

CORPORATE GOVERNANCE REPORT

STOCK CODE : 4324
COMPANY NAME : HENGYUAN REFINING COMPANY BERHAD
FINANCIAL YEAR : December 31, 2018

OUTLINE:

SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

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

SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES 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.</p> <p>The Board shoulders the ultimate responsibility of determining the direction of the Company and monitoring the Company's performance thereby ensuring the long-term success of the Company and the delivery of sustainable value to its stakeholders within a framework of prudent and effective controls that enable risks to be assessed and managed.</p> <p>The Board continues to be supported by five (5) board committees ("Committees"):</p> <p>(i) <u>Board Audit Committee ("BAC")</u> The BAC assists and supports the Board to monitor the Company's management of financial risk processes, accounting function, financial reporting practices and ensuring proper internal controls are implemented to enhance the independence of both the external and internal audit functions.</p> <p>(ii) <u>Board Nominating and Remuneration Committee ("BNRC")</u> The BNRC continues to support the Board in both nomination and remuneration functions as follows:</p> <p>(a) <u>Nomination</u> The BNRC recommends nominations to the Board for the appointment of director of the Board or Committee and further evaluate and recommend the employment, promotion, discipline and termination of senior management with positions of Chief Executive Officer ("CEO"), Deputy Chief Executive Officer ("DCEO"), Chief</p>

Financial Officer (“CFO”) and Human Resources (“HR”) Manager.

The BNRC also ensures the appointments of key pivotal positions are based on objective criteria, merit and with due regard for diversity of gender, nationality, age, culture, socio-economic background, skills, experience and independence.

In the year 2018, the Board approved the appointments of David Ronald Keat and Wang Chao-Jen as the CEO and DCEO of the Company respectively, with effect from 1st March 2018 and 1st June 2018, based on the objective criteria set out in the Terms of Reference of the BNRC.

The BNRC also oversees the annual assessment of the effectiveness of the Board and the Committees.

(b) Remuneration

The BNRC assists the Board to establish formal and transparent remuneration policies and procedures for Directors, CEO, DCEO and CFO and expatriate employees of the Company, including obtaining assistance from the HR Manager and independent sources, if needed, to ensure fair rewards for their contributions to the Company’s overall performance.

(iii) Board Risk Management Committee (“BRMC”)

The BRMC ensures comprehensive policies of risk management is in place to identify and measure potential impact of key business risks and risk management. The BRMC sets out the responsibility and scope of authority of the risk management within the Company’s risk management framework.

(iv) Board Projects Review Committee (“BPRC”)

The BPRC’s main responsibility is to assist the Board to oversee the strategy, financial, funding and contractual arrangements, project governance and/or selected projects and ensuring that the benefits required from designated projects are delivered.

(v) Board Tender Committee (“BTC”)

The BTC reviews and approves contracting strategies and contract awards for contracts with an approved value of more than USD30 million and provides the Board with the oversight of the Company’s contracting and procurement practices and policies.

	<p>The principal responsibilities of the Board are set out in the board charter published at www.hrc.com.my. (“Board Charter”). Steps taken by the Board to improve the overall business continuity of the Company as at 19th March 2019 include the following:-</p> <ul style="list-style-type: none"> (i) The Board approved the Company’s Anti-Bribery and Corruption and Anti-Money Laundering Manual on 23rd November 2018, which complements HRC’s Code of Conduct and Whistleblowing Policy and promotes a better corporate governance culture within the Company; (ii) The Board approved the 2019 Business Priorities and Operating Plan to ensure the company can reach its goals. The Board also approved the 2019 Business performance scorecard to allow monitoring of Management performance; (iii) The Board continues to review and challenge Management’s proposals, the Company’s financial performance and operational and safety performance through the quarterly scorecard and various reports presented by Management during Board meetings’ and (iv) The Board recognises that business decisions will involve taking appropriate risks. In order for the Company to have reasonable assurance to meet its business objectives and to fulfil its external obligations and commitments, the HRC Control Framework (“Control Framework”) was introduced and approved by the Board during its Board meeting on 23rd November 2018. <p>The Control Framework governs existing controls and structure of the Company and provides the framework for further enhancements. It supports the business objective to achieve the effectiveness and efficiency of operations, reliability of internal and external reporting and compliance with applicable laws and regulations.</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 1.2

