

CORPORATE GOVERNANCE REPORT

STOCK CODE : 4324
COMPANY NAME : HENGYUAN REFINING COMPANY 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 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.

Application	: Applied
Explanation on application of the practice	<p>The board of directors ("Board") of Hengyuan Refining Company Berhad ("HRC" or the "Company") represents, promotes and protects the interests of the Company, including the shareholders and stakeholders of the Company, by overseeing and evaluating the Company's strategies, policies and performance.</p> <p>The Board is supported by five (5) committees: the Board Audit Committee ("BAC"), Board Nominating and Remuneration Committee ("BNRC"), Board Risk Management Committee ("BRMC"), Board Projects Review Committee ("BPRC") and Board Tender Committee ("BTC").</p> <p>(1) The Board, together with the management team of HRC ("Management"), practises and actively promotes good corporate governance culture within the Company through the adoption of HRC's Code of Conduct (published at hrc.com.my), which sets out guidelines for, amongst others, individual responsibility and professional behaviour, integrity at work and code of conduct when dealing with third parties.</p> <p>(2) In addition to strategy discussions at Board Meetings and weekly Management meetings, the Company held its annual off-site strategy meeting on 11 October 2017 where topics including strategic priorities, industry outlook, and sustainability in the areas of economic, environmental and social aspects were discussed.</p> <p>(3) The Board constantly reviews and challenges Management's proposals for the Company through Board meetings and Board Committee meetings. The Board discussed, deliberated and approved the Company's Business Plan 2018 during its Board Meeting on 30 November 2017 which included the Company's plans for business priorities, capital and operational expenditure,</p>

projects, assets and liabilities management, human capital investment, margins and profit and loss. The Board also monitors and assesses the Company's financial, operational and safety performance through a quarterly scorecard.

(4) The BAC assists and supports the Board's responsibility of overseeing the Company's operations by providing a means for reviewing the Company's processes to produce a true and fair view of its financial position, its internal controls and policies and procedures to assess the suitability, objectivity and independence of the Company's external auditor and internal audit function.

(5) The BNRC reviews the appointments of Directors, and the evaluation, promotion, resignation, discipline and termination of key senior Management positions. It also ensures that appointments of key pivotal positions are based on objective criteria, merit and with due regard for diversity of skills, experience, age, cultural background and gender.

In 2017 the Board, on BNRC's recommendations, considered and approved the appointments of William Chen, the Chief Commercial Officer of the Company, and David Keat, who was initially appointed as the Chief Operating Officer of the Company and subsequently appointed as the Chief Executive Officer ("CEO") of the Company with effect on 1 March 2018, based on the suitability of their skills and experiences.

The BNRC is also tasked with reviewing the leadership needs of the Company on a regular basis to ensure that an appropriate succession planning framework, talent management and human capital development programme are in place for key positions.

In addition, the BNRC oversees the formal annual assessment of the effectiveness of the Board and its committees, the contribution of each individual Director and reviews the remuneration framework for Directors and the remuneration package and policies for senior Management.

(6) The Board oversees risk management functions through the BRMC, which was established on 29 November 2017, and the internal audit control through the BAC. Prior to the establishment of the BRMC, both the risk management and internal control functions were monitored by the BAC.

(7) The BRMC, which consists of members with a mixture of expertise and experience, including in the oil and gas sector, also guides the Board in relation to discussions and decisions on the management of the Company's key risk areas so as to anticipate, assess and mitigate potential future risks to the Company. The BRMC formulates HRC's risk tolerance level, strategies and key risk indicators for the Company.

