the Board Charter and terms of reference of Board Committee to be aligned with the MCCG and included the following:</p> <p><b>Board Charter –</b></p> <ul style="list-style-type: none"><li>- included under Board Composition at least one-half of the Board to comprise Independent Directors</li><li>– included target of 30% women directors on the Board</li><li>– Included Schedule of Board Reserved Matters as part of Board Charter</li><li>– adopted the policy on tenure of independent directors to not exceed the limit of 9 years</li></ul> <p><b>Audit &amp; Risk Management Committee Terms of Reference –</b></p> <ul style="list-style-type: none"><li>– stated that the Committee to comprise solely of independent directors</li><li>– included the cooling-off period of at least 2 years for former key audit partner before being appointed as member of Audit &amp; Risk Management Committee</li></ul> <p><b>Nomination Committee Terms of Reference –</b></p> <ul style="list-style-type: none"><li>– included a paragraph on Chairman of the Committee shall be an Independent Director or the Senior Independent Director</li></ul> <p>The Board Charter is accessible at the Company's website<br/><a href="https://www.unisemgroup.com/company-info/corporate-governance/">https://www.unisemgroup.com/company-info/corporate-governance/</a></p> |

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|  | Board reserved matters are included in the board charter. |  |
| <b>Explanation for departure</b> :   |   |  |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |  |
| <b>Measure</b> :   |   |  |
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### Intended Outcome

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

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

### Practice 3.1

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

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

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| <b>Application</b>  | : | Applied   |
| <b>Explanation on application of the practice</b>   | : | <p>Unisem is deeply committed to the following ethical business practices. Accordingly, above all else, we value:</p> <ul style="list-style-type: none"> <li>• Integrity and honesty;</li> <li>• Openness and respect for others;</li> <li>• Execution and accountability;</li> <li>• Passion for customers, partners, and technology;</li> <li>• Commitment to personal excellence and self-improvement; and</li> <li>• Protection of identity of whistle blower.</li> </ul> <p>To put these values into practice on a daily basis, a Unisem Code of Ethics is established as a guide for ethical business conduct for the Directors, management and employees of the Group, which is available at the Company's website <a href="https://www.unisemgroup.com/company-info/corporate-social-responsibility/">https://www.unisemgroup.com/company-info/corporate-social-responsibility/</a></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

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

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

### Practice 3.2

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

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| <b>Application</b>   | : | Applied  |
| <b>Explanation on application of the practice</b>  | : | <p>The Group has communicated and set up procedures and anonymous complaint mechanisms such as help line for employees, suppliers and customers to report inappropriate ethical behaviours and workplace grievances. In addition, there shall be no retaliation to all whistle blowers' in good faith and their identity shall not be disclosed to maintain confidentiality. Unisem's Ethics Hotline Number is (+) 6012-5334890 (International) or email: <a href="mailto:ethicsqueries@unisemgroup.com">ethicsqueries@unisemgroup.com</a></p> <p>In 2017, the Company received 3 workplace grievances and 1 whistleblowing complaint from the employees (2016: 2 cases of workplace grievances and 1 case of whistleblowing complaint). These cases were investigated and all cases were closed per procedure and no cases of retaliation reported.</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.

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| <b>Application</b>   | : | Departure  |
| <b>Explanation on application of the practice</b>  | : |  |
| <b>Explanation for departure</b>   | : | <p>Currently, there are 11 Board members in Unisem (M) Berhad comprising 4 executive directors, 5 independent directors and 2 non-executive non-independent directors.</p> <p>Even though the number of independent directors is less than half of the Board (5 over 11), due to the active participation of all the Directors with diverse perspectives and insights, including the 5 independent directors, no individual or small group of individuals can dominate the Board's decision making process. It is a policy that all decisions of the Board are unanimous and are made in the best interest of the Company. In the event of even a single dissenting voice a resolution will not be put to a vote and will be deferred or aborted.</p> <p>One of the priorities on the Board CG agenda is to introduce more independent directors to the Board as vacancies and suitable candidates are identified.</p> |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |  |
| <b>Measure</b>   | : | Please explain the measure(s) the company has taken or intend to take to adopt the practice.   |
| <b>Timeframe</b>   | : | Choose an item.  |

**Intended Outcome**

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

**Practice 4.2**

The tenure of an independent director does not exceed a cumulative term limit of nine years. Upon completion of the nine years, an independent director may continue to serve on the board as a non-independent director.

If the board intends to retain an independent director beyond nine years, it should justify and seek annual shareholders' approval. If the board continues to retain the independent director after the twelfth year, the board should seek annual shareholders' approval through a two-tier voting process.