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

Applications	Applied
Explanation on application of the practice	<p>The Chairman of the Board is, Wang YouDe ("Chairman"). Pursuant to the Board Charter, the Chairman undertakes the following responsibilities:</p> <ul style="list-style-type: none">(i) Sets the agenda for each Board meeting with the CEO, DCEO, CFO and Company Secretary in consultation with members of the Board.(ii) 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;(iii) 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.(iv) 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;(v) Leads Board meetings and manages boardroom dynamics by promoting a positive culture of openness and debate, encouraging active participation and allowing dissenting views to be freely expressed;(vi) 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(vii) 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

	<p>annual general meeting, extraordinary general meetings, townhalls and other events organised by the Company as the leader of the Board and representative of the Company.</p> <p>The Chairman continues to receive excellent ratings in the Board Effectiveness Assessment undertaken by the Directors of the Company for the year ending 2018 (“BEA 2018”) for commanding and demonstrating effective leadership of the Board, overseeing an effective decision-making process, ensuring that crucial alternatives for a decision are considered and ensuring that the Board’s workload is appropriately managed and allocated to Committees with specific Terms of Reference approved by the Board.</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>The CEO of the Company, David Ronald Keat, oversees and is accountable to the Board for the operations 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> <ul style="list-style-type: none">(i) Attending Board and Committees meetings and ensuring that the proceedings of meetings are recorded, and the minutes of meetings shall accurately reflect the deliberations and decisions made by the Board and Committees including whether any Director abstained from voting or deliberating on a particular manner, are circulated in a timely manner;(ii) Advising the Board and Committees on their role and responsibilities;(iii) Facilitating the orientation of new Directors and assist in Directors training and development;(iv) 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;(v) Monitoring and alerting the Board on changes, updates, revisions, amendments, modifications in relation to laws, legislation, rules, statutory provision or otherwise which affect the Company;(vi) Managing processes pertaining to the annual general meeting; and(vii) 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	:	

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

Intended Outcome

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

Practice 1.5

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

Application	:	Applied
Explanation on application of the practice	:	<p>Under HRC's Board Charter and the Terms of Reference of its Board Committees, notices and agenda of Board and Committees meetings and the relevant Board papers are to be distributed to Directors at least five (5) working days prior to the Board and Committees 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 effectiveness and timeliness for distribution of meeting materials have improved with the support of digital platform subscribed by HRC. The digital platform allows the Directors and Management to download and view the meeting materials including updated meeting materials uploaded by Management within seconds.</p> <p>The Board conducted the BEA 2018 and felt that there was room for improvement in respect of the quality of content and timeline for circulation of board papers and meeting minutes to support the Board's decision making.</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 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 latest Board Charter was approved by the Board on 27th February 2018 which recommended practices under the Malaysian Code on Corporate Governance which had come into effect on 26th April 2017 ("MCCG 2017").</p> <p>The Board Charter is published at www.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	:	<p>The HRC's Code of Conduct provides the information and guidelines for the Company to achieve its business principles and core values of 'honesty, integrity and respect for people'. The content of the Code of Conduct includes:</p> <ul style="list-style-type: none">i. Individual responsibility and integrity;ii. Unethical behaviour;iii. Health, safety, security environment and social performance;iv. Harassment;v. Corruption and bribery;vi. Conflicts of interest;vii. Money laundering;viii. Breach of law and regulations;ix. Insider dealing; andx. Use of IT and electronic communications including managing the risk of data privacy, intellectual property, information and records management and business communication. <p>The Anti-Bribery and Corruption and Anti-Money Laundering Manual ("ABC & AML Manual"), which was introduced on 23rd November 2018, further sets out the Company's policies on anti-bribery and corruption and anti-money laundering.</p> <p>The Code of Conduct and ABC & AML Manual are published in HRC's intranet and website at www.hrc.com.my.</p>
Explanation for departure	:	