	<p>(8) The BPRC was set up on 30 November 2017 as an initiative by the Board to oversee and support the management of major or key projects of the Company during project initiation, development as well as post-completion. A key role of the BPRC is to ensure the early identification of problems, potential or otherwise, early intervention and issue resolution in full transparency for the successful completion of projects of major significance to the Company.</p> <p>(9) The Board established the BTC on 27 February 2018 to be responsible for the definition, operations and governance of contracting and procurement processes within the Company, in recognition of increasing outsourcing as a key corporate strategy and the possible risks in third party transactions. It serves as the eye of the Board in ensuring that the Company's contracting and procurement policies and procedures are complied with in all transactions to secure best values for the Company and to ensure integrity and accountability. The BTC also ensures that all laws, regulations, guidance and rules are complied with in the contracting and procurement of goods and services including the advancement of the Company's business priorities and strategies. Above all, the BTC ensures the highest level of ethical practice in integrity, objectivity, accountability and transparency with no tolerance for corruption in all its manifestations.</p> <p>(10) HRC continues to view communication with stakeholders as a priority and handles communications through its Corporate Affairs Department. This is described in further detail in the explanation for Practice 11.1.</p>
<p>Explanation for departure :</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>Measure :</p>	
<p>Timeframe :</p>	

Intended Outcome

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

Practice 1.2

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

Application	: Applied
Explanation on application of the practice	<p>The Chairman of HRC's Board is, Wang YouDe ("Chairman"). Pursuant to the board charter of HRC ("Board Charter"), the Chairman undertakes the following responsibilities:</p> <ol style="list-style-type: none">(1) Sets the meeting agenda together with the CEO, Chief Financial Officer ("CFO") and Company Secretary of the Company. He also organises briefings with the CEO and CFO of the Company prior to each Board meeting;(2) Ensures that members of the Board receive information on issues arising in a timely manner. The Chairman encourages and allows the dissemination of information and urgent communications to be done via electronic and mobile communication channels as and when required;(3) Provides leadership for the Board and to establish an effective governance system and practices. The Chairman routinely provides his views on the strategic direction and priorities of the Company and follows up on corporate governance compliance during Board meetings. <p>He also shares his personal knowledge and experience, particularly in the areas of new technology relevant to the refinery and the oil and gas industry;</p> <ol style="list-style-type: none">(4) Leads Board meetings and manages boardroom dynamics by promoting a positive culture of discussion and debate;(5) Manages the interface between Board and Management. The Chairman, who is based in Shandong, China, makes himself accessible and familiar to both the Board and Management team of the Company and travels frequently to Port Dickson and Kuala Lumpur for meetings as and when required; and(6) Ensures that appropriate steps are taken to provide effective communication with stakeholders and that their views are fully communicated to the Board as a whole. The Chairman attends the annual general meeting, extraordinary general meetings, ground-breaking ceremonies and other events organised by the Company

	<p>as the leader of the Board and representative of the Company.</p> <p>The Chairman achieved an excellent rating in the Board Effectiveness Assessment undertaken by the Directors of the Company for the year ending 2017 ("BEA 2017") for commanding and demonstrating effective leadership of the Board, overseeing an effective decision-making process and ensuring that crucial alternatives for a decision are considered.</p>	
Explanation for departure :		
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
Measure :		
Timeframe :		

Intended Outcome

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

Practice 1.3

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

Application	:	Applied	
Explanation on application of the practice	:	<p>The positions of Chairman and CEO of the Company are held by different individuals.</p> <p>The Chairman of the Board, Wang YouDe, presides over Board meetings and is responsible for instilling good corporate governance practices, leadership and effectiveness of the Board.</p> <p>David Keat was appointed as the CEO of HRC with effect on 1 March 2018. As CEO, he oversees and is accountable to the Board for the operations of the refinery of the Company.</p> <p>The CEO is not a member of the Board.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 1.4

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

Application	:	Applied
Explanation on application of the practice	:	<p>The Company Secretaries of HRC, Lim Hooi Mooi and Ong Wai Leng, are qualified to act as Company Secretary under the Companies Act 2016. Both are members of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA).</p> <p>The Company Secretary's responsibilities include the following:</p> <ol style="list-style-type: none">(1) Attending Board and Board Committee meetings and ensuring that the proceedings of meetings are recorded and the minutes, which shall accurately reflect the deliberations and decisions of the Board including whether any Director abstained from voting or deliberating on a particular manner, are circulated in a timely manner;(2) Advising the Board on its role and responsibilities;(3) Advising the Board on corporate disclosures and compliance with the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa") as well as company and securities regulations;(4) Monitoring and alerting the Board on changes, updates, revisions, amendments, modifications in relation to laws, legislation, rules, statutory provision or otherwise which affects the Company;(5) Managing processes pertaining to the annual general meeting; and(6) Monitoring corporate governance development and advising and assisting the Board in applying governance practices to meet the Board's needs and stakeholders' expectations.
Explanation for departure	:	

