

Corporate Governance Statement

Shell Refining Company (Federation of Malaya) Berhad is dedicated to implementing the highest standards of corporate governance at all levels of your Company. Your Company's policies and procedures are upheld by internal controls that are regularly audited and reviewed to ensure their effectiveness. These policies and procedures are based on the Shell General Business Principles (SGBP) - a governance blueprint developed by Royal Dutch Shell plc, your Company's ultimate holding company.

Your Board of Directors supports the Principles of Corporate Governance as laid out in the Malaysian Code of Corporate Governance and is committed to ensuring that the highest standards of corporate governance are implemented and maintained throughout your Company in enhancing shareholders value and the long term value of your Company.

These principles and practices, supported by existing internal controls processes, are regularly audited and reviewed, to ensure transparency and accountability. Royal Dutch Shell plc, has developed a governance guide, series of policies and management systems that are designed to support a strong system of corporate governance. The Shell General Business Principles, as adopted by your Board, spell out clearly the key business principles that govern the way your Company conducts its business.

Shell General Business Principles (SGBP)

Your Board has unequivocally adopted the SGBP, which first came into being in 1976. The SGBP has remained consistent ever since, because the core values on which the Principles were originally based have endured, namely

- Honesty
- Integrity
- Respect for people

Your Company also firmly believes in the fundamental importance of the promotion of trust, openness, teamwork and professionalism, and in pride in what it does. These underlying corporate values determine your Company's principles. These principles apply to all transactions, large or small, and describe the behaviour expected of every employee in your Company in the conduct of its business. In turn, the application of these principles is underpinned by procedures within your Company, which are designed to ensure that its employees understand the principles and that they act in accordance with them. Your Company recognises that it is vital that its behaviour matches its intentions.

All the elements of this structure - values, principles and the accompanying procedures - are necessary. It is your Company's firm belief that maintaining the trust and confidence of shareholders, employees, customers and other people with whom your Company does business, as well as the communities in which your refinery is situated, is crucial to its continued growth and success. Your Company intends to merit this trust by conducting itself according to the standards set out in these principles. These principles have served your Company well for many years. It is the responsibility of Management to ensure that all employees are aware of these principles, and behave in accordance with the spirit as well as the letter of the SGBP.

BOARD OF DIRECTORS

The Board is committed in ensuring that the Principles of Corporate Governance set out in the Malaysian Code of Corporate Governance is effectively employed in the Company.

Board Composition

Your Board currently consists of a Non-Executive Non-Independent Chairman, one

Executive Director, who is also the Managing Director, and seven other Directors, three of whom are Independent and Non-Executive Directors, which is in compliance with paragraph 5.02 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The roles of the Non-Executive Chairman and the Managing Director are distinct and separate with their responsibilities clearly defined to ensure a balance of power and authority. The Non-Executive Chairman was the Country Chairman of the companies of the Shell Group operating in Malaysia and contributes his considerable experience to your Board. The Independent Non-Executive Directors, all of whom are distinguished, respected and experienced present or past business leaders in their own right, play important roles by exercising independent judgment and objective participation in the proceedings and decision-making processes of your Board. The presence of the Independent Non-Executive Directors is essential in order to ensure that the interests of other parties, such as the minority shareholders, are properly safeguarded. The other Directors, being senior executives within the Shell Group, also bring with them a wide range of business and financial experience relevant to your Company. The profile of each Director is given on pages 18 to 21.

Responsibilities

Your Board has the overall responsibility for corporate governance and strategic direction of your Company and is entrusted to exercise reasonable and proper care in utilising your Company's resources for the best interests of its shareholders and to safeguard your Company's assets. The Managing Director, being the only Executive Director of your Company, has the principal responsibility of reporting, clarifying and communicating matters relating to day-to-day operations of your Company to your Board.

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All the Directors of your Company in office as at 31st December 2005 have attended the Mandatory Accreditation Programme (MAP). The Board firmly believes in the continuing education of individual Directors consistent with the requirements of paragraph 15.09 of the Listing Requirements. The Board has taken on the onus in reviewing, evaluating and determining the specific and continuous training and the competency development of individual directors during its meetings resulting in-house training being carried out in addition to participation in public sessions. The Directors are also kept up-to-date on changes in the regulatory/legal/commercial risks environment as and when required through various means.

