

Remuneration Policy and Procedures for Directors and Senior Management

Hup Seng Industries Berhad (226098-P)

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1. INTRODUCTION

1.1. Purpose

- 1.1.1. This Remuneration Policy and Procedures is the guiding document (“Document”) for the Board of Directors (“Board”), Nominating and Remuneration Committee of Hup Seng Industries Berhad (“HSIB” or the “Company”) to administer the remuneration of the Directors and Senior Management, taking into account the demands, complexities and performance of the Company and its subsidiaries (collectively referred to as the “Group”) as well as skills and experience required.
- 1.1.2. This Document seeks to set out an overarching framework for the development of a fair and transparent framework for the remuneration of Directors and Senior Management of HSIB.

1.2. Scope and application

- 1.2.1. This Document should be read together with the relevant enumerations encapsulated in the following legislations:
- a) Companies Act 2016;
 - b) Capital Markets and Services Act 2007 (Amendment 2012); and
 - c) Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Listing Requirements”).
- 1.2.2. Where there is a conflict between the contents of this Document and the aforementioned legislations, the relevant enumerations contained in the said legislations shall prevail.
- 1.2.3. This Document is also developed in alignment with the Malaysian Code on Corporate Governance (“MCCG”). Where paragraphs in this Document make reference to provisions in legislations or other corporate governance promulgations, they are indicated accordingly in italics.
- 1.2.4. This Document will be reviewed periodically by the Nominating and Remuneration Committee and be made available on the Company’s website.

1.3. Definition and interpretation

- 1.3.1. Executive Director (ED) - A Director who assumes management responsibilities in HSIB and receives salary from HSIB.
- 1.3.2. Independent Non-Executive Director (INED) - A Director who is independent of Management and free from any business or other relationship which could interfere with the exercise of independent judgment or the ability to act in the best interests of an applicant or a listed issuer. The Director fulfils the independence criteria set out in *paragraph 1.01* of the Listing Requirements.
- 1.3.3. Major shareholder - A person who has an interest in 10% or more of the total number of voting shares in HSIB.
- 1.3.4. Non-Independent Non-Executive Director (NINED) - A Director who sits on the Board of Director but does not assume managerial role in HSIB nor draw salary from HSIB. The NINED is not independent of the Management and Directors

and does not fulfil the independence criteria under *paragraph 1.01* of the Listing Requirements.

- 1.3.5. Senior Management - C-suite members and General Managers or equivalent.
- 1.3.6. Remuneration - All forms of consideration rendered to Directors and Senior Management in exchange for the services. This includes but is not limited to fees, meeting allowances, base salary, bonus and benefits.
- 1.3.7. Risk appetite - Aggregate level and types of risk HSIB is willing to assume, decided in advance and within its risk capacity, to achieve HSIB business objectives and strategies.
- 1.3.8. Share option - A right to buy a certain number of HSIB shares at a predetermined price.

2. REMUNERATION PHILOSOPHY

- 2.1. The remuneration practices of HSIB are anchored on the following overarching objectives:
- a) Drive behavior that is consistent with HSIB's core values (i.e. Integrity, Commitment, Loyalty, Excellence in Execution, Speed or Timeliness, Innovativeness and Cost Efficiency);
 - b) Promote symmetric outcomes with the risk appetite of HSIB by encouraging prudent risk taking in decision-making and the undertaking of business activities;
 - c) Deliver a total reward proposition that is affordable yet competitive, fair and justifiably differentiated so as to incentivize actions towards the value accretion of the Group;
 - d) Attract and retain high-quality individuals with the optimum mixture of competencies, ability, experience and skill to deliver on strategy; and
 - e) Encourage a culture of organizational, team and individual performance and significantly incentivizing individuals who deliver sustained performance consistent with strategic goals.

3. REMUNERATION PRINCIPLES

- 3.1. HSIB is guided by the following four (4) principles in determining its approach for the remuneration framework of Directors and Senior management:

Principle 1: Simple

The framework should be simple and transparent for all stakeholders to understand.