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

Measure :		
Timeframe :		

Intended Outcome

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

Practice 1.5

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

Application	:	Applied
Explanation on application of the practice	:	<p>Under HRC's Board Charter and the terms of reference of its Board committees, notices and agenda of Board and committee meetings and the relevant Board papers are to be distributed to Directors at least five (5) working days prior to the Board meetings.</p> <p>Minutes of the meetings (in draft form) shall be circulated to the Board and respective Board Committee members within 10 working days of the meeting. Minutes (in final draft form) are to be distributed to the Board and respective Board Committee members at least five (5) working days before the following meeting.</p> <p>The Board felt that there was room for improvement in respect of the timeline for circulation of board papers and meeting minutes. This was reflected in the BEA 2017.</p> <p>To support HRC's paperless initiative and to improve the distribution of meeting materials, HRC invested in the subscription of a leading digital platform that allows users to download and view meeting materials and resources uploaded by management of HRC. The Directors and key Management members were each provided with an iPad with secure and easy access to the board papers without having to rely on hard copies. Since the adoption of this paperless approach, the effectiveness and timeliness of the distribution of meeting materials have improved.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

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

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

Practice 2.1

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

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

Application	:	Applied	
Explanation on application of the practice	:	<p>HRC’s Board Charter is periodically reviewed and clearly identifies the roles of the Board collectively, of the Board committees, of the Chairman, of the Chairs of the Board Committees and of the individual Directors as well as matters reserved for the Board.</p> <p>The revised Board Charter was approved by the Board on 27 February 2018 and includes as the adoption of practices recommended by the Malaysian Code on Corporate Governance 2017 (“MCCG”).</p> <p>In addition, the roles of the senior independent non-executive director and the Company Secretary, the code of conduct and ethics and stakeholders’ communications matters are addressed.</p> <p>The Board Charter is published at hrc.com.my</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

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

Practice 3.1

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

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

Application	:	Applied
Explanation on application of the practice	:	HRC adopts a Code of Conduct which is published on the Company's website at hrc.com.my Amongst others, the code of conduct addresses policies in relation to: (1) Conflicts of interest; (2) Individual responsibility and integrity; (3) Corruption and bribery; (4) Money laundering; (5) Unethical behaviour; (6) Harassment; (7) Health, safety, security environment and social performance; (8) Insider dealing; and (9) Breach of laws and regulations.
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

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

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

Practice 3.2

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

Application	:	Applied
Explanation on application of the practice	:	<p>HRC's Board Charter sets out the Board's responsibility to establish, review and, together with Management, implement the appropriate whistleblowing policies and procedures.</p> <p>The Company's updated Whistleblower Policy was launched during HRC's Business Integrity Week held 22-25 January 2018. A seminar was also held to educate employees on the practice and procedures of whistleblowing in the Company. The policy was later emailed to all employees of the Company and has been uploaded to HRC's website at hrc.com.my</p> <p>The whistleblowing function is overseen by the Chair of the BAC who shall ensure that all reported violations are properly investigated. The Chair of the BAC is also responsible for reviewing the effectiveness of the actions taken in response to all concerns raised.</p> <p>A reporting channel has been set up for the whistleblowing process where reports can be sent by email to a dedicated whistleblowing email, (Whistleblower@hrc.com.my), by post to the Chair of BAC, or personally to the Chief Internal Auditor or Chief Assurance Officer of the Company.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

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

Practice 4.1

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

Application	:	Applied	
Explanation on application of the practice	:	<p>The Board consists of six (6) directors, four (4) of whom are independent non-executive directors (“INEDS”).</p> <p>The Board Charter of HRC provides that at any one time, the majority of the Board members shall be INEDS.</p> <p>All INEDS declared their independence via the annual assessment of independence in the BEA 2017.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 4.2

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

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

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

Intended Outcome

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

Practice 4.3 - Step Up

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

Application	:	Adopted
Explanation on adoption of the practice	:	<p>The Board Charter of HRC limits the tenure of independent directors to a term of nine (9) years. HRC adopts the recommendations of the MCCG to obtain shareholders' approval if the Board wishes to retain the independent director beyond nine (9) years.</p> <p>Further, the Board Charter provides that if the Board retains an independent director after the twelfth year, annual shareholders' approval will have to be sought via a two-tier voting system.</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.