Details of the Directors' attending MAP and accredited Continuing Education Programme (CEP) training pursuant to paragraph 15.09 of the Listing Requirements are summarised as follows:

DIRECTORS/ COURSES	CEP	Datuk Jon Chadwick	Dato' (Dr) Yahya bin Ismail	Raja Ahmad Murad bin Raja Bahrin	Dato' Jaffar Indot*	Tan Sri Saw Huat Lye	Saw Choo Boon ^	Tn. Hj. Mohzani bin Abdul Wahab	Mark Owen Stevens	Thomas Michael Taylor
Managerial Accountability	16	√	√	√				√	√	√
Corporate Governance & Media	8	√	√	√				√	√	√
Assurance Planning-Risk Policy and Guidelines	16		√	√				√	√	√
Competing Fairly	8			√					√	
Implementing Investor Relation Strategies for Company Directors and Senior Management	16					√				
Key Obligations of Public Listed Companies under the LR of Bursa Malaysia Securities Berhad	16					√				
Mandatory Accreditation Programme (MAP)		√	√	√	√	√	N/A	√	√	√
Total CEP points		24	40	48	0	32	N/A	40	48	40

* Dato' Jaffar Indot had completed the required CEP training in 2004.

^ Saw Choo Boon was appointed as a Director with effect from 23rd February 2006.

Mr. Thomas Michael Taylor, appointed on 22nd November 2004 attended the MAP on 2nd - 3rd February 2005. En. Zainul Rahim bin Mohd Zain, alternate to Datuk Jon Chadwick resigned with effect from 30th September 2005. However, he attended the Managerial Accountability and Corporate Governance & Media seminar carrying a total of 24 CEP points in addition to attending the MAP in 2002.

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The in-house trainings and external seminars attended by your Directors in 2005 aimed at improving the Directors' competency included the following:

DIRECTORS/ TRAINING COURSES	Datuk Jon Chadwick	Dato' (Dr) Yahya bin Ismail	Raja Ahmad Murad bin Raja Bahrin	Dato' Jaffar Indot	Tan Sri Saw Huat Lye	Saw Choo Boon	Tn. Hj. Mohzani bin Abdul Wahab	Mark Owen Stevens	Thomas Michael Taylor
Enhancing Shareholder Value	√	√	√				√	√	√
(i) The New FIC Guidelines and Its Impact to MNCs in Malaysia (ii) Corporate Legal Update (iii) BSLR Update	√	√	√				√	√	√
Implications of the latest updates on Companies Act Securities Law and cases on compliance.	√	√	√				√	√	√
Financial Reporting Standard Forum				√					
International CEO Conference 2005				√					

Board Meetings

Your Board meets at least four times a year, with additional meetings convened when necessary, where the Managing Director, and members of the Management team, table and present comprehensive reports for your Board's information, deliberation and direction. Your Directors have full and unrestricted access to all information pertaining to your Company's business or affairs to enable them to discharge their duties. Written reports on health, safety, security and environment, operational performance and profitability, human resources, business plans and various financial indicators are made available in advance to members of your Board to ensure a lively and robust debate.

Your Directors are given the following documents for their perusal, in advance of each Board meeting:

- Agenda;
- Management report;
- Financial Statements;
- Board papers; and
- Other relevant documents.

In addition, members of the Management are frequently invited to the Board meetings to explain and clarify the items tabled to the Board.

Minutes of each Board meeting are circulated to each Board member prior to confirmation of the minutes in the following Board meeting.

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Details of the Directors' attendance at meetings during 2005 are summarised as follows:

No.	Directors	Number of Board Meetings		Number of Board Audit Committee Meetings		General Meetings	
		Held	#Attended	Held	Attended	Ordinary	Extraordinary
1.	Datuk Jon Chadwick	4	4	Non-member	Non-member	Yes	Nil
2.	Dato' (Dr) Yahya bin Ismail	4	4	5	5	Yes	Nil
3.	Raja Ahmad Murad bin Raja Bahrin	4	4	Non-member	Non-member	Yes	Nil
4.	Dato' Jaffar Indot	4	4	5	5	Yes	Nil
5.	Tan Sri Saw Huat Lye	4	4	5	5	Yes	Nil
6.	Saw Choo Boon <i>(Appointed w.e.f 23rd February 2006)</i>	N/A	N/A	N/A	N/A	N/A	N/A
7.	Mohzani bin Abdul Wahab	4	3	Non-member	Non-member	Yes	Nil
8.	Mark Owen Stevens	4	3	Non-member	Non-member	Yes	Nil
9.	Thomas Michael Taylor	4	3	5	4	No	Nil
10.	Zainul Rahim bin Mohd Zain <i>(Alternate Director to Datuk Jon Chadwick) -Resigned w.e.f 30th September 2005.</i>	4	0	Non-member	Non-member	Nil	Nil

#Number of Board meetings held during tenure as Director.

Details of place, date and time of the Forty-Sixth Annual General Meeting:

Place : **Bangunan Shell Malaysia, Changkat Semantan, Damansara Heights, 50490 Kuala Lumpur**
 Date : **Thursday, 19th May 2005**
 Time : **11.00 a.m.**

There were no Extraordinary General Meetings held in 2005.

Whenever independent professional advice is required by the Directors to carry out their duties, an external expert may be engaged at your Company's expense. All Directors have access to the advice and services of your Company Secretaries, whose appointments and resignations are subject to Board approval. Your Company Secretaries regularly inform your Board on the changes to statutory and regulatory requirements pertaining to the Directors.

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Your Board takes a particular interest in your Company's role as a responsible and caring member of the community. To this end, your Board has adopted various initiatives including :

- promoting the goal of Sustainable Development by adopting a systematic approach to health, safety and environmental management; and
- supporting the implementation of the Social Performance Plan, which is aimed to increase our social performance levels and benefit the stakeholders as well as your Company.

Appointment and Re-Election of Directors

In accordance with your Company's Articles of Association, your Directors may fill any casual vacancy occurring in the Board. The new appointee shall retain his office until the next Annual General Meeting of your Company, but is eligible for re-election by the shareholders at that meeting.

The Articles of Association also provide for retirement by rotation, where one-third of Directors shall retire from office at least once every three years but shall be eligible for re-election by the shareholders at the Annual General Meeting.

Section 129 of the Companies Act, 1965, provides that Directors who are over the age of seventy (70) shall retire at every Annual General Meeting but may offer themselves up for re-election.

At the 2005 Annual General Meeting, all of your Directors stood for re-election.

Nomination Committee

The nomination process is formal and transparent, and is in line with the intent of the recommendation of Malaysian Code on Corporate Governance. After taking into account the present process and circumstances particular to your Company, your Board has elected not to appoint a nomination committee. Instead, your Chairman in consultation with the relevant stakeholders within and outside the Shell Group seek nominations, deliberate and endorse candidates for appointment as Directors. The nomination process takes into account the skills, experience, expertise and core competencies the candidates would bring to the Board. Your Board makes the final decision on the appointment of Directors in accordance with the Articles of Association. The appointment of senior management is made in consultation with relevant stakeholders and non-executive member of your Board.

Directors' Remuneration

After taking into account the present process and circumstances particular to your Company, your Board has elected not to appoint a remuneration committee. Instead, your Board has adopted the Shell Group remuneration policy to set the remuneration of the Managing Director. The remuneration level is also benchmarked internally with other Shell operating companies in Malaysia based on the level of seniority, individual performance as well as corporate performance. The Managing Director does not participate in the setting of his remuneration package.

All Independent and Non-Executive Directors are paid directors' fees. The remuneration received by the Independent and Non-Executive Directors is based on the competitive market situation, taking into consideration the Directors' business and financial experience relevant to your Company. The determination of Independent and Non-Executive Directors' fees is a matter for your Board as a whole and the Independent and Non-Executive Directors concerned do not participate in the deliberations and voting on decisions in respect of their own remuneration. Your Board recommends the remuneration payable to the Independent and Non-Executive Directors to the shareholders for approval at the general meeting, as and when required. The remuneration of the Independent and Non-Executive Directors was increased in 2005 as approved by the shareholders in the 2005 Annual General Meeting.