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| <b>Application</b>   | : | Not applicable - Step Up 4.3 adopted |  |
| <b>Explanation on application of the practice</b>  | : |                                      |  |
| <b>Explanation for departure</b>   | : |                                      |  |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |                                      |  |
| <b>Measure</b>   | : |                                      |  |
| <b>Timeframe</b>   | : |                                      |  |

### **Intended Outcome**

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

### **Practice 4.3 - Step Up**

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

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| <b>Application</b>                             | : | Adopted   |
| <b>Explanation on adoption of the practice</b> | : | <p>The role of the independent directors is to provide objective views and detached impartiality, constructively challenge and contribute to the development of the business objectives and strategies of the Group, ensure effective check and balance in the proceedings of the board and that no individual has unrestricted power or influence over any board decision.</p> <p>The Board conducts regular review of the independence of each of the Directors, based on information provided to it by the directors. Directors are expected to volunteer information as and when changes occurred.</p> <p>In addition to the independence guidelines and criteria as set out in the Main Market Listing Requirements of the Bursa Malaysia Securities Berhad (“Bursa Securities Listing Requirements”), the fundamental premise of the assessment is that an independent director must be independent of management and free of any business, family or other relationship, that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of his independent and objective judgment.</p> <p>The Board has adopted a policy which limits the tenure of its independent directors to nine years.</p> |

### Intended Outcome

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

### Practice 4.4

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

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| <b>Application</b>   | : | Applied  |
| <b>Explanation on application of the practice</b>  | : | <p>The Board believes that individuals who are nominated by the Board to be a Director should have demonstrated notable or significant achievements in business, education or public service; should possess the requisite intelligence, education and experience to make a significant contribution to the Board and bring a range of skills, diverse perspectives and backgrounds to its deliberations and should have the highest ethical standards, a strong sense of professionalism and intense dedication to serving the interests of the shareholders.</p> <p>The following attributes or qualifications will be considered by the Nomination Committee in evaluating a person's candidacy for membership of the Board:</p> <ul style="list-style-type: none"><li>• Management and leadership experience</li><li>• Skilled and diverse background</li><li>• Integrity and professionalism</li><li>• Commitment</li></ul> <p>For new appointments of Directors, the assessment on the independence of the proposed Director, which is carried out prior to the appointment, is ascertained in accordance with the criteria set out in the Bursa Securities Listing Requirements.</p> <p>All Directors of Unisem are subject to the statutory duties and prohibitions regarding conflicts of interest. Directors are required to disclose family ties, or cross directorships, that may be relevant in considering continuing independence. The Board review with the Audit &amp; Risk Management Committee and the internal auditors on related party transactions to ensure that the related party transactions were on terms that were not more favourable to the related parties than those generally available to the public.</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> |   |  |

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| <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.

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| <b>Application</b>  | : | Applied   |
| <b>Explanation on application of the practice</b>   | : | <p>Unisem provides its services to customers around the world with operations in 5 countries and therefore diversity generally is an integral part of how we do business. We acknowledge its importance and recognise the benefits that it can bring. It is our aim to have an appropriate level of diversity in the boardroom to reflect the diverse nature of the Company's operations and support the achievement of its strategic objectives. The Nominations Committee considers diversity generally when making appointments to the Board, taking into account relevant skills, experience, knowledge, personality, ethnicity and gender.</p> <p>Achieving gender diversity is more difficult in certain sectors and, as a technology company the demographic profile of the current talent pool presents significant challenges in this regard.</p> <p>In 2015 and early 2016, two female directors were appointed to the board as non-executive independent directors. One of our priorities on the Board CG agenda is to work towards the goal of having 30% women directors on the Board in 2018. Our prime responsibility, however, is the strength of the Board and our overriding aim in any new appointments must always be to select the best candidate.</p> |
| <b>Explanation for departure</b>  | : |   |
| <p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p> |   |   |
| <b>Measure</b>  | : |   |
| <b>Timeframe</b>  | : |   |

### Intended Outcome

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

### Practice 4.6

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

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| <b>Application</b>   | : | Applied  |
| <b>Explanation on application of the practice</b>  | : | <p>The Board believes that individuals who are nominated by the Board to be a Director should have demonstrated notable or significant achievements in business, education or public service; should possess the requisite intelligence, education and experience to make a significant contribution to the Board and bring a range of skills, diverse perspectives and backgrounds to its deliberations and should have the highest ethical standards, a strong sense of professionalism and intense dedication to serving the interests of the shareholders.</p> <p>The following attributes or qualifications will be considered by the Nomination Committee in evaluating a person's candidacy for membership of the Board:</p> <ul style="list-style-type: none"><li>• Management and leadership experience</li><li>• Skilled and diverse background</li><li>• Integrity and professionalism</li><li>• Commitment</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.

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| <b>Application</b>  | : | Applied   |
| <b>Explanation on application of the practice</b>   | : | <p>During the financial under review, the Nomination Committee is chaired by Mr Martin Giles Manen, who is the Senior Independent Director of the Company.</p> <p>In February 2018 Y.Bhg. Dato' Gregory Wong Guang Seng was appointed as the Chairman of the Nomination Committee and identified as the Senior Independent Director in place of Mr Martin Giles Manen.</p> <p>The Nomination Committee met once in 2017 and the activities of the Nomination Committee for the financial year are summarised as follows:-</p> <ul style="list-style-type: none"> <li>• evaluated and determined the training needs of Directors;</li> <li>• reviewed annually the required Board of Directors mix of skills, experience and other qualities;</li> <li>• assessed the independence of Independent directors of the Company</li> <li>• considered and recommended to the Board Directors who are eligible to stand for re-election / re-appointment at the coming annual general meeting; and</li> <li>• undertaken an annual review of the Board's performance, and that of its Committees.</li> </ul> |
| <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