Application	:	Applied
Explanation on application of the practice	:	<p>The BNRC considers the following factors in the assessment of candidates for the Board:</p> <ol style="list-style-type: none">(1) Skills, knowledge, expertise and experience;(2) Time commitment, character, professionalism and integrity;(3) Ability to work cohesively with other members of the Board;(4) Specialist knowledge or technical skills in line with the Company's strategy;(5) Diversity in age, gender and experience and/or background; and(6) Number of directorships in companies outside the Company. <p>HRC also considers the appointment of senior management positions based on merit, skills, experience, age, cultural background and gender and tries to achieve gender diversity where possible.</p> <p><u>As at 30 March 2018:</u></p> <ol style="list-style-type: none">(7) 33% of the Board and 28% of HRC's senior Management are women;(8) The Board and senior Management of the Company comprise various ethnicities including Bumiputra and expatriates;(9) The age of Board members are split evenly between the ranges of 50-59 (50%) and 60 years and above (50%); and(10) The age of senior management members are spread out in ranges of 30-39 (29%), 40-49 (57%) and 50-59 (14%).
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	

Timeframe	:		
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Intended Outcome

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

Practice 4.5

The board discloses in its annual report the company’s policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.

Application	:	Applied	
Explanation on application of the practice	:	<p>HRC makes a conscious effort to achieve gender diversity for its Board, senior Management and company workforce, which are predominantly represented by men due to the lack of female labour force participation in the manufacturing industry.</p> <p>The Board recognises the importance of gender diversity and has updated the Board Charter to ensure that it must, to the best of its ability, achieve at least 30% women directors.</p> <p>As at 1 March 2018, the Board consisted of 33% women directors.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 4.6

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

Application	:	Applied
Explanation on application of the practice	:	
Explanation for departure	:	The BNRC considers and recommends candidates for directorship based on the required mix of skills, knowledge, professionalism, integrity, experience and other qualities. The current INEDS were appointed after considering qualified candidates proposed by existing Board members, senior Management, the Company Secretary and sources independent of HRC. In February 2018, the terms of reference of the BNRC were updated to provide that the BNRC shall also solicit and consider the views of independent search firms and a variety of other independent sources to identify suitably qualified candidates for appointment as directors.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

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

Practice 4.7

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

Application	:	Applied	
Explanation on application of the practice	:	The Chair of the BNRC is Lim Tau Kien, who was appointed as Senior Independent Director of the Company on 15 June 2017.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 5.1

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

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

Application	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	<p>The board effectiveness assessment was conducted in December 2017 and was carried out through self-assessment and peer review by all Directors.</p> <p>The assessment included the evaluation of each Director in the following areas:</p> <ol style="list-style-type: none">(1) Contribution to interaction during the Board meeting;(2) Quality of input provided;(3) Understanding of role;(4) Skill sets; and(5) Character, integrity, experience, competence and time commitment. <p>The Board also assessed itself on the performance of areas such as:</p> <ol style="list-style-type: none">(1) Structure and composition;(2) Board operations and interactions;(3) General roles and responsibilities;(4) Strategy planning;(5) Performance and human capital management;(6) Risk management and internal control; and(7) Mix of skills and experience. <p>Overall, the Board is satisfied with its structure and composition, general roles and responsibilities, strategy planning, performance management and risk management and internal control, but would like to see improvements in areas of human capital management, board communication and the preparation and circulation of board papers and board meeting minutes.</p> <p>The BAC and BNRC also carried a self-evaluation of its composition,</p>

	<p>operations and interactions and roles and responsibilities. The assessment showed that members of both committees are satisfied with the overall effectiveness of the BAC and BNRC.</p> <p>Given the recent change of Directors in May and June 2017 and the reorganisation of the Board committee structures, the Board deferred the consideration of engaging independent experts to facilitate board evaluations to a later date.</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>Measure</p>	<p>:</p>	<p>To consider engaging independent experts periodically to facilitate objective board evaluations.</p>
<p>Timeframe</p>	<p>:</p>	<p>Within two (2) years.</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.