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An analysis of the aggregate Directors' remuneration paid by your Company for the year ended 31st December 2005 is set out below:

Name of Directors	Basic Salary RM'000	Fees RM'000	Bonus RM'000	Contribution to Provident Fund RM'000	Benefits in-kind and Others RM'000	Total RM'000
Executive						
^Raja Ahmad Murad bin Raja Bahrin	450	-	74	81	79	684
Non-Executive						
Dato' (Dr) Yahya bin Ismail	-	40	-	-	-	40
Dato' Jaffar Indot	-	40	-	-	-	40
Tan Sri Saw Huat Lye	-	40	-	-	-	40

^ Please note Raja Ahmad Murad's directors' interest under the Long Term Incentive Plan.

The Non-Independent and Non-Executive Directors of your Company receive their remuneration from other Shell companies and do not receive any form of remuneration from your Company.

Senior Independent Non-Executive Director

Your Board has appointed Dato' (Dr) Yahya bin Ismail as the Senior Independent and Non-Executive Director of your Board to whom concerns may be conveyed by the shareholders and other stakeholders. The Senior Independent and Non-Executive Director provides a secure and confidential channel for concerns conveyed to him directly on matters

relating to the proceedings and items discussed at the meetings of Directors. Dato' (Dr) Yahya is authorised to seek information as required, from any employee of your Company and all employees are directed to co-operate on any request made by him. In carrying out his duties, the Senior Independent and Non-Executive Director is authorised by your Board to obtain independent professional advice, if necessary and has access to the services of your Company Secretaries in carrying out his duties. In 2005, there was no issue raised to the Senior Independent and Non-Executive Director.

The Audit Committee

The Audit Committee of your Board was established in 1993. The Audit Committee comprises of four Directors, three of whom are Independent and Non-Executive Directors and one of the Independent and Non-Executive Directors chairs the Audit Committee. One of the Directors in the Audit Committee is qualified accountant as prescribed by the Malaysian Institute of Accountants. The Managing Director and the Finance Manager normally attend the Audit Committee meetings.

There were five meetings of the Audit Committee in the financial year 2005, during which presentations on your Company's state of internal controls and progress of Assurance Plan were made by the Management. The Independent and Non-Executive Directors of the Audit Committee also meets independently at least once a year, with the external auditors.

The Company has also established an internal audit function to obtain sufficient assurance of regular review and appraisal of the effectiveness of the Company's internal controls. The Company's Internal Audit Manager acts as Secretary to the Audit Committee. The Audit Committee has wide powers with authority to regulate its own procedures and has its own terms of reference. The Audit Committee's role, and functions and activities are set out on pages 52 to 54 of this Annual Report.

ANNUAL REPORT AND ANNUAL GENERAL MEETING

Your Company continues to acknowledge the importance of transparency and accountability to its shareholders and investors in compliance with the Malaysian Code on Corporate Governance. Your Company uses different channels of communication to provide shareholders, investors and other stakeholders with information to fulfil these objectives. An important channel to reach shareholders and investors is the Annual Report of your Company. As such your Company does not only include

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comprehensive details of the business, financial performance and other activities of your Company in the Annual Report, but also continually enhances its contents to achieve and maintain the highest standards of corporate governance.

In addition, an important forum for communication and dialogue with shareholders of your Company is the Annual General Meeting. Your Company's Annual Report contains written clarifications on each item on the agenda of the Annual General Meeting so that shareholders are suitably briefed on matters that are to be discussed to enable their effective participation. Your Board encourages shareholders to attend and participate in the Annual General Meeting. Questions posed are, where possible, answered in detail either at the Annual General Meeting itself or thereafter. Shareholders are welcome to raise queries by contacting your Company at any time throughout the year and not just at the Annual General Meetings. Your Company's Registrars or appropriate officers of your Company will attend to queries on a prompt and efficient manner.

Financial Reporting

It is the commitment of your Board to provide a balanced, clear and meaningful assessment of the financial position and prospect of your Company in all the reports to shareholders and investors. Your Company presents quarterly public financial announcements and they include details of your Company's business performance and current issues and concerns. Your Board scrutinise these announcements at the Board Meetings prior to publication to ensure that they are accurate and present a balanced assessment of your Company's affairs. Your Board is assisted by the Audit Committee to oversee the financial reporting process and the quality of financial reporting of your Company. The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out on page 72 of this Annual Report.