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

### Practice 5.1

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

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

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| <b>Application</b>                                | : | Applied   |
| <b>Explanation on application of the practice</b> | : | <p>The Board undertakes an annual review of its performance, and that of its Committees. The performance evaluation comprises of a Board Performance Evaluation, Board Committee Performance Evaluation and a Directors' Self and Peer Assessment. The evaluation is designed to improve the Board's effectiveness as well as draw the Board's attention to key areas that need to be addressed.</p> <p>The main areas / performance indicators for the evaluation include the Board/Board Committee composition, administration and process, conduct, accountability, interaction and communication with management. Performance indicators for individual Directors include their active contributions, understanding of their roles and quality of input.</p> <p>The findings were generated based on Directors' feedback and were tabled and discussed at the Nomination Committee meeting. The results in 2017 revealed that the Board and the Board Committees had performed well, with overall rating above satisfactory, indicating that the Board and the Committees have performed effectively. The Directors also identified areas of improvement relating to training needs, product/technology knowledge enhancement and more involvement in the enterprise risk management exercise with management.</p> <p>The Board conducts regular review of the independence of each of the Directors, based on information provided to it by the directors. Directors are expected to volunteer information as and when changes occurred. In addition to the independence guidelines and criteria as set out in the Main Market Listing Requirements of the Bursa Malaysia Securities Berhad ("Bursa Securities Listing Requirements"), the fundamental premise of the assessment is that an independent director must be independent of management and free of any business, family or other relationship, that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of his independent and objective judgment.</p> |

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|---|--|--|
|   | <p>All Directors of Unisem are subject to the statutory duties and prohibitions regarding conflicts of interest. Directors are required to disclose family ties, or cross directorships, that may be relevant in considering continuing independence. The Board review with the Audit &amp; Risk Management Committee and the internal auditors on related party transactions to ensure that the related party transactions were on terms that were not more favourable to the related parties than those generally available to the public.</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

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 is guided by the remuneration policy for the Directors set out below:</p> <ul style="list-style-type: none"><li>• The fees for the Directors are considered annually and are determined in light of market best practice and with reference to the time commitment and responsibilities associated with the roles.</li><li>• The Board recognized the increasing focus on risk management and corporate governance matters and the corresponding increase in the workload of the Audit Committee, had approved a supplement fee for the members of the Audit Committee.</li><li>• There are no supplemental fees or Committee membership fees for other board committees.</li><li>• Directors' fees are determined within the overall aggregate annual amount authorised by shareholders with reference to the Company's Articles of Association. The Board as a whole considers the policy and structure for the Directors' fees on the recommendation of the Chairman. The Directors do not participate in discussions on their specific levels of remuneration.</li><li>• Non-Executive Directors receive no other pay or benefits.</li><li>• There are no supplemental fees for Directors who sit on the board of the subsidiaries of the Group.</li></ul> <p>The Board ensures that the Group's remuneration policy remains competitive to attract and retain Directors of certain caliber and the necessary skills and experience as required for the effective management of the Group. The remuneration policy for the Directors is reviewed periodically against market practices by the Remuneration Committee and the Board.</p> <p>The remuneration for Executive Directors is balanced between fixed and performance-linked elements. All Executive Directors are paid monthly salaries, allowances, bonuses and other emolument and benefits in line with Company policy.</p> |

|   |   |
|---|---|
|   | <p>The remuneration for the Non-Executive Directors is determined by the Board as a whole, based on a fixed fee. The fees for the Directors are considered annually and are determined in light of market best practice and with reference to the time commitment and responsibilities associated with the roles.</p> <p>Executive Directors will abstain from the deliberations and voting decisions in respect of his remuneration. Non-Executive Directors' remuneration will be a matter to be decided by the Board as a whole.</p> <p>Directors' fees are disclosed in the annual report and approved by the shareholders at the Annual General Meeting.</p> <p>Other than the remuneration from the Company, the Directors do not receive any remuneration from any of the subsidiaries within the group.</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

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> | : | <p>The following Directors sit on the Remuneration Committee:</p> <ol style="list-style-type: none"><li>1. Mr John Chia Sin Tet (<i>Chairman of the Committee</i>) – Executive Non-Independent Director</li><li>2. Mr Ang Chye Hock - Independent Director</li><li>3. Mdm Lim Siew Eng - Independent Director</li></ol> <p>The Remuneration Committee consists mainly of Independent Directors</p> <p>The terms of reference of the Remuneration Committee are available at the Company's website under Company Info - Corporate Governance section. <a href="https://www.unisemgroup.com/company-info/corporate-governance/">https://www.unisemgroup.com/company-info/corporate-governance/</a></p> <p>The Remuneration Committee met 1 time in 2017 and the activities of the Nomination Committee for the financial year were summarised as follows:-</p> <ul style="list-style-type: none"><li>• Reviewed and recommended to the Board the directors annual fees</li><li>• Reviewed and recommended to the Board the performance bonus payments for the executive directors</li><li>• Reviewed and recommended to the Board the salary increment of the executive directors</li></ul> |
| <b>Explanation for departure</b>                  | : |   |
|   |   |   |