Application	:	Applied
Explanation on application of the practice	:	
Explanation for departure	:	<p>The terms of reference of the BNRC provides that it is the responsibility of the BNRC to establish, review and recommend formal and transparent remuneration policies and procedures for Directors and senior Management to the Board with the assistance of external consultants as necessary.</p> <p>On 27 February 2018, the BNRC discussed and deliberated the following matters in relation to Directors' fees and benefits:</p> <ol style="list-style-type: none">(1) the payment of Directors' fees and benefits by comparing the amounts paid by similar companies;(2) The combination of meeting attendance fees with committee fees and simplification of travel allowance from per attendance to an annual lump sum;(3) Addition of continuing education programme (CEP) allowance;(4) The payment of Board Committee members' fees;(5) Consideration of fee quantum to acknowledge the amount of time and effort involved or expected from each Director and to factor in meeting frequencies and participation in meetings via physical attendance or video- or tele-conference calls; and(6) Basis of computation of fees for the Senior Independent Director, which was proposed to be the time and effort spent calculated at a daily rate as estimated by Management and endorsed by the Board.

	<p>HRC has engaged an independent external advisor to undertake an evaluation of the organisational structure of the Company. Pending the results of the assessment, the Board has been guided by its existing pay and benefits policies for senior Management which is similar to those applied whilst the Company was part of the Shell group of companies.</p>	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
Measure	:	To establish policies and procedures for the remuneration of Directors and senior Management and to publish the policies on the Company's website.
Timeframe	:	Within two (2) years.

Intended Outcome

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

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

Practice 6.2

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

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

Application	:	Applied
Explanation on application of the practice	:	The BNRC is responsible for the establishment and implementation of policies for the remuneration of Directors and senior Management of HRC. The terms of reference of the BNRC is published on hrc.com.my. It contains the function and duties of the BNRC.
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

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

Practice 7.1

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

Application	:	Applied
Explanation on application of the practice	:	HRC has voluntarily disclosed the remuneration breakdown of individual Directors, including fees, salary, bonus, benefits in-kind and other emoluments since its 2014 Annual Report. The information is published on page 74 of the Company’s 2016 Annual Report 2016 and on page 135 of this 2017 Annual Report.
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

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

Practice 7.2

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

Application	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	<p>HRC is currently re-assessing its organisational structure, including the senior management function, following change in the major shareholder on 22 December 2016 and its Board in May and June 2017. The ongoing evaluation is being conducted by an independent external advisor and is expected to complete by the third quarter of 2018.</p> <p>The Board will consider whether it wishes to adopt the recommendations in Practice 7.2 after receiving the results of the evaluation. The Board has decided not to disclose the Company's top five (5) senior Management's remuneration for the time being due to the competitive nature of the oil and gas manufacturing industry.</p>
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	To consider disclosing the top five (5) senior Management's remuneration component.
Timeframe	:	Within one (1) year after receiving the outcome of the independent organisational structure assessment.

Intended Outcome

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

Practice 7.3 - Step Up

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

Application	:	Not Adopted
Explanation on adoption of the practice	:	

Intended Outcome

There is an effective and independent Audit Committee.

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

Practice 8.1

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

Application	:	Applied	
Explanation on application of the practice	:	The Chair of the BAC is Alan Hamzah Sendut, who is an INED of HRC. The Chairman of the Board is Wang YouDe, who is not a member of the BAC.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

There is an effective and independent Audit Committee.