Principle 2: Competitive and fair

Retaining leaders of the necessary caliber requires remuneration arrangements that are competitive in the marketplace. As such, talents are attracted and remunerated fairly by reflecting the appropriate market rates for the skills and experience acquired. HSIB remains cognizant of the need to ensure value for money whilst simultaneously reflecting the status of its Group as a leading conglomerate in the marketplace.

Principle 3: Performance oriented

The remuneration packages reward performance in areas that are most important to shareholders and other stakeholders.

Principle 4: Aligned with the overall remuneration practices of the Group

Remuneration structures are aligned to the context of the broader employee remuneration to ensure fair and responsible remuneration practices.

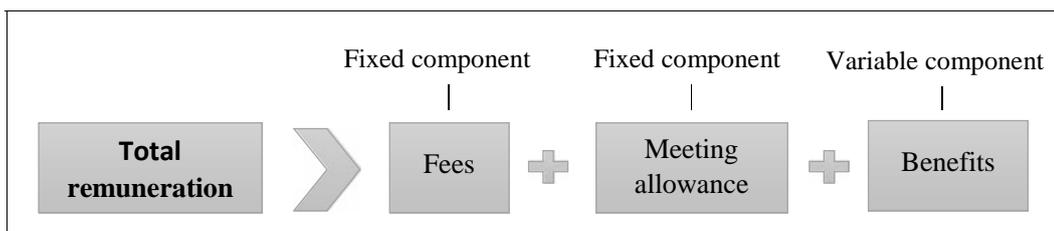
4. REMUNERATION STRUCTURE

4.1. The table below summarizes the main components that shall form the remuneration packages of Directors and Senior management of HSIB:

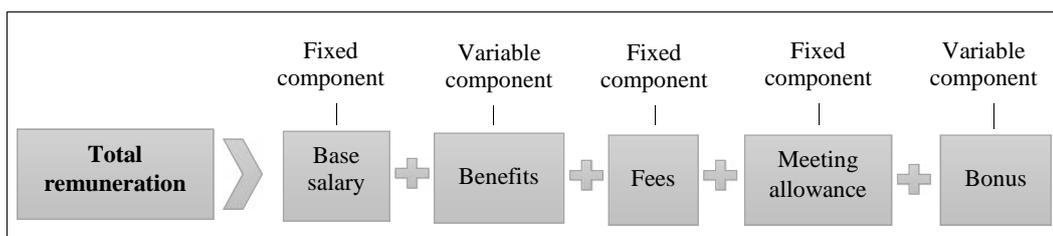
Category- Fixed/ Variable	Component	Component description
Fixed	Fees	A fixed sum shall be provided to Directors for their ongoing contribution to the Board.
Fixed	Meeting allowance	A payment shall be made to Directors on a per-meeting basis with a condition that attendance (physical or virtual) is a prerequisite for remittance.
Fixed	Base salary	A monthly payment shall be provided to Executive Directors and Senior Management personnel for performing their day job.
Fixed	Benefits	Benefits may be provided to increase the economic security of Directors and Senior Management personnel and as an incentive to attract and retain talent.
Variable	Bonus	A performance based sum (paid via cash) may be awarded to Executive Directors and Senior Management personnel for attaining or exceeding their assigned tasks

4.2. In addition, expenses (e.g. entertainment and travel expenses) incurred by Directors and Senior Management in discharging their duties relating to the ordinary course of HSIB’s business activities shall be reimbursed accordingly upon approval in accordance with the Company’s Limits of Authority. All reimbursements must be accompanied with the claimable receipts and shall be submitted to the Company Secretarial Department for processing on a timely basis.