Investor Relations

Another key channel of communication with shareholders, investors and analysts is your Company's Investor Briefing Session. This regular event that commenced in second quarter of 2004 allows your Company to have direct communication with the investment community and address issues that investors may have and to explain or clarify aspects of the business and operations of your Company. This is further testimony to your Company's continued commitment to transparency in reporting and is one of the ways in which your Company supports Bursa Malaysia's Best Practice in Corporate Disclosures recommendations.

STATEMENT OF DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which have been made in accordance with the applicable approved accounting standards and the provisions of the Companies Act, 1965, which give a true and fair view of the state of affairs of your Company at the end of the financial year and of the results and cash flows of your Company for the financial year.

In preparing the financial statements, your Directors have:

- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that are reasonable and prudent;
- ensured that all applicable approved accounting standards and provisions of the Companies Act, 1965 have been followed; and
- based such statements on a going concern basis as the Directors have a reasonable expectation, having made enquiries, that your Company has adequate resources to continue in operational existence for the foreseeable future.

Your Directors have responsibility for ensuring that your Company keeps accounting records which disclose with reasonable accuracy the financial position of your Company and which enable them to ensure that the financial statements comply with the Companies Act, 1965.

Your Board has overall responsibility for taking such steps that are reasonably open to them to safeguard the assets of your Company to prevent and detect fraud and other irregularities.

INTERNAL CONTROL

Your Board continues to maintain a sound system of internal controls that provides reasonable assurance of effective and efficient operations, and compliance with laws and regulations, as well as with internal procedures to safeguard shareholder's investment and your Company's asset. The Directors' Statement of Internal Control reviewed by the external auditors, is set out on pages 63 to 64.

RELATIONSHIP WITH EXTERNAL AUDITORS

Your Board through the Audit Committee has established a formal and transparent professional relationship with the external auditors. The role of your Board and the Audit Committee in relation to the external auditors is described on pages 52 to 54. The Chairman of the Audit Committee, the Independent Directors and the external

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auditors held a meeting on 23rd February 2006 without the presence of any Non-Independent Directors, to discuss the results of the audit, independence of the external auditors and the extent of cooperation provided by your Company and its employees during the audit process.

OTHER INFORMATION

a) Conflict of Interest

None of the Directors have any family relationship with other Directors and/or major shareholders of your Company, nor any personal interest in any business arrangement involving your Company. None of the Directors have had convictions for any offences within the past ten (10) years.

b) Material Contracts Awarded to Directors and substantial Shareholders

None of the Directors and major stockholders had any material contract with your Company during the financial year under review.

c) Sanctions and/or Penalties Imposed

There were no sanctions and/or penalties imposed on your Company and its Directors by the relevant regulatory bodies during the financial year under review.

d) Utilisation of Proceeds

During the financial year, there were no proceeds raised by your Company from any corporate proposals.

e) Share Buybacks

Your Company did not enter into any share buyback transactions during the financial year.

f) Options, Warrants or Convertible Securities

No options, warrants or convertible securities were exercised during the financial year.

g) American Depository Receipt ("ADR") or Global Depository Receipt ("GDR") Programme.

Your Company did not sponsor any ADR or GDR programme during the financial year.

h) Non-Audit Fees

During the financial year, your Company engaged the External Auditors for a number of non-audit activities in the following areas:

- Review of Statement of Internal Control (RM 21,000)
- Independent scrutineer at the Annual General Meeting (RM 4,000)
- Systems Assurance Review (RM27,000)

i) Profit Guarantee

During the financial year, there were no profit guarantees given by your Company.

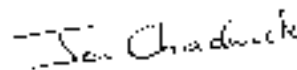
j) Revaluation Policy on Landed Properties

The Shell Group's revaluation policy is stated in paragraph C of the Summary of Significant Accounting Policies.

k) Recurrent Related Party Transactions of Revenue of Trading Nature.

The Recurrent Related Party Transactions of Revenue or Trading Nature is stated in Note 18 to the Financial Statements.

Signed on behalf of the Board of Directors, in accordance with the Board of Directors' resolution dated 12th March 2006.



Y.Bhg. Datuk Jon Chadwick
Chairman



YM Raja Ahmad Murad bin Raja Bahrin
Managing Director