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

Measure	:		
Timeframe	:		

Intended Outcome

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

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

Practice 3.2

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

Application	:	Applied
Explanation on application of the practice	:	<p>HRC is committed to achieve the highest standards of integrity, openness and accountability in the conduct of its businesses and operations.</p> <p>In line with the above commitment, the Whistleblowing Policy ("Policy") was established to encourage and to facilitate the disclosure of genuine and legitimate improper conduct within HRC, raised by employees of HRC and members of the public at the earliest opportunity.</p> <p>The policy was published at the HRC's intranet and main website at www.hrc.com.my</p> <p>The Chair of BAC continues to oversee the whistleblowing function to ensure effective actions were taken in response to all concerns of any wrongdoings raised.</p> <p>The whistleblowing process and procedure was established in the Policy and all complaints are to be channelled directly to the Chief Internal Auditor of the Company through personal report, email (Whistleblower@hrc.com.my) or by post.</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 of independent directors.

Application	:	Applied	
Explanation on application of the practice	:	<p>As at 19th March 2019, the Board consists of six (6) directors: two (2) Non-Independent Non-Executive Directors and four (4) Independent Non-Executive Directors (“INEDS”).</p> <p>The Board Charter provides that at any one time, the majority of the Board members shall be INEDS to ensure balance of power and authority within the Board.</p> <p>All INEDS has carried out a self-assessment on independence through annual assessment of independence in the BEA 2018.</p> <p>All INEDS declared their independence via the annual assessment of independence in the BEA 2018.</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 – None of the independent directors are serving beyond 9 years.	
Explanation on application of the practice	:		
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

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

Practice 4.3 - Step Up

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

Application	:	Not adopted.
Explanation on adoption of the practice	:	

Intended Outcome

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

Practice 4.4

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

Application	:	Applied
Explanation on application of the practice	:	<p>The BNRC considers the following factors in the assessment of candidates for the Board:</p> <ul style="list-style-type: none">(i) Skills, knowledge, expertise and experience;(ii) Time commitment, character, professionalism and integrity;(iii) Ability to work cohesively with other members of the Board;(iv) Specialist knowledge or technical skills in line with the Company's strategy;(v) Diversity in age, gender and experience and/or background; and(vi) 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>Lim Tau Kien, the Senior Independent Non-Executive Director, resigned from the Board with effect from 22nd February 2019.</p> <p>On the same day, Surinderdeep Singh A/L Mohindar Singh was appointed as an Independent Non-Executive Director with effect from 23rd February 2019. His appointment was recommended by Wang YouDe, the Chairman and Non-Executive Non-Independent Director of the Company and was tabled and approved by the Board based on his qualifications and previous experience in the Shell group of companies.</p> <p>As a result of changes in the Board, the composition of the Board as at 19th March 2019 is as follows:</p> <ul style="list-style-type: none">(i) 17% of the Board and 39% of HRC's Management are women;(ii) The Board and Management of the Company comprise various ethnicities including Bumiputra and expatriates;(iii) The ages of Board members are split between the ranges of 50-60 (67%) and 61-70 years old (33%); and

	(iv) The ages of 13 Management members are spread out in ranges of 30-39 (31%), 40-49 (31%) and 50-59 (38%).	
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 4.5

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	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	Lim Tau Kien resigned as Senior Independent Non-Executive Director of the Board with effect from 22 nd February 2019. As at 19 th March 2019, the Board has only one woman director, which makes up 17% of the Board.
<i>Large Companies are required to complete the columns below. Non-Large companies are encouraged to complete the columns below.</i>		
Measure	:	The Board takes cognisance to achieve 30% gender diversity in Board composition to support women participation in decision making positions. However, the normal selection criteria based the followings will still remain a priority for assessment of candidates for the Board:- (i) Skills, knowledge, expertise and experience; (ii) Time commitment, character, professionalism and integrity; (iii) Ability to work cohesively with other members of the Board; (iv) Specialist knowledge or technical skills in line with the Company's strategy; (v) Diversity in age, gender and experience and/or background; and (vi) Number of directorships in companies outside the Company.