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

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

## Intended Outcome

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> : | <p>The remuneration for Executive Directors is balanced between fixed and performance-linked elements. The fixed components include salary and ordinary contractual entitlements. The performance-linked component includes a discretionary bonus payment taking into consideration the Group and individual performance and never of a percentage of the Group's revenue.</p> <p>The remuneration for the Non-Executive Directors is determined by the Board as a whole, based on a fixed fee. The fees for the Directors are considered annually and are determined in light of market best practice and with reference to the time commitment and responsibilities associated with the roles.</p> <p>Executive Directors will abstain from the deliberations and voting decisions in respect of his remuneration. Non-Executive Directors' remuneration will be a matter to be decided by the Board as a whole.</p> <p>Directors' fees are disclosed in the annual report and approved by the shareholders at the Annual General Meeting.</p> <p>Other than the remuneration from the Company, the Directors do not receive any remuneration from any of the subsidiaries within the group.</p> <p>The aggregate gross remuneration of the Directors received from the Company for the financial year ended 31 December 2017 is categorised into the following components:</p> |                  |                        |                         |                |                                     |                |                                     |  |             |             |             |             |             |             |                      |         |           |         |        |       |           |                    |         |           |         |        |   |           |                          |         |           |         |        |       |           |
|   | <table border="1"><thead><tr><th></th><th><b>Director's Fees</b></th><th><b>Salaries+</b></th><th><b>Bonus</b></th><th><b>Benefits-in-kind</b></th><th><b>Others*</b></th><th><b>Aggregate gross remuneration</b></th></tr><tr><th></th><th><b>(RM)</b></th><th><b>(RM)</b></th><th><b>(RM)</b></th><th><b>(RM)</b></th><th><b>(RM)</b></th><th><b>(RM)</b></th></tr></thead><tbody><tr><td>Mr John Chia Sin Tet</td><td>252,000</td><td>3,391,709</td><td>581,424</td><td>35,329</td><td>6,463</td><td>4,266,925</td></tr><tr><td>Mr Lee Hoong Leong</td><td>136,500</td><td>2,036,996</td><td>349,044</td><td>48,043</td><td>-</td><td>2,570,583</td></tr><tr><td>Mr Francis Chia Mong Tet</td><td>136,500</td><td>1,741,813</td><td>303,930</td><td>52,117</td><td>6,463</td><td>2,240,823</td></tr></tbody></table>   |                  | <b>Director's Fees</b> | <b>Salaries+</b>        | <b>Bonus</b>   | <b>Benefits-in-kind</b>             | <b>Others*</b> | <b>Aggregate gross remuneration</b> |  | <b>(RM)</b> | <b>(RM)</b> | <b>(RM)</b> | <b>(RM)</b> | <b>(RM)</b> | <b>(RM)</b> | Mr John Chia Sin Tet | 252,000 | 3,391,709 | 581,424 | 35,329 | 6,463 | 4,266,925 | Mr Lee Hoong Leong | 136,500 | 2,036,996 | 349,044 | 48,043 | - | 2,570,583 | Mr Francis Chia Mong Tet | 136,500 | 1,741,813 | 303,930 | 52,117 | 6,463 | 2,240,823 |
|   | <b>Director's Fees</b>  | <b>Salaries+</b> | <b>Bonus</b>           | <b>Benefits-in-kind</b> | <b>Others*</b> | <b>Aggregate gross remuneration</b> |                |                                     |  |             |             |             |             |             |             |                      |         |           |         |        |       |           |                    |         |           |         |        |   |           |                          |         |           |         |        |       |           |
|   | <b>(RM)</b>   | <b>(RM)</b>      | <b>(RM)</b>            | <b>(RM)</b>             | <b>(RM)</b>    | <b>(RM)</b>                         |                |                                     |  |             |             |             |             |             |             |                      |         |           |         |        |       |           |                    |         |           |         |        |   |           |                          |         |           |         |        |       |           |
| Mr John Chia Sin Tet                                | 252,000   | 3,391,709        | 581,424                | 35,329                  | 6,463          | 4,266,925                           |                |                                     |  |             |             |             |             |             |             |                      |         |           |         |        |       |           |                    |         |           |         |        |   |           |                          |         |           |         |        |       |           |
| Mr Lee Hoong Leong                                  | 136,500   | 2,036,996        | 349,044                | 48,043                  | -              | 2,570,583                           |                |                                     |  |             |             |             |             |             |             |                      |         |           |         |        |       |           |                    |         |           |         |        |   |           |                          |         |           |         |        |       |           |
| Mr Francis Chia Mong Tet                            | 136,500   | 1,741,813        | 303,930                | 52,117                  | 6,463          | 2,240,823                           |                |                                     |  |             |             |             |             |             |             |                      |         |           |         |        |       |           |                    |         |           |         |        |   |           |                          |         |           |         |        |       |           |

