Responses to Questions from Minority Shareholder Watch Group (MSWG) during Hengyuan Refining Company Berhad's 65th Annual General Meeting

Operational and Financial Matters

1) The Group's Business Improvement Plan (BIP) strategies include eight (8) tactics related to increasing processing capabilities and efficiencies of the refining plant were implemented and will result in about USD6.8 million savings in FY 2024, depending on their utilisation. (Page 5 of AR)

   a) Please name the eight (8) tactics that will increase the processing capabilities and efficiency of the refining plant.

   HRC's Response:

   The eight (8) tactics are listed below:

No	Tactic Name
1	CDU-2 (crude distillation unit-2) increase processing capacity
2	HDS2 APC alleviate density & sulphur
3	Kero-1 injection to HDS-2 rundown for continuous E5G upgrade
4	De-constraining gas oil pumping capacity P104A
5	Crude Feeding Ratio Control for CD1
6	Propylene draws off Tray5 to overhead to increase PP yield
7	LRCC 100% feed utilisation via VGO
8	Natural gas to fuel gas integration to minimise LPG vaporisation

   b) How much saving the Group has achieved from the implementation of the eight (8) tactics to-date?

   HRC's Response:

   As of Q1 2024, HRC has achieved savings of approximately USD 2.2 million from the implementation of certain tactics outlined in our BIP. These savings reflect the effective execution and initial benefits of the strategies we have put in place to enhance operational efficiencies at our refining plant.

c) Will the Group be able to achieve USD6.8 million in savings in FY 2024? If not, what is the hiccup and the expected amount of saving?

HRC's Response:

The potential to achieve the targeted savings is contingent upon the optimal utilisation of our operational tactics outlined in the BIP. The effectiveness of these tactics can vary based on several operational variables such as market demand with supporting crack prices for our products, as well as optimised plant intake. As these factors are inherently variable, we are implementing strategies to best utilise our resources so that we can realise the full extent of the projected savings.

2) The Group is actively pursuing the Flare Gas Recovery Unit (FGRU) project with a firm commitment to recovering as much flare gas as possible for internal use (Page 42 of AR). The FGRU will utilise these gases as an energy source which will improve energy efficiency and reduce carbon emissions. What is the CAPEX to install the FGRU and the expected saving of energy source annually?

HRC's Response:

The installation of the Flare Gas Recovery Unit (FGRU) is currently in the tender process. The award is expected to be carried out in Q3 2024, and as such HRC is unable to disclose specific CAPEX figures at this time. The FGRU is anticipated to recover an average of 36 TPD (tonnes per day) of flare gas, aligning with our sustainability goals. While the exact financial impact will depend on variable factors such as the market price of the recovered materials at the time of processing, the project aims to enhance our energy efficiency and contribute to substantial carbon emissions reduction.

3) The Group recorded a much lower revenue of RM15.4 billion in FY 2023 as compared to RM21.1 billion in FY 2022, a reduction of RM 5.7 billion or 27%. However, the manufacturing expenses increased by RM12.7 million or 6.9% from RM183.6 million in FY 2022 to RM 196.3 million in FY 2023 (Page 95 of AR).

a) Why did manufacturing expenses not move in tandem with the reduction in revenue?

HRC’s Response:

The reduction in revenue and the increase in manufacturing expenses in FY 2023 is primarily due to the major Turnaround activity undertaken during the year. The Turnaround activity led to a temporary decrease in production capacity and consequently loss of sales opportunities, especially during periods when some product prices were favourable. While costs associated with the Turnaround are fixed to some extent, there are other maintenance and upgrade costs that must be carried out regardless of the refinery's operational output. Consequently, overall costs do not directly decrease in tandem with revenue.

b) What were the reasons for the higher manufacturing expenses in FY 2023 as compared to FY 2022?

HRC’s Response:

The increase in manufacturing expenses in FY 2023 was largely driven by the extensive scope of the turnaround programme, which is a critical part of maintaining operational efficiency and safety. Turnaround activities typically involve substantial investment in both labour and materials, as well as potential outsourcing of specialised services, all of which contribute to the increased costs observed.

c) What measures has the group taken to mitigate the increase in manufacturing expenses in FY 2024?

HRC’s Response:

With the major Turnaround now completed, HRC anticipates a normalisation of manufacturing expenses in FY 2024. The completion of this maintenance cycle means that similar large-scale expenditures are not expected until the next planned turnaround, approximately five years from now. In the interim, HRC is focused on optimising operations to improve efficiency and cost-effectiveness, leveraging the enhancements made during the recent turnaround to reduce routine maintenance costs and improve overall production stability.

4) The Group reported other operating income gains amounting to RM138.9 million in FY 2023 as compared to other operating expenses of RM351.5 million in FY 2022 (Page 95 of AR).

a) Please explain how the other operating income gain in FY 2023 is possible compared to a loss in FY 2022.

HRC's Response:

The shift from an operating expense in FY 2022 to an operating income gain in FY 2023 can be attributed to a combination of favourable market conditions and strategic financial management. The gains in FY 2023 were largely driven by the realisation of positive foreign exchange movements and the successful closure of certain non-core assets which contributed to the income gain. Reduced losses on hedging activities compared to the previous year also contributed to this.

b) Please provide the major components of the other operating income gain/loss for both FYs 2022 and 2023.