Timeframe	:	As and when the Company found a candidate based on Company's selection criteria.	
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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 4.6

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	:	<p>The BNRC considers and recommends candidates for directorship based on the required mix of skills, knowledge, professionalism, integrity, experience and other qualities.</p> <p>The current INEDS were appointed after considering qualified candidates proposed by existing Board members, Management, major shareholders, independent sources 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

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	:	Lim Tau Kien, a Senior Independent Non-Executive Director, was the Chair of the BNRC until her resignation on 22 nd February 2019. Surinderdeep Singh A/L Mohindar Singh, an Independent Non-Executive Director, was appointed as the Chair of BNRC with effect from 23 rd February 2019.	
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 :	

<p>Explanation for departure</p>	<p>:</p> <p>The board effectiveness assessment was conducted in March 2019 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) Assessment of mix of skills and experience <p>Overall, the Board is satisfied with its structure and composition, Board operations and interactions, general roles and responsibilities, strategy planning, performance management, human capital management, risk management and internal control, but would like to see improvements in the quality of content and timeliness of board papers and board meeting minutes.</p> <p>The Board has also undertaken an assessment of the training needs of each Director, and the Directors continue to attend and participate in relevant internal and external trainings sessions. A list of the in-house continuing education programmes and external trainings attended by the Directors in 2018 is set out in page 146 of the Company's Annual Report.</p> <p>The BAC and BNRC carried out a self-evaluation of its composition, 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>
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	<p>The Board will revisit 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	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	The Terms of Reference of the BNRC provides that BNRC shall ensure that compensation policies and packages of Directors and senior management are reflective of Company's demands, complexities and performance as a whole as well as the skills and experience required, and in line with the strategic objectives of the Company which rewards contribution to the long-term success of the Company.	
		The Board continues to be guided by its existing remuneration and benefits policies for Directors and senior Management, which are reviewed on a periodic basis. At present, the policies have not been uploaded to the Company's website pending further review and enhancements.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:	To enhance 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 was updated and approved on 27 th August 2018 and is published on www.hrc.com.my . It contains the functions 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	:	<p>Details of remuneration of individual Directors, including fees, salary, bonus, benefits in-kind and other emoluments (received or to be received from the Company) for the financial year ended 31st December 2018 are as follows:</p> <table border="1"> <thead> <tr> <th>(in RM'000)</th> <th>Salaries, bonus and salaries related benefits</th> <th>Directors' fees</th> <th>Attendance and other remuneration</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Wang YouDe</td> <td>-</td> <td>558</td> <td>5</td> <td>563</td> </tr> <tr> <td>Wang ZongQuan</td> <td>-</td> <td>256</td> <td>5</td> <td>261</td> </tr> <tr> <td>Lim Tau Kien</td> <td>-</td> <td>473</td> <td>8</td> <td>481</td> </tr> <tr> <td>Alan Hamzah Sendut</td> <td>-</td> <td>242</td> <td>6</td> <td>248</td> </tr> <tr> <td>Fauziah binti Hisham</td> <td>-</td> <td>226</td> <td>6</td> <td>232</td> </tr> <tr> <td>Liang Kok Siang</td> <td>-</td> <td>219</td> <td>6</td> <td>225</td> </tr> <tr> <td></td> <td>-</td> <td>1,974</td> <td>36</td> <td>2,010</td> </tr> </tbody> </table> <p>The Directors of the Company were insured against certain liabilities under a Directors' and Officers' liability insurance policy for which the Company paid an aggregate sum of RM57,000.</p> <p>This disclosure is also set out in the Corporate Governance Overview Statement in pages 58 to 61 the Company's 2018 Annual Report.</p>				(in RM'000)	Salaries, bonus and salaries related benefits	Directors' fees	Attendance and other remuneration	Total	Wang YouDe	-	558	5	563	Wang ZongQuan	-	256	5	261	Lim Tau Kien	-	473	8	481	Alan Hamzah Sendut	-	242	6	248	Fauziah binti Hisham	-	226	6	232	Liang Kok Siang	-	219	6	225		-	1,974	36	2,010
(in RM'000)	Salaries, bonus and salaries related benefits	Directors' fees	Attendance and other remuneration	Total																																									
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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