|   |   |         |         |        |        |       |         |
|---|---|---------|---------|--------|--------|-------|---------|
|   | Mr Alexander Chia<br>Jhet-Wern  | 136,500 | 358,422 | 55,426 | 36,631 | -     | 586,979 |
|   | Mr Martin Giles<br>Manen  | 211,500 | -       | -      | -      | -     | 211,500 |
|   | Y.Bhg. Dato'<br>Gregory Wong<br>Guang Seng  | 186,500 | -       | -      | -      | -     | 186,500 |
|   | Mr Ang Chye Hock  | 186,500 | -       | -      | -      | -     | 186,500 |
|   | Y.Bhg. Tan Sri<br>Dato' Wong See<br>Wah   | 136,500 | -       | -      | -      | -     | 136,500 |
|   | Mr Yen Woon @<br>Low Sau Chee   | 136,500 | -       | -      | -      | 6,463 | 142,963 |
|   | Mdm Lim Siew Eng  | 184,417 | -       | -      | -      | -     | 184,417 |
|   | Puan Mahani Binti<br>Amat   | 136,500 | -       | -      | -      | -     | 136,500 |
|   | <p>+ Included fix allowances<br/> * Others - Unisem (M) Berhad long service award gifts to Directors and employees who attained their tenure of service every five years.</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

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>   | : | <p>It is commercially disadvantageous to reveal to all and sundry the remuneration of our top senior management in this very competitive environment. The recruitment and retention of key technical/managerial personnel is challenging and is a key focus of our HR policy. Remuneration remains an important consideration in this regard.</p> <p>The remuneration packages of the senior management are determined with the objective to attract, retain and reward the senior management who run the operations of the Group.</p> <p>The remuneration packages of the senior management of the Group consists of both fixed and performance-linked elements. The fixed components include salary and ordinary contractual entitlements. The performance-linked component includes a discretionary bonus payment taking into consideration the Group and individual performance and never of a percentage of the Group's revenue. There are no other incentives or compensation for 'loss of employment' or termination benefits.</p> <p>The Corporate HR conducts benchmarking exercises regularly to ensure that our remuneration packages are competitive and adequately remunerate our employees.</p> |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |   |
| <b>Measure</b>   | : | Please explain the measure(s) the company has taken or intend to take to adopt the practice.  |
| <b>Timeframe</b>   | : | Choose an item.   |

**Intended Outcome**

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

**Practice 7.3 - Step Up**

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

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

**Intended Outcome**

There is an effective and independent Audit Committee.

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

**Practice 8.1**

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

|  |   |   |  |
|--|---|---|--|
| <b>Application</b>   | : | Applied   |  |
| <b>Explanation on application of the practice</b>  | : | <p>The Audit &amp; Risk Management Committee is chaired by Mr Martin Giles Manen, who is not the Chairman of the Board.</p> <p>Mr Manen is a Chartered Accountant and a member of the Malaysian Institute of Accountants (MIA) and Malaysian Institute of Certified Public Accountants (MICPA).</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 8.2**

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

|  |   |  |  |
|--|---|--|--|
| <b>Application</b>   | : | Applied  |  |
| <b>Explanation on application of the practice</b>  | : | <p>The Audit &amp; Risk Management 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 &amp; Risk Management Committee.</p> <p>The Terms of Reference of the Audit &amp; Risk Management Committee has been amended to reflect the above Practice.</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 8.3

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>The Audit &amp; Risk Management Committee reviewed and evaluated factors relating to the independence and objectivity of the external auditors, these reviews included:</p> <ul style="list-style-type: none"><li>• demonstration of objectivity and skepticism including challenges to management with their outcomes;</li><li>• assessment of safeguards on conflict of interest with regards to the provision of non-audit services;</li><li>• review of annual independence confirmations and processes for monitoring compliance with independence and ethical standards.</li></ul> <p>The Company has through the Audit &amp; Risk Management Committee established a transparent and appropriate relationship with the external auditors. The Audit &amp; Risk Management Committee and Board place great emphasis on the objectivity and independence of the external auditor in providing the auditors' reports to the shareholders. The external auditors held private discussions without the presence of the Management with the Audit &amp; Risk Management Committee and are invited to attend the Committee meetings at least twice yearly.</p> <p>The external auditors' presence was also requested at the Company's annual general meeting to attend to issues raised by the shareholders.</p> <p>In line with current professional standards the Company requires the partner in charge and independent review partner of the external auditor to rotate after five years with a cooling-off period of at least two years. The audit engagement managers are required to rotate after seven years with a cooling-off period of at least two years.</p> <p>The Board has a policy that requires a former key audit partner/engagement partner to observe a cooling-off period of at least two years before being appointed as a member of the Audit &amp; Risk Management Committee.</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>                             | : | Adopted   |
| <b>Explanation on adoption of the practice</b> | : | <p>The Audit &amp; Risk Management Committee comprise solely of Independent directors.</p> <p>The following Directors sit on the Audit &amp; Risk Management Committee:</p> <ol style="list-style-type: none"><li>1. Mr Martin Giles Manen (<i>Chairman of the Committee</i>) Independent Director</li><li>2. Y.Bhg. Dato' Gregory Wong Guang Seng - Independent Director</li><li>3. Mr Ang Chye Hock - Independent Director</li><li>4. Mdm Lim Siew Eng - Independent Director</li></ol> |