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

Practice 8.2

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

Application	:	Applied	
Explanation on application of the practice	:	<p>The terms of reference of the BAC provides that a former key audit partner of the external auditors shall be subject to a minimum two (2) year cooling-off period before being appointed as a member of the BAC.</p> <p>At present, none of the Directors of the Board was a key audit partner of the external auditors of HRC.</p>	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

There is an effective and independent Audit Committee.

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

Practice 8.3

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

Application	:	Applied
Explanation on application of the practice	:	<p>The updated terms of the BAC provides that the BAC assesses, on an annual basis, the suitability, objectivity and independence of the external auditors based on considerations of:</p> <p>(1) The competence, audit quality and resource capacity of the external auditor in relation to the audit;</p> <p>(2) The nature and extent of the non-audit services rendered and the appropriateness of the level of fees; and</p> <p>(3) Written assurance for the external auditors confirming their independence throughout their audit engagement in accordance with all professional and regulatory requirements.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	.
Timeframe	:	

Intended Outcome

There is an effective and independent Audit Committee.

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

Practice 8.4 - Step Up

The Audit Committee should comprise solely of Independent Directors.

Application	:	Adopted
Explanation on adoption of the practice	:	On 24 November 2017, the Board announced the resignation of Wang ZongQuan, a non-independent non-executive director, from the BAC. Wang ZongQuan's resignation was accepted in order for the BAC to comply with the step-up recommendation in Practice 8.4 of MCCG. The BAC currently comprises solely of INEDS.

Intended Outcome

There is an effective and independent Audit Committee.

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

Practice 8.5

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

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

Application	:	Applied
Explanation on application of the practice	:	<p>The BAC consist of members with skills and experience in the areas such as:</p> <ol style="list-style-type: none">(1) Accounting, treasury and tax;(2) Supply, sales and marketing;(3) Strategy, and the oil and gas industry;(4) Corporate finance, banking and mergers and acquisition;(5) Corporate governance, risk management and internal controls;(6) Health, safety, security and environment; and(7) Contracting and procurement. <p>Two (2) of the four (4) members of the BAC are Chartered Accountants. Alan Hamzah Sendut, the Chair of the BAC qualified as Member of the Institute of Chartered Accountants in England and Wales (1986) and is a member of the Malaysian Institute of Accountants (1987), while Lim Tau Kien is a Chartered Accountant of the Institute of Chartered Accountants of Scotland (1981) and a member of the Malaysian Institute of Accountants (1983)</p> <p>On 27 February 2018, the Board reviewed the results of the overall assessment of the BAC's performance in BEA 2017 and is satisfied that the BAC and its members have the necessary skills to carry out its functions and discharge its duties.</p> <p>The terms of reference of the BAC provides that committee members are expected to undertake continuous professional development to keep abreast of relevant developments in accounting and auditing standards, practices and rules.</p>
Explanation for departure	:	

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

Intended Outcome

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

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

Practice 9.1

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

Application	:	Applied
Explanation on application of the practice	:	<p>The Board has the overall responsibility to oversee the control and accountability systems, corporate governance framework and risk management practices of the Company.</p> <p>In addition, the Board, who is guided by the BRMC, sets the risk appetite to guide the Company and ensures that there is a sound risk management framework to identify, analyse, manage and monitor significant financial and non-financial risks.</p> <p>The performance of the Company against the risk management and internal control framework is reviewed at least twice a year by the BRMC. The characteristics of HRC's risk management and internal control function are described in the explanation on application for Practice 9.2 below.</p>
Explanation for departure	:	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

