# ESCALATING OUR COMMITMENTS

2021 ANNUAL REPORT

Hengyuan Refining Company Berhad

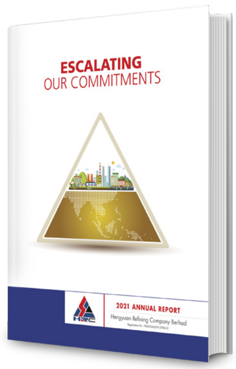
Registration No. 196001000259 (3926-U)

# INSIDE THIS REPORT



## 06 FINANCIAL REPORTS






## ESCALATING OUR COMMITMENTS

This year's simple and focused cover design reflects Hengyuan Refining Company Berhad (HRC)'s centred focus on escalating core commitments to safety, reliability and sustainability amidst a challenging 2021. Within the challenges of operating during a pandemic, HRC continued to deliver its best by staying customer focused and pursuing key targets in operational improvements. The minimalist design captures this clarity of vision and mindfulness of our role within the domestic and regional oil and gas market.

## ABOUT THIS REPORT

This Annual Report focuses on HRC as a Company and our operations in Port Dickson. This report has been prepared with care and thought to provide our stakeholders with a comprehensive and objective view of our economic, social, governance and environmental performance, in a timely, transparent and easy to understand manner. This report also provides, where possible, insights into our business strategy and future prospects.

An accompanying Sustainability Report has also been prepared and is available for viewing at *www.hrc.com.my/investor_relations.html*. Pertinent information has been cross referenced for interested stakeholders.

The scope of our reporting covers the financial year from 1 January to 31 December 2021 and encompasses all material developments concerning HRC up until the approval of the annual financial statements.

We have prepared our financial statements in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Malaysian Companies Act 2016. They also comply with the applicable disclosure provisions of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

Our financial statements have been audited by Messrs PricewaterhouseCoopers PLT, whose unmodified report is available on pages 83 to 87.

Our Annual Report can also be accessed online at *www.hrc.com.my/annual_report.html*.

## WE APPRECIATE YOUR FEEDBACK

As part of our commitment to reporting that better serves our stakeholders' needs, we value your feedback and welcome comments to improve our future reports. We will attempt to provide further clarity to our disclosure topics where necessary. Please share your comments, suggestions and feedback via email to *hrcpd-corporate-affairs@hrc.com.my.*

## LINK TO OUR ONLINE REPORTS

The online version of HRC's 2021 Annual Report and 2021 Sustainability Report are available on our website. Please visit *www.hrc.com.my* or scan the QR Code to download these reports.

# AT A GLANCE

**6.9 MILLION**
manhours without Loss Time Injury by 31 December 2021

**Revenue**
**RM12.0** billion

**96.9%**
Operational Availability

**5,273**
Near Miss Potential Incident Report Submissions

**Profit After Tax**
**RM82.7** million

Improvement in Reliability with **Unplanned Downtime Decreased to 2.5% in 2021**

**16,632**
Training Hours Conducted

**Total Production Volume**
**35.0** million bbls

**ZERO**
Work-Related Fatalities Track Record in **28 YEARS**

Achieved above **80%** employee vaccination rate since August 2021, under the PIKAS programme

Successful roll out of an enhanced **Process Safety Framework**

## CERTIFICATION

- **ISO 9001: 2015**
  Quality Management Systems
- **ISO 45001: 2018**
  Occupational Health and Safety Management System
- **ISO 14001: 2015**
  Environmental Management Systems
- **ISO 17025: 2017**
  Testing and Calibration Laboratories
- **ISO 27001: 2013**
  Information Security Management System
- **ISO 37001: 2016**
  Anti-Bribery Management Systems

# CHAIRMAN'S STATEMENT

**WANG, YOUDE**
Chairman

# Dear Shareholders,

**2021 proved to be another challenging year for Hengyuan Refining Company (HRC or the Company), as we marched forward in an uphill battle of continuously ensuring the safety of our people and sustaining the operations of our plant. Despite the external challenges, we take pride in having maintained our operations as the result of our nimbleness to respond to issues by leveraging on the comprehensive optimisation plans that we have put in place.**