HRC's Response:

Please refer to the breakdown below, which can be found in Note 9, page 128 of the Annual Report.

	RM'mil	**RM'mil**
Other operating income/(loss):	**2023**	**2022**
Net fair value gain/(loss) on derivatives	205	(238)
Realised forex gain/(loss)	10	(241)
Unrealised forex gain/(loss)	(76)	127
	139	**(352)**

c) Will the Group be able to record other operating income gains in FY 2024? If not, why?

HRC's Response:

While HRC aims to continue its strategy of optimising financial performance, the ability to replicate the other operating income gains observed in FY 2023 into FY 2024 is uncertain. This is due to the inherent volatility and unpredictability of foreign exchange markets and commodity prices, which significantly influence hedging outcomes and foreign exchange gains or losses. As such, while we will strive to manage risks effectively, predicting exact financial outcomes, especially in relation to other operating income or expenses, remains challenging.

5) A work-in-progress equipment amounting to RM12,108,000 was impaired as there was no planned usage of the equipment as of 31 December 2022 (Page 132 of AR).

a) Please name the type of equipment that is in the work-in-progress stage.

HRC's Response:

This work-in-progress equipment refers to the single buoy mooring ("SBM") that caters for the discharge of crude to our refinery.

b) What is the purpose of the equipment that is been built?

HRC's Response:

The SBM is meant to serve as spare for contingency purposes.

c) Why did the Group build this equipment that has no planned usage for the past 2 years?

HRC's Response:

The new SBM is not ready for use due to ongoing modification works.

d) Will the Group eventually complete the construction of the equipment? If yes, by when?

HRC's Response:

The Company is expecting to complete this project by the end of FY 2024.

Sustainability Matters

1) Moving forward, a series of targeted activities laid out in the sustainability framework with timelines extending up to 2031 will be executed to gradually mature and embed sustainability. (Page 5 of SR)

   Please outline the targeted activities the Group will carry out in FY 2024 and why.

   HRC's Response:

   HRC's priority is to address regulatory reporting requirements, which began in FY 2023 and will continue until FY 2025, where we aim to provide clear and detailed reporting on our sustainability performance, aligning disclosures with global standards relevant to our industry. This will enable our stakeholders to track our progress, which will be done through transparent reporting practices.

   In tandem, HRC will continue to implement several key activities as part of our comprehensive sustainability framework, which aims to embed sustainability practices into all aspects of our operations, whether technical or non-technical. For example, HRC will focus on continuing its efforts to improve energy efficiency across our operations by upgrading equipment and optimising processes to reduce energy consumption and greenhouse gas emissions. In FY 2023, HRC implemented phase 1 of the Energy Masterplan and in FY 2024, planning for phase 2 implementation is underway. One of the key initiatives in FY 2024 is the Flare Gas Recovery Unit (FGRU), which is currently in tender process. These measures are crucial not only for reducing operational costs but also for minimising our environmental footprint, enhancing our social responsibility and ensuring economic sustainability.

   Part of the initiative is to also adopt continual training programmes for our employees to ensure a well-equipped workforce to contribute to our sustainability goals. Training programmes are centered on ESG and could include training on environmental management, safety protocols, and diversity & inclusion policies to name a few.

   As a good corporate citizen, we will continue to maintain good rapport with neighbouring communities by actively engaging them in various corporate social responsibility programmes.

Corporate Governance Matters

1) The Group has departed from Practice 1.4 of the Malaysian Code of Corporate Governance (MCCG), which states that the board's Chairman should not be a member of the Audit, Nomination or Remuneration Committees.

The Non-Executive Chairman, Mr. Wang, YouDe, is a member of the Nomination & Remuneration Committee.

When will the Board apply Practice 1.4? If not, why, and what is the alternative practice?

HRC’s Response:

The Board Nominating and Remuneration Committee (“BNRC”) had, in its meeting on 26th August 2021, considered and resolved that the Chairman, who represents the major shareholder on the Board of Directors, to be part of the BNRC to ensure that interests are aligned in so far as high-level appointments, remuneration policies and human resources matters are concerned. The Chairman possesses the knowledge, expertise and experience within the oil and gas industry to offer his constructive proposal and advice to the BNRC functions for the benefits of the Company.

The terms of reference of BNRC had clearly stated that each BNRC member is required to abstain from deliberations and voting in respect of any matter which may give rise to an actual or perceived conflict of interest situation. BNRC will usually review the matter and recommend it to the entire Board for decision making whereby the Chairman will abstain from deliberations and voting on the resolutions which may give rise to an actual or perceived conflict of interest.

At the moment, there is no decision as to when the Company will adopt Practice 1.4. However, BNRC evaluates the composition of BNRC on annual basis through the board effectiveness evaluation and shall continue to do so to determine the appropriate change in the composition of BNRC. The current BNRC comprised of two (2) other members, who are independent non-executive directors, providing mechanism for checks and balances to ensure objectivity in decision-making. Nevertheless, the ultimate responsibility for decisions and recommendations made by the BNRC still lies with the entire Board of Directors.

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