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

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

Practice 9.2

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

Application	: Applied
Explanation on application of the practice	<p>HRC's risk management function is overseen and formulated by the BRMC, which sets risk management guidelines, policies, strategies, key risk indicators and risk tolerance levels for recommendation to the Board.</p> <p>Risk management starts at the department level as each department has its own control processes. Risks are reported at the weekly management team meeting and are compiled for presentation to the BRMC before being tabled to the Board for review, at least twice a year.</p> <p>HRC practices a structured and re-iterative risk management process that includes the identification, classification, analysis, mitigation and review of risks. All risks are recorded in a risk register.</p> <p>The risk management process addresses risks in areas such as:</p> <ol style="list-style-type: none">(1) Quality, health, safety, security and environment;(2) Operations and finance;(3) Projects;(4) Commercial risk;(5) Regulatory compliance;(6) Reputation; and(7) Cybersecurity. <p>HRC's internal control processes include clearly defined terms of reference of the Board and its committees, documented internal policies and procedures, internal audits, risk and compliance management, project management and employee performance management, adoption of HRC's code of conduct and whistleblower policy and the periodic review of the sufficiency of its information and communications technology.</p> <p>Further details of the risk management and internal control framework are provided in the Statement of Internal Control and Risk Management on page 63 of our Annual Report.</p>

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

Intended Outcome

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

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

Practice 9.3 - Step Up

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

Application	:	Adopted
Explanation on adoption of the practice	:	Pursuant to the recommendations of MCCG, the BRMC was established on 29 November 2017 to oversee HRC's risk management framework and policies. The BRMC consist of three (3) members, two (2) of whom are INEDS.

Intended Outcome

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

Practice 10.1

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

Application	: Applied
Explanation on application of the practice	<p>The BAC has the responsibility of ensuring that proper internal controls are implemented to enhance the independence of both the external and internal audit functions by providing direction and oversight of these functions on behalf of the Board.</p> <p>HRC's internal audit function comprises the following:</p> <p>(1) An independent internal audit department ("IAD"), which was established by the Board to further strengthen and better coordinate the existing assurance function within HRC. IAD acts as an independent evaluating body and to assist and provide assurance to the Board, the BAC and senior Management of HRC. IAD is led by the Chief Internal Auditor ("CIA") who reports functionally to the Chair of the BAC and administratively to the Chief Human Capital Officer.</p> <p>The IAD conducts objective examinations of evidence in relation to the adequacy and effectiveness of governance, risk management, and control processes of HRC for the purpose of providing independent assessments to the BAC and the Board, Management and external parties; and</p> <p>(2) HRC's site internal assurance team ("SIA"), which reports to the Quality, Health, Security, Safety and Environment Manager, consist of 36 trained and / or certified site internal auditors from various departments in HRC. The SIA assesses audit areas in relation to risk exposures and compliance of the approved policies, procedures and relevant laws and regulations, and reports to senior Management. The SIA's audit engagements are carried out based on the 4-year assurance plan approved by the Board. The deliverables of the assurance plans are reported to the Board and the BAC quarterly.</p> <p>The internal audit charter of the IAD provides that the IAD will maintain its objectivity and independence at all times and will have no direct operational responsibility or authority over any of the activities audited. The CIA is also required to confirm the organisational independence of the IAD to the Board and the BAC annually.</p> <p>The BAC is also responsible for reviewing the independence of the</p>

	internal audit function and assessing the performance of the internal audit members and services provided by the internal audit function annually.	
Explanation for departure :		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure :		
Timeframe :		

Intended Outcome

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

Practice 10.2

The board should disclose—

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

Application	:	Applied
Explanation on application of the practice	:	<p>The IAD currently consists of the CIA, Nur Izatul Fitri Hussein, who joined the Company on 5 February 2018.</p> <p>The CIA is a Certified Internal Auditor and Chartered Accountant with a Bachelor's Degree in Accountancy (Hons). She is a member of Malaysian Institute of Accountants and a Chartered Member of Institute of Internal Auditors Malaysia.</p> <p>The BAC has conducted a high level review and is satisfied with the independence of the CIA.</p> <p>The IAD governs itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, International Standards for the Professional Practice of Internal Auditing and the Definition of Internal Auditing.</p>
Explanation for departure	:	
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
Measure	:	
Timeframe	:	