**Through an environment of fluctuating demand and increasing costs, we remained steadfast and escalated our commitment to our stakeholders and the set goals of our established business plan.**

**We stepped up as one of the first few companies in Negeri Sembilan to participate in the Public-Private Partnership Immunisation Programme (PIKAS), doing our part to accelerate the nation's vaccination agenda, safeguard the health of our employees, and ensure continuity in our operations.**

**Together with continuous improvement on the Company's safety and environmental agenda, we stayed customer-focused, margin-driven and strategically responsive in 2021.**

HRC continued to persevere in ensuring continuity in our operations through the following efforts that were carried out in 2021.

## PROACTIVE COVID-19 HEALTH RISK MANAGEMENT

In 2021, COVID-19 cases continued to surge. Maintaining a safe working environment for all employees, contractors and the surrounding community remained as HRC's top priority. Since the series of lockdowns that started in 2020, the Company has maintained rigorous safety management measures such as deployment of Split Resource Operations and Work-From-Home for support function employees to minimise face-to-face interaction at site in curbing the spread of COVID-19.

We also strongly advocated the national vaccination programme through a virtual vaccine education event, a series of health advisories issued to employees, and took the initiative to have all employees fully vaccinated by August 2021 under the PIKAS programme. The nation's high vaccination rates made it possible for the easing of Movement Control Order (MCO) restrictions such as the interstate travel ban that was lifted in October 2021. This in turn raised market demand for our products in the last quarter of the year

*Details of our proactive COVID-19 health risk management can be read on pages 6 and 29 of this Annual Report.*

## OPERATIONAL RELIABILITY & SAFETY

Reliability and safety continue to be at the heart of our operations amidst the ongoing MCO and its phases that took effect within the first nine months of 2021. It was the robustness of our Business Continuity Plan (BCP) and strict COVID-19 preventive measures that have enabled us to continue operating in a safe environment for our employees.

Additionally, HRC continues to prioritise a culture of safety and readiness to overcome any untoward circumstances. An online training session, organised internally, on Incident Command System (ICS) was held in September 2021. The 2-day training involved employees from various departments and at all levels. This was followed by an on-site emergency response exercise that was held in the middle of December 2021 together with Malaysia's Fire and Rescue Department (BOMBA). These trainings were prioritised as critical in helping to enhance knowledge of our employees in preparing for an emergency response.

*Details of our reliability and safety efforts can be read on pages 30 to 32 of this Annual Report.*

## PRUDENT FINANCIAL MANAGEMENT STRATEGIES

HRC's margins and financial performance are exposed to the risk of crude price, refined product price, and foreign exchange (forex) fluctuations, driven by geopolitical forces and global economic changes.

To ensure crude inventory and margin are well protected from price fluctuations, the Company exercised a hedging strategy to protect crude inventory by matching the average price of crude oil intake to the planned production of refined oil products to an acceptable level.

Anchored on solid operational reliability in 2021, HRC could also actively maximise production intake based on margin and demand, and continued to optimise high value crude purchases to maximise margins.

*Details of our financial performance can be read on pages 39 and 40 of this Annual Report.*

## MANAGE ENVIRONMENT-RELATED RISKS

HRC has formed the Environmental Regulatory Compliance Management Committee (ERCMC) represented by key members of the senior management. The committee meets on a quarterly basis and is informed of all environmental compliance status as well as other arising issues related to the environment. Through the ERCMC, the Company has been able to closely monitor potential risks and to quickly address those risks.

As an example to cite, HRC has commissioned a live stack emission online monitoring system through collaboration with the Department of Environment (DOE) to ensure all emissions are well below the limit and being mitigated promptly if there is any excursion due to plant upsets.