## 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>The qualification of the Audit &amp; Risk Management Committee (ARMC) is as follows:</p> <ol style="list-style-type: none"><li>1. <b>Mr Martin Giles Manen</b> (Chairman – Senior Independent Director) (A Chartered Accountant and a member of the Malaysian Institute of Accountants (MIA) and the Malaysian Institute of Certified Public Accountants (MICPA))</li><li>2. <b>Y.Bhg. Dato' Gregory Wong Guang Seng</b> (Independent Director) (A Fellow of the Institute of Chartered Accountants (England &amp; Wales) and a Chartered Management Accountant (UK), a member of MIA, MICPA and an Associate Member of Tax Institute Malaysia.)</li><li>3. <b>Mr Ang Chye Hock</b> (Independent Director) (Bachelor of Science in Electronics (Honours). More than 28 years of experience in the semiconductor industry)</li><li>4. <b>Mdm Lim Siew Eng</b> (Independent Director) (Bachelor of Economics (Honours) degree. More than 28 years of working experience in the corporate advisory sector of the financial services industry.)</li></ol> <p>The Chairman and members of the AC are financially literate, and have carried out their duties in accordance with the Terms of Reference of the ARMC.</p> <p>The AC members were invited to various training programmes to keep abreast of relevant industry developments including accounting and auditing standards, risk management, statutory laws and regulations, to address any skills or knowledge gaps according to their needs. Amongst others, the ARMC Chairman, Mr. Martin Giles Manen and Y.Bhg. Dato' Gregory Wong Guang Seng continues to be actively involved in professional body and standard setting activities through his involvement in MICPA, MIA and the Malaysian Accounting Standards Board (MASB).</p> |

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

### Intended Outcome

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

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

### Practice 9.1

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

|   |   |  |
|---|---|--|
| <b>Application</b>                                | : | Applied  |
| <b>Explanation on application of the practice</b> | : | <p>The Board acknowledges that it is responsible for maintaining a sound system of internal controls, which provides reasonable assurance of the adequacy and effectiveness of the Group's operational processes and internal controls system and compliance with laws and regulations as well as with internal procedures and guidelines, to safeguard the shareholders' investment and the Group's assets.</p> <p>This includes the establishment of an appropriate control environment and framework, and review of the effectiveness, adequacy and reliability of the risk management processes and internal control as well as compliance with risk policies and regulatory requirements.</p> <p>The risk management and internal control systems are designed to continuously identify principal risks, assess and manage these risks which may have hindered the achievement of the Group's strategic goals and business objectives and to manage these risks efficiently, effectively and economically rather than to eliminate it.</p> <p>For the financial year under review, the Board is satisfactory with the adequacy and effectiveness of the Group's system of risk management and internal control to safeguard shareholders' interest and Group's assets. There have been no material control weaknesses or failures that would result in material misstatements, losses or fraud to the Group.</p> <p>The Group Managing Director and Group Finance have provided assurance to the Board that the Group's risk management and internal control system is in place and operating adequately and effectively, in all material aspects, based on the risk management and internal control system of the Group.</p> <p>The Board together with the management will continuously assess the adequacy and effectiveness of the Group's system of risk management and internal controls and will take corrective actions to enhance the system, as and when necessary.</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 9.2

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><b>RISK MANAGEMENT</b></p> <p>Risk management and internal controls are regarded as an integral part of the overall management processes. The Audit &amp; Risk Management Committee ("the ARMC" or "the Committee") supported by Internal Audit Department provides an independent assessment and evaluation of the effectiveness of Unisem Enterprise Risk Management ("ERM") framework on quarterly basis. Unisem's ERM framework is consistent with the ERM framework adopted by the Committee of Sponsoring Organizations of Treadway Commission (COSO). Our ERM framework involves systematically identifying, analyzing, measuring, monitoring and reporting on risks that may be affecting the achievement of the Group's objectives and goals within the acceptable risk appetite. It outlines the significant risks that the Group is exposed to; these include strategic, organization structure, operational, processes, regulatory, people culture, technologies and reputation risks.</p> <p>Our ERM framework comprised a risk and control matrix that had been populated and key risks to each Group's business units objective, aligned with Group's strategic objectives had been identified and assessed for likelihood of the risk occurrence and the magnitude of impact using a self-assessment approach. During the financial year, all business units conducted their annual enterprise risk management reviews. The enterprise risk assessment process for each business unit is led by the Chief Operating Officer and member represented by departmental head of each division together with the Internal Audit Department. For each of the key risks identified, the risk owner is assigned to ensure appropriate risk response actions are carried out in a timely manner. The respective risk owners are required to put in place the management actions and control measures and communicate with Internal Audit Department to update the risk register from time to time.</p> <p>Quarterly results from the risk assessment and status of implementation of corrective action plan on key risks were reported to the Committee accordingly. To ensure the Group's ERM framework</p> |

remain sound, the risk register is monitored and updated to include emerging risk as and when necessary on its adequacy. This is to ensure controls are in place and continue to operate adequately and effectively. In addition, the Group consciously covers and transfers certain risks by securing adequate insurance coverage.

The Group's customer is mainly the global electronics companies which require a diverse base of products. To mitigate such risks, the Group aligns its business strategies with these customers' strategic plans and continuous productivity improvement. Notwithstanding this, the Group continues to avail its core competencies and competitive advantages to the markets that it serves.