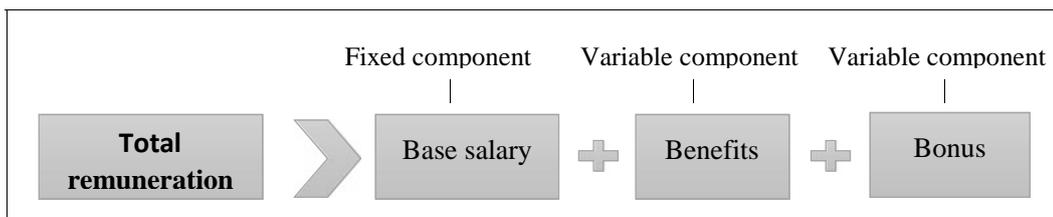
4.3. A typical remuneration structure for Non-Independent Non-Executive Directors of HSIB is illustrated below:



4.4. A typical remuneration structure for Executive Directors of HSIB is illustrated below:



4.5. A typical remuneration structure for Senior Management personnel that are not holding a directorship position in HSIB is illustrated below:



5. REMUNERATION POLICY AND PROCEDURES

HSIB is guided by the following principles in remunerating its Directors and Senior Management:

- a) Fees payable to Non-Independent Non-Executive Directors shall be by a fixed sum, and not by a commission on or percentage of profits or turnover (*paragraph 7.23 of Listing Requirements*);
- b) Independent Directors generally shall not be remunerated with shares or stock-options. If exceptionally granted, the quantum granted shall not amount to an extent that it would result in the Independent Director becoming a major shareholder (*paragraph 1.01 of Listing Requirements*);
- c) Salaries payable to Executive Directors shall not include a commission on a percentage of turnover (*paragraph 7.23 of Listing Requirements*);
- d) The maxim “pay for performance” is adopted in remunerating Executive Directors and Senior Management to promote the long-term success of HSIB. Performance is measured based on a holistic balanced scorecard approach comprising both financial and non-financial KPIs (*as outlined in paragraph 5.2.3*);
- e) Share options, if granted to Executive Directors and Senior Management generally shall not vest immediately. The vesting period of share options shall reflect the time horizon of risks and take account of the potential for risks to crystallize over a longer period of time;
- f) In order to safeguard the independence and authority of Senior Management personnel that are engaged in control functions, the remuneration of such individuals shall be based principally on the achievement of control functions objectives, and determined in a manner that is independent from the business lines they oversee; and
- g) Periodic benchmarking of remuneration will be undertaken to ascertain the competitiveness of HSIB remuneration packages vis-à-vis other companies. However, such comparisons will be utilized with caution, in view of the risk of an upward ratchet in the remuneration levels with no corresponding improvement in corporate and individual performance, and to avoid paying more than is necessary.

5.1. Policy and procedures for remunerating Non-Independent Non-Executive Directors

- 5.1.1. HSIB's remuneration policy for Non-Independent Non-Executive Directors is to develop a remuneration structure that is commensurate with the Non-Independent Non-Executive Directors' responsibilities at both the Board and Board Committee level and is sufficient to attract, incentivize and retain quality Non-Independent Non-Executive Directors.
- 5.1.2. Non-Independent Non-Executive Directors' remuneration packages shall be determined on the basis of their qualification, experience, level of responsibility and competence, having regard to their responsibilities, time commitment and annual evaluation as undertaken by the Nominating and Remuneration Committee.
- 5.1.3. As mentioned in the preceding section, Non-Independent Non-Executive Directors shall be paid via fixed fees, meeting allowances and other benefits. Meeting allowance will be made for each meeting that they attend.

5.2. Policy and procedures for remunerating Executive Directors and Senior Management

- 5.2.1. HSIB's policy for Executive Directors and Senior Management personnel's remuneration is to ensure that the level of remuneration is generally competitive to attract, retain and motivate Executives of the highest caliber to competently manage the Group.
- 5.2.2. The component parts of the remuneration shall therefore be structured to link the remuneration package with corporate and individual performance and take into account similar packages at comparable companies (of similar size and complexity to the Company locally; and in the same industry in the region).
- 5.2.3. The performance of Executive Directors and Senior Management is measured based on yearly performance appraisal of individual in conjunction with the company financial performance and profit for the year.
- 5.2.4. Performance appraisal of each of the Executive Director and Senior Management is ultimately reviewed by the Nominating and Remuneration Committee. The rewards accorded to Executive Director and Senior Management shall comprise annual bonus and increment to their base salaries.
- 5.2.5. There should not be any ex-gratia or agreed upon severance payment granted to any Executive Directors or Senior Management.