Since 2017, HRC has invested substantially in improving the quality of air emissions coming from our refinery operations as well as improving the quality and level of `cleanliness' of the fuel we provide to the market, through the E4M and E5G projects.

HRC has successfully rolled out E5G phase 1 specification in March 2021 in compliance with the Environmental Quality Regulations 2015. This new gasoil product specification reduces sulphur content by 98% as a result of changing specification from E2M diesel to E5G. Planning and preparation works are currently on-going to ensure the Company's readiness in rolling out the Euro 5 phase-2 and phase-3 specifications implementation. Upon completion, the Company will produce less carbon footprint, hence supporting the Government's initiative to have cleaner fuel.

*Details of our climate-related risks management can be read on page 42 of this Annual Report.*

## GOVERNANCE & INTEGRITY

In its role as steward, the Board practices high standards of corporate governance. The independence and diversity in thought among our panel of Directors goes a long way towards determining HRC's success.

HRC also continues to commit to the highest level of integrity. In 2021, in conjunction with our annual Business Integrity Week in October, we organised a series of virtual events to refresh employee knowledge and awareness of business integrity, General Business Principles, Code of Conduct, and Information Security Awareness. One of the key highlights during the Business Integrity Week was the virtual talk on integrity delivered by an officer from the Malaysian Anti-Corruption Commission (MACC). The session was attended by the Board of Directors, management and employees of HRC. It was organised to reinforce ethical leadership, good governance, accountability and importance of individual integrity.

*Details of our corporate governance efforts can be read on pages 56 to 66 of this Annual Report.*

### Certification

- **ISO 9001: 2015**
  Quality Management Systems
- **ISO 45001: 2018**
  Occupational Health and Safety Management System
- **ISO 14001: 2015**
  Environmental Management Systems
- **ISO 17025: 2017**
  Testing and Calibration Laboratories
- **ISO 27001: 2013**
  Information Security Management System
- **ISO 37001: 2016**
  Anti-Bribery Management Systems

## FY2021 DIVIDENDS

The extraordinary pandemic situation continues to create uncertainties within the industry. As things stand, the Board's view is to maintain a conservative set of assumptions in cash flow and forecasting. Hence, no dividends were declared for the year ended 31 December 2021.

## MOVING FORWARD INTO 2022

We target to improve financial performance for the coming years through higher input, improved cost optimisation and continued focus on prudent hedging strategies.

Whilst we strive to maintain the sustainability of our operations in the midst of a global health crisis, HRC perseveres to emerge stronger from this pandemic. We will continue to remain vigilant in ensuring the health and safety of our employees. In keeping our plant at an optimum level, we are also focused on taking on the necessary preparations for the turnaround exercise that is scheduled to take place in 2023.

## ACKNOWLEDGEMENTS

The Board and I would like to record our thanks to Mr Erkki Tapio Ranta, for his visionary plans and well laid strategies for the Company when he served as the Chief Executive Officer. These continue to guide our way forward. We now welcome Mr Grant Gao, who assumed the responsibilities of the Chief Executive Officer in August 2021. Grant carries with him over 20 years of experience in the manufacturing sector of various product categories such as electronics, fine chemical and petrochemical. An advocator of continuous improvement, Grant is set to steer HRC, marking the next chapter in the growth of the Company.

On behalf of the Board, I thank all our stakeholders for their contributions and steadfast commitment. My special thanks go to the various fenceline communities, as well as our numerous business partners for their support in providing a conducive environment for our businesses. Finally, I would like to express gratitude to all the enthusiastic and dedicated employees who steer the Company forward. I believe we have what it takes to further escalate our commitment and accelerate HRC's growth momentum.