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	:	Due to the competitive nature in the oil gas industry, the Board decided to depart from Practice 7.2 and will consider whether it wishes to adopt the recommendations in Practice 7.2 in the future.	
<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 three (3) years	

Intended Outcome

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

Practice 7.3 - Step Up

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

Application :	Not Adopted
Explanation on adoption of the practice :	

Intended Outcome

There is an effective and independent Audit Committee.

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

Practice 8.1

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

Application	:	Applied	
Explanation on application of the practice	:	<p>The Chair of the BAC is Alan Hamzah Sendut, who is an INED of HRC.</p> <p>The BAC comprises four (4) members who are all Independent Non-Executive Directors.</p> <p>The Chairman of the Board is Wang YouDe, who is not a member of the BAC.</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 8.2

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 area key audit partners of the external auditors of HRC.</p> <p>The Terms of Reference of the BAC is accessible on HRC's website at www.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

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 terms of reference of the BAC provides that the BAC assesses, on an annual basis, the suitability, objectivity and independence of the external auditors based on consideration factors such as:</p> <ul style="list-style-type: none">(i) The competence, audit quality and resource capacity of the external auditor in relation to the audit;(ii) The nature and extent of the non-audit services rendered and the appropriateness of the level of fees; and(iii) Obtaining written assurance for the external auditors confirming their independence throughout their audit engagement in accordance with all professional and regulatory requirements. <p>The terms of reference of the BAC is accessible on HRC's website at www.hrc.com.my.</p> <p>On 29th March 2019, the External Auditor Assessment Policy was approved by the Board to assess external auditors 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

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	:	The composition of the BAC comprises solely of four (4) independent non-executive directors.

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 comprises four (4) members with a diverse mix of skills, knowledge, experience and perspectives in the areas of accounting, corporate finance, banking, the oil and gas industry, strategy and corporate governance, which enables the BAC to discharge its duties.</p> <p>BAC is currently chaired by Alan Hamzah Sendut, a Chartered Accountant and a qualified member of the Institute of Chartered Accountants in England and Wales (1986), Malaysian Institute of Accountants (1987) and Chartered Audit Committee Director, Institute of Internal Auditors Malaysia (2018)</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 is committed to maintaining a sound internal control and risk management system to ensure a smooth progress of the business. It is HRC’s aim to manage its risks and to control its business and financial affairs economically, efficiently and effectively so as to be able to deliver profitable business opportunities in a disciplined way, to avoid or mitigate risks that can cause loss, reputational damage or business failure, and to enhance resilience to external events.</p> <p>BRMC provides oversight and direction on risk management matters to ensure prudent risk management over HRC’s business and operations to ensure that comprehensive policies of risk management are set up to identify and measure the potential impact of key business risks and to manage and counter such threats.</p> <p>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>The BRMC provides oversight and direction on risk management matters to ensure prudent risk management over HRC's business and operations. For Internal control and risk-related matters which warranted the attention of the Board are recommended by the Board Committees to the Board for its deliberation and approval.</p> <p>HRC adopts the best practices from ISO 31000:2009 Risk Management – Principles and Guidelines to manage the risks of its business and operations. HRC has an established and structured process for the identification, assessment, communication, monitoring as well as continual review of risks and effectiveness of risk mitigation strategies and controls.</p> <p>HRC's risk management is backed up by the implementation of three lines of defence that distinguishes the three groups which are involved in effective management of risk in HRC as follows:</p> <ul style="list-style-type: none">(a) First line of defence: by process owner through performing day-to-day risk management activities;(b) Second line of defence: by risk management functions that oversight function to review risk management and control system and provide assurance; and(c) Third line of defence: by internal audit through independent review on the overall adequacy, integrity and effectiveness of risk management and control system. <p>Further details of the risk management and internal control framework are provided in the Statement on Risk Management and Internal Control on pages 62 to 66 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	:	As of 19 th March 2019, the BRMC comprises three (3) members, two (2) of whom are independent non-executive directors.