#### KEY ELEMENTS OF INTERNAL CONTROL

The principal features of the Group's internal control structures which are conducive toward achieving a sound system of internal control are summarised as follows:

- **Organisational structure with defined roles and responsibilities**  
The Group has in place an operational structure and organisational chart with defined key lines of responsibility and adequately segregated reporting lines up to the Board and its Committees to ensure effectiveness and independent stewardship.
- **Formalised strategic planning processes**  
The Group has formulated the appropriate business plans within which the business objectives, strategies and targets are articulated. Business planning and budgeting is undertaken annually, to establish plans and targets against which performance is monitored on an ongoing basis. Key business risks are identified during the business planning process and are reviewed regularly during the year.
- **Reporting and review**  
The Group's management team carries out monthly monitoring and review of financial results including monitoring and reporting thereon, of performance against the operating plans. The Group's management team communicates regularly to monitor operational and financial performance as well as formulate action plans to address any areas of concern. There is regular reporting by senior management of the Group to the Board on significant changes in the business and the external environment in which the Group operates.
- **Documented policies and procedures**  
Internal policies and procedures which are set out in a series of clearly documented standard operating manuals covering a majority of areas within the Group are maintained and accessible

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|  | <p>to all employees. It is to ensure compliance with internal controls, laws and regulations and subjected to review and enhancement as and when necessary.</p> <ul style="list-style-type: none"> <li>• <b>Code of business conduct</b><br/>The Code of Business conduct and ethics underlines Unisem’s core value in conducting business fairly, impartially and ethically. All employees are required to declare that they are in compliance with the Code upon joining the Group. The code covers areas such as conflict of interest, use of company’s assets, confidentiality of proprietary information, acceptance of gifts and business courtesies. A Whistleblowing Policy is also in place to provide a communication channel which facilitates disclosure of improper conduct within Unisem Group in a transparent and confidential manner.</li> <li>• <b>Continuous employee education</b><br/>All employees are encouraged to improve themselves through adequate training and continuous education. The Group has put in place a continuous training programme to motivate and improve the leadership quality of employees in the Group in order to better conduct themselves at work and in relationship with external parties, such as customers and suppliers.</li> <li>• <b>Quality Control</b><br/>The Group emphasises continuous effort in maintaining the quality of products. The Board has ensured that safety and health regulations, environmental controls and all other legislations in connection with the industry have been considered and complied with.</li> <li>• <b>Financial performance</b><br/>The preparation of quarterly and full year results and the state of affairs, as published to shareholders, are reviewed and approved by the Board. The full year financial statements are also audited by the external auditors.</li> <li>• <b>Internal Audit</b><br/>The in-house Internal Audit Department is to continuously provide independent assessment on the adequacy, effectiveness and reliability of the Group’s risk management processes and system of internal controls. The internal audit function also checks compliance with policies/ procedures and advises executive and operational management on areas for improvement and subsequently reviews the extent to which its recommendations have been implemented. The internal audit plan is approved by the Committee on an annual basis. The internal audit report highlights significant findings and recommendations in respect of any non-compliance to the business unit Management in a timely manner. The audit reports are submitted to the Committee and risk and control issues were</li> </ul> |
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|  | discussed during the Committee meetings on a quarterly basis. In assessing the adequacy and effectiveness of the system of internal controls and accounting control procedures of the Group, the Committee reports to the Board its activities, significant results, findings and the necessary recommendations or changes. |  |
| <b>Explanation for departure</b>   | :   |  |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |  |
| <b>Measure</b>   | :   |  |
| <b>Timeframe</b>   | :   |  |

**Intended Outcome**

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.

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| <b>Application</b>                             | : | Adopted   |
| <b>Explanation on adoption of the practice</b> | : | As the Risk Management function has been dealt with by the Audit Committee, the Board renamed the Audit Committee as the Audit & Risk Management Committee. |

### 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.

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| <b>Application</b>   | : | Applied  |  |
| <b>Explanation on application of the practice</b>  | : | <p>To provide adequate oversight of the internal auditors and the internal audit function, the Audit Committee</p> <ul style="list-style-type: none"> <li>• reviewed and approved the overall scope of the internal audit plan annually;</li> <li>• ensure that the internal audit activity is sufficiently resourced with competent, objective internal audit professionals to carry out the internal audit plan;</li> <li>• reviewed the findings and actionable recommendations emanating from the quarterly risk-based audit work carried out and that the audit recommendations and/or other improvements are satisfactorily implemented by management; and</li> <li>• evaluated the effectiveness of the internal audit function by reviewing the adequacy, integrity and effectiveness of the system of internal controls, compliance with the established policies and procedures, guidelines, laws and regulations and reliability and integrity of information, and was satisfied with the effectiveness of the function.</li> </ul> |  |
| <b>Explanation for departure</b>   | : |  |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |  |  |
| <b>Measure</b>   | : |  |  |
| <b>Timeframe</b>   | : |  |  |

## Intended Outcome

Companies 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.