6. Governance of remuneration

6.1. Oversight of remuneration

- 6.1.1. The Nominating and Remuneration Committee shall assist the Board in implementing its policies and procedures on remuneration including reviewing and recommending matters relating to the remuneration of Directors and Senior Management (Practice 6.1 of MCCG).
- 6.1.2. The Nominating and Remuneration Committee shall develop and administer a fair and transparent procedures for setting policy on remuneration of Directors and Senior Management so as to ensure that remuneration packages are determined on the basis of the Directors and Senior Management personnel's merit, qualification and

competence, having regard to the Group's operating results, individual performance and comparable market statistics (Guidance to Practice 6.2 of MCCG).

- 6.1.3. The remuneration policy and procedures shall be implemented with input from the control functions and the Audit and Risk Management Committee to ensure that risk exposures and risk outcomes are adequately considered. In considering the remuneration policy and procedures, the Nominating and Remuneration Committee may also enlist the expertise of external advisors where necessary.
- 6.1.4. Executive Directors do not form part of the composition of the Nominating and Remuneration Committee (Guidance to Practice 6.2 of MCCG). As such, Executive Directors play no part in the deliberation or decision-making of their own remuneration matters but the Managing Director may attend the Nominating and Remuneration Committee meetings at the invitation of the Chairman of the Nominating and Remuneration Committee, if his presence is required.
- 6.1.5. The remuneration of Executive Directors and Senior Management is approved by the Board, as a whole, with the individual Executive Director abstaining from discussion of his/her own remuneration.

6.2. Directors and Officers Liability Insurance

- 6.2.1. Directors are accorded with Directors and Officers Liability Insurance in respect of any liability (civil or criminal) arising in the course of discharging their duties as Directors and Officers of HSIB provided that such liabilities were occasioned in good faith and not as a result of negligence, default or breach of duty (Section 288 of Companies Act 2016).
- 6.2.2. The Directors and Officers Liability Insurance premium shall be borne primarily by the Company, and partially by the Directors. The premium paid does not form part of the benefits awarded to Directors as part of their remuneration packages.

6.3. Approval of Directors fees and benefits payable

- 6.3.1. The fees of the Directors, and any benefits payable to the Directors including any compensation for loss of employment of a Director or former Director of the Company and its subsidiaries shall be approved at the General Meeting [Section 230(1) of Companies Act 2016 and *paragraph 7.24* of Listing Requirements].
- 6.3.2. Approval of Directors fees and benefits payable may be sought in a prospective manner. However, payment of Directors' fees shall only be payable yearly in arrears after each month of completed service of the Directors during the financial year.
- 6.3.3. A general mandate of shareholders shall not be sought for the approval of Directors fees and benefits payable (Item 6 of Employees Provident Fund's Voting Guidelines). The resolution contained in the notice seeking shareholders' approval for Directors' fees and benefits payable would include a quantitative breakdown of remuneration components (i.e. fees and benefits) and the corresponding period for which approval is sought.

6.4. Disclosure of remuneration

Directors' remuneration shall be disclosed on a named and individual basis and by the exact amount, both at Company level and Group level. The remuneration breakdown shall amongst others include fees, salary, bonus and other benefits as the case may be (paragraph 11, Appendix 9C of Listing Requirements and Practice 7.1 of MCCG). The disclosure shall also include Directors who were appointed or retired during the year.

7. Review of the Policy and Procedures

- 7.1.** This Policy and Procedures has been endorsed by the Board, upon recommendation by the Nominating and Remuneration Committee. This policy shall be reviewed periodically or as and when it is necessary.
- 7.2.** The Nominating and Remuneration Committee, with the support of the Company Secretary, shall ensure that the provisions of this Policy and Procedures continue to comply with the legal requirements and corporate governance requirements and, if necessary, shall suggest amendments to this Policy and Procedures for consideration by the Board.