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> <ol style="list-style-type: none">(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 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 Deputy Chief Executive Officer.(2) HRC's site internal assurance team ("SIA"), which comprises of 32 trained and / or certified site internal auditors from various departments in HRC. The SIA reviews the site internal audits and process effectiveness of HRC and reports to the Quality & Health, Security, Safety and Environment Manager. <p>The internal audit charter of the IAD provides that the IAD shall 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 internal audit function and assessing the performance of the internal audit members and services provided by the internal audit function annually.</p>

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

Intended Outcome

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

Practice 10.2

The board should disclose–

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

Application	:	Applied
Explanation on application of the practice	:	<p>As at 19th March 2019, the IAD consists of Nur Izatul Fitri Hussein as CIA. During the year 2018, the IAD consisted of 2 members.</p> <p>The CIA has declared that she is free from any relationships or conflicts of interest which could impair her objectivity and independence. Such disclosure is made annually to the Company.</p> <p>The CIA is a Certified Internal Auditor and Chartered Accountant. She holds a Bachelor's Degree in Accountancy (Hons) and a Certification in Risk Management Assurance from the Institute of Internal Auditors Inc. She is a member of Malaysian Institute of Accountants and a Chartered Member of Institute of Internal Auditors Malaysia.</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	:	
<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

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

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

Practice 11.1

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

Application	:	Applied
Explanation on application of the practice	:	<p>The Board acknowledges the importance of effective communications to ensure that stakeholders are kept informed of the Company’s objectives and strategic aims, performance and major developments affecting its business.</p> <p>The Company’s investor relations function is handled by the Corporate Affairs Department, which is the main point of communication for shareholders, investors and other stakeholders.</p> <p>In addition to regular town hall meetings to communicate with employees, the Company has been communicating with the stakeholders via quarterly financial reports, annual reports, sustainability efforts, bursa announcements, circulars and press releases which is published on its website.</p> <p>Examples of the Company’s engagement with the local community through its stakeholder engagement and activities are set out in pages 26 to 29 of the Company’s 2018 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	:		
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Intended Outcome

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

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

Practice 11.2

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

Application	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	The Company 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>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	:	Applied	
Explanation on application of the practice	:		
Explanation for departure	:	As provided in the Board Charter of HRC, the Board shall ensure that shareholders are given all necessary information and notice of the Company's Annual General Meeting at least twenty-eight (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	:		
Timeframe	:		

Intended Outcome

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

Practice 12.2

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

Application	:	Applied
Explanation on application of the practice	:	<p>The Company regards general meetings as important platforms for dialogue amongst Directors, Management and shareholders and aims to encourage active participation by the shareholders during such meetings. The Board Charter of HRC provides that all Directors and the Chairs of the respective Committees must attend general meetings to allow shareholders to raise questions and receive meaningful response to questions raised by them.</p> <p>During the 59th Annual General Meeting (“59th AGM”) of the Company on 24th May 2018, all Directors and Chairs of the respective Committees were present. The Directors and Management responded to key matters raised by the shareholders in relation to the performance of the Company.</p> <p>The minutes of the 59th AGM is published at www.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

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>The AGM of the Company is usually held at prominent location, which is easily accessible with public transportation and parking within the premises for Shareholder's convenience. The Company held its 59th AGM at Sime Darby Convention Centre on 24th May 2018.</p> <p>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 PURSUANT TO CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA MALAYSIA

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

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