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| <b>Application</b>                                | : | Applied  |
| <b>Explanation on application of the practice</b> | : | <p>Risk management and internal controls are regarded as an integral part of the overall management processes. The Audit &amp; Risk Management Committee (“the ARMC” or “the Committee”) supported by Internal Audit Department provides an independent assessment and evaluation of the effectiveness of Unisem Enterprise Risk Management (“ERM”) framework on quarterly basis. Unisem’s ERM framework is consistent with the ERM framework adopted by the Committee of Sponsoring Organizations of Treadway Commission (COSO). Our ERM framework involves systematically identifying, analyzing, measuring, monitoring and reporting on risks that may be affecting the achievement of the Group’s objectives and goals within the acceptable risk appetite. It outlines the significant risks that the Group is exposed to; these include strategic, organization structure, operational, processes, regulatory, people culture, technologies and reputation risks.</p> <p>Our ERM framework comprised a risk and control matrix that had been populated and key risks to each Group’s business units objective, aligned with Group’s strategic objectives had been identified and assessed for likelihood of the risk occurrence and the magnitude of impact using a self-assessment approach.</p> <p>The Internal Audit function is headed by Mr Lee Chiou Horng, the Head of Internal Audit, who reports directly to the ARMC. Mr Lee Chiou Horng, aged 36, was appointed as Head of Internal Audit for the Internal Audit Department of Unisem (M) Berhad (“Unisem”) since 3 April 2017. Prior to joining Unisem Mr. Lee has worked his way up from Internal Audit Assistant to the position as Senior Internal Audit Manager over a span of 12 years in the manufacturing industry in Asia Pacific region with multi-national companies with manufacturing facilities located in China, Indonesia, Cambodia, Thailand, Australia, Vietnam and Malaysia. He attained his Bachelor of Commerce form Curtin University, Australia and is an Associate Member of the Institute of Internal Auditors Malaysia (“IIA Malaysia”). He is assisted by two Senior Auditors in the Internal Audit Department. The Internal</p> |

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|  | Audit function adopts the <i>International Standards for the Professional Practice of Internal Auditing</i> to deal its objectivity and independence. There were no family relationships or conflict of interest still subsisting as at the end of the financial year. |  |
| <b>Explanation for departure</b> :   |  |  |
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| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |  |  |
| <b>Measure</b> :   |  |  |
| <b>Timeframe</b> :   |  |  |

### Intended Outcome

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.

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| <b>Application</b>  | : | Applied   |
| <b>Explanation on application of the practice</b>   | : | <p>The Company aims to keep its shareholders and interested public informed of the developments and performances of the Company and the industry, through the following channel of communications:</p> <ul style="list-style-type: none"> <li>• timely quarterly results announcements and various disclosures and announcements made to the Exchange and posted on the Company's website at <a href="http://www.unisemgroup.com">www.unisemgroup.com</a>;</li> <li>• quarterly analyst briefing after release of the quarterly financial results;</li> <li>• plant visits, discussions or telephone conference with fund managers and analysts at their request;</li> <li>• participate in investors conferences organised by local and international stockbroking houses;</li> <li>• distribution of annual reports and circulars to shareholders;</li> <li>• meeting with shareholders at general meetings;</li> <li>• meeting with members of the press after general meetings.</li> </ul> <p>The Company values dialogues with its shareholders, potential investors, institutional investors and analysts and is willing to explain or further clarify any information already disclosed in its annual report or Bursa Securities announcement. The Board has also identified the Chairman of the Audit Committee, Mr Martin Giles Manen, as Senior Independent Director to answer any queries or clarify any matters concerning the Company.</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 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.

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| <b>Application</b>   | : | Departure   |  |
| <b>Explanation on application of the practice</b>  | : |   |  |
| <b>Explanation for departure</b>   | : | The Company is not reporting as large company for FY2017 and has not adopted the integrated reporting |  |
|  |   | The Company is not reporting as large company for FY2017.   |  |
| <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**

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.

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| <b>Application</b>   | : | Applied  |  |
| <b>Explanation on application of the practice</b>  | : | We encourage all shareholders to attend the Company's Annual General Meeting and to participate in the proceedings. Shareholders are given the opportunity to ask questions on the business and financial performance of the Company. Notices of general meetings of the Company and related papers are distributed to shareholders within a reasonable and sufficient time frame. Notice of Annual General Meeting is given to the shareholders at least 28 days prior to the meeting. Adequate time is given during the Annual and Extraordinary General Meetings to allow shareholders to seek clarifications or ask questions on pertinent and relevant matters. |  |
| <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.

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| <b>Application</b>   | : | Applied  |  |
| <b>Explanation on application of the practice</b>  | : | All directors attend general meetings.<br><br>At the Annual General Meetings, the Chairman of the Board takes time to provide meaningful response to questions addressed to the Board. |  |
| <b>Explanation for departure</b>   | : |  |  |
| <i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i> |   |  |  |
| <b>Measure</b>   | : |  |  |
| <b>Timeframe</b>   | : |  |  |

### Intended Outcome

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.

|  |   |   |
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| <b>Application</b>   | : | Departure   |
| <b>Explanation on application of the practice</b>  | : |   |
| <b>Explanation for departure</b>   | : | The Company hold its general meetings in the same vicinity of its registered office in Kuala Lumpur.                            |
|  |   | The Articles of the Company does not allow for the voting in absentia or remote shareholders' participation at general meetings |
| <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.   |

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

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

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