**Wang, YouDe**
Chairman

# OUR STRENGTHS

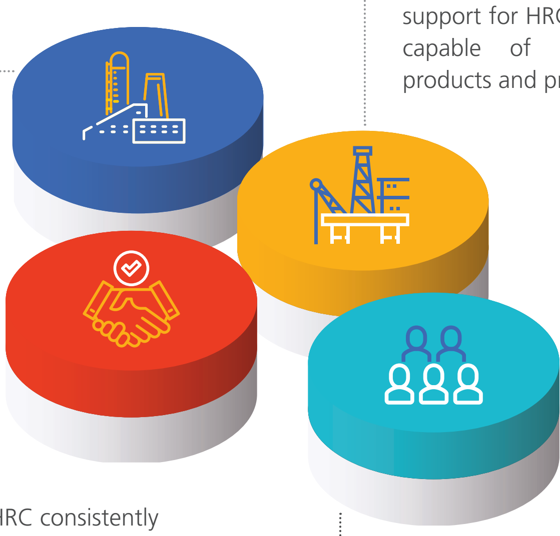
**Hengyuan Refining Company Berhad (HRC or the Company) stands strong on an established world-class corporate culture and good operating principles gleaned from our heritage and from our current major shareholder's refining capabilities and expertise.**

## OUR HERITAGE

HRC is a landmark refinery operator that supplies a significant volume of Malaysia's oil products needs. We have played a dynamic role in Malaysia's economic and social fabric since our establishment in 1960. From a single crude distiller with an operating capacity of 20,000 barrels per day, we have grown to be the nation's third largest complex refinery with a licensed capacity of 156,000 barrels per day.

## OUR ANCHOR

Shandong Hengyuan Petrochemical Company Limited (SHPC) owns a 51 per cent stake in HRC via Malaysia Hengyuan International Limited since December 2016. Founded in 1970 and incorporated in 1997 as an independent oil refinery, SHPC has achieved multiple accolades over the years as one of the Top 100 Leading Enterprises in Shandong and one of the Top 500 Chinese Chemical Enterprises. SHPC's proven expertise and technical capabilities provide beneficial synergies and support for HRC's growth as a complex refinery capable of delivering high performance products and profitability.



## OUR COMMITMENT

As a responsible operator, HRC consistently contributes to economic, educational, environmental, safety, social and welfare initiatives in the country. The refinery's safety and reliability are in compliance with the legislative requirements of the Department of Occupational Safety and Health Malaysia.

Investing to be future-ready, we have also initiated projects required to meet specifications mandated by the Malaysian governing authorities and which are integral not only to HRC's contribution towards nation building, but will also enable dynamic and sustainable growth through to 2021 and beyond.

## OUR PEOPLE

Based in Port Dickson, we are one of the largest economic contributors to the state, and have provided employment to three generations of the surrounding community. Our employees are predominantly Malaysians, and we are supported by several international employees. The overall team has a very wide range of experience and skills.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Wang, YouDe**
Chairman
Non-Independent Non-Executive Director

**Wang, ZongQuan**
Deputy Chairman
Non-Independent Non-Executive Director

**Alan Hamzah Sendut**
Independent Non-Executive Director

**Fauziah Hisham**
Independent Non-Executive Director

**Liang Kok Siang**
Independent Non-Executive Director

**Surinderdeep Singh Mohindar Singh**
Independent Non-Executive Director

### BOARD AUDIT COMMITTEE
Alan Hamzah Sendut (Chair)
Fauziah Hisham
Liang Kok Siang
Surinderdeep Singh Mohindar Singh

### BOARD NOMINATING AND REMUNERATION COMMITTEE
Surinderdeep Singh Mohindar Singh (Chair)
Wang, YouDe
Fauziah Hisham

### BOARD RISK MANAGEMENT COMMITTEE
Wang, ZongQuan (Chair)
Alan Hamzah Sendut
Liang Kok Siang

### BOARD PROJECTS REVIEW COMMITTEE
Wang, ZongQuan (Chair)
Wang, YouDe
Surinderdeep Singh Mohindar Singh

### BOARD TENDER COMMITTEE
Wang, YouDe (Chair)
Wang, ZongQuan
Alan Hamzah Sendut
Liang Kok Siang

### BOARD WHISTLEBLOWING COMMITTEE
Liang Kok Siang (Chair)
Wang, YouDe
Alan Hamzah Sendut

### SECRETARIES
**Lim Hooi Mooi**
(SSM PC No 201908000134 /
MAICSA No 0799764)

**Ong Wai Leng**
(SSM PC No 202008003219 /
MAICSA No 7065544)

### AUDITORS
**PricewaterhouseCoopers PLT**
1 Sentral, Jalan Rakyat
Kuala Lumpur Sentral
P.O. Box 10192
50706 Kuala Lumpur
Tel : +603-2173 1188
Fax : +603-2173 1288