Intended Outcome

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

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

Practice 11.1

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

Application	:	Applied
Explanation on application of the practice	:	<p>HRC's Board has the responsibility of ensuring that stakeholders are kept informed of the Company's objectives and strategic aims, performance and major developments affecting its business.</p> <p>In addition to regular town hall meetings to communicate with employees, the Company often organises festive get-togethers and educational events for the benefit for its staff. HRC also invites suppliers, creditors, business partners and regulators for the launch of projects such as the Euro 4M Mogas Project ground-breaking ceremony held on 25 August 2017. Examples of the Company's engagement with the local community through its corporate social responsibility initiatives are set out in page 53 of the 2017 Annual Report.</p> <p>The Company's investor relations function is handled by the Corporate Affairs Department, which is the main point of contact for all shareholder communication.</p> <p>HRC provides relevant information on its website, including and not limited to the latest news of the Company and its share price, financial information, annual reports, sustainability efforts and information on members of the Board and senior Management.</p> <p>Announcements submitted to Bursa Malaysia Securities Berhad are uploaded to HRC's website promptly and an online news subscription service is enabled for shareholders who wish to be updated automatically. Contact details of the Corporate Affairs Department are displayed clearly.</p> <p>HRC engages with the Minority Shareholders Watchdog Group prior to its annual general meeting and ensures that their questions are addressed during the meeting. The Company also provides opportunities for shareholders to pose questions to the Board during the annual general meeting.</p>

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

Intended Outcome

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

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

Practice 11.2

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

Application	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	<p>The Company continues to prioritise the performance of, inter alia, operations, finance and risk and human capital management of the Company to ensure all stakeholders' interests are protected.</p> <p>Whilst HRC has not adopted integrated reporting, it provides as much relevant information as possible in its annual reports, annual general meetings and website so that stakeholders can obtain a fuller perspective of the Company and make informed decisions.</p> <p>The Board will consider the adoption of integrated reporting at a later date.</p>
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	To consider the adoption of integrated reporting based on a globally recognised framework.
Timeframe	:	Within three (3) years.

Intended Outcome

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

Practice 12.1

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

Application	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	Shareholders were provided with 21 days' notice of HRC's 58 th Annual General Meeting on 24 May 2017. This is the minimum notice period required by the Companies Act. With effect from 27 February 2018, the Board Charter of HRC states that the Board must ensure that shareholders are provided with necessary information and notice of the Company's Annual General Meeting at least 28 days prior to the meeting.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	To provide shareholders with notice to the Annual General Meeting at least 28 days' prior to the meeting.
Timeframe	:	For the next annual general meeting of the Company.

Intended Outcome

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

Practice 12.2

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

Application	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	<p>The attendance of Directors at HRC's general meetings in the financial year ended 2017 are set out on page 131 of the 2017 Annual Report.</p> <p>The Board engages with shareholders during the Questions and Answers section at general meetings.</p> <p>During the 58th Annual General Meeting of the Company, the Chairman responded to a shareholder regarding his query on the future profitability of the Company and the declining profit margin trend. The Chairman shared that given the uncertain future, HRC has taken several risk mitigating steps to strengthen its positions, such as via inventory hedging for crude oil.</p> <p>The Chair of the Audit Committee at the time, Datuk Yvonne Chia (who resigned on 1 June 2017), also responded to a question on the relationship of HRC with the Shell group after the transition of major shareholder during the Company's Extraordinary General Meeting held on 24 May 2017. Datuk Yvonne informed the shareholder that long term supply and purchase contracts have been signed with the Shell group of companies to ensure continuity for HRC in the near future.</p> <p>The Board Charter of HRC was revised on 27 February 2018 to provide that all Directors and chairs of the respective Board committees must attend general meetings of the Company.</p>
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	That all Directors and chairs of the respective Board Committees attend general meetings of the Company.
Timeframe	:	Upon the next general meeting of the Company.

Intended Outcome

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

Practice 12.3

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

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

Application	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	<p>As at 19 March 2018, only 8.861% of the total shares of HRC are held by non-Malaysian residents or entities.</p> <p>Given the minimal foreign shareholding in HRC, the Board will revisit the adoption of Practice 12.3 in the future. At present, shareholders are able to appoint proxies to attend, speak and vote at a general meeting.</p>
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	To consider leveraging on technology to facilitate voting in absentia and remote shareholders' participation at general meetings if required by the Company.
Timeframe	:	Within five (5) years.

**SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES
PERSUANT 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.

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