### SHARE REGISTRAR
**Tricor Investor & Issuing House Services Sdn Bhd**
Unit 32-01, Level 32, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
No 8, Jalan Kerinchi
59200 Kuala Lumpur
Tel : +603-2783 9299
Fax : +603-2783 9222

### AGM HELP DESK
**Tricor Customer Service Centre**
Unit G-3, Ground Floor
Vertical Podium
Avenue 3, Bangsar South
No 8, Jalan Kerinchi
59200 Kuala Lumpur

### STOCK EXCHANGE LISTING
**Main Board of**
**Bursa Malaysia Securities Berhad**
Stock Name : HENGYUAN
Stock Code : 4324
Sector : Energy
Sub Sector : Oil & Gas Producers

### REGISTERED OFFICE
Unit 30-01, Level 30, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
No 8, Jalan Kerinchi
59200 Kuala Lumpur
Tel : +603-2783 9191
Fax : +603-2783 9111

### BUSINESS ADDRESS
Batu 1, Jalan Pantai
71000 Port Dickson
Negeri Sembilan
Tel : +606-641 2000

# GENERAL BUSINESS PRINCIPLES

## BUSINESS INTEGRITY

HRC insists on honesty, integrity and fairness in all aspects of our business and expects the same in our relationships with all those with whom we do business. The direct or indirect offer, payment, soliciting or acceptance of bribes in any form is unacceptable. Facilitation payments are also bribes and must not be made.

Employees must avoid conflicts of interest between their private activities and their part in the conduct of the Company's business. Employees are also required to declare any potential conflicts of interest. All business transactions on behalf of HRC must be reflected accurately and fairly in the accounts of the Company in accordance with established policies and procedures and are subject to audit and disclosure.

## QUALITY, HEALTH, SAFETY, SECURITY & ENVIRONMENT

HRC has a systematic approach to health, safety, security and environmental management in order to achieve continuous performance improvement. To this end, we manage these matters as critical business activities, set standards and targets for improvement, and measure, appraise and report performance externally. We continually look for ways to reduce any negative environmental impact of our operations, products and services.

## ECONOMIC

Long-term profitability is essential to achieve our business goals and to assure our continued growth. It is a measure of both efficiency and the value customers place on HRC's products and services. It underpins the necessary corporate resources for the continuing investment that is required to develop and produce future energy supplies to meet customer needs.

Without profits and a strong financial foundation, it would not be possible to fulfil our responsibilities. Criteria for investment and divestment decisions include sustainable development considerations (economic, social and environmental) and an appraisal of the risks of the investment.

## COMPETITION

HRC supports free enterprise. We seek to compete fairly and ethically and within the framework of applicable competition laws; we will not prevent others from competing freely with us.

## COMMUNICATION AND ENGAGEMENT

HRC recognises that regular dialogue and engagement with our stakeholders is essential. We are committed to reporting our performance by providing full relevant information to legitimately interested parties, subject to any overriding considerations of business confidentiality. In our interactions with employees, business partners and local communities, we seek to listen and respond honestly and responsibly.

## COMPLIANCE

We comply with all applicable laws and regulations of Malaysia, and the countries where we have business dealings.

## LOCAL COMMUNITIES

HRC aims to be a good neighbour by continuously improving the ways in which we contribute directly or indirectly to the general well-being of the communities within which we work. We manage the social impact of our business activities carefully and work with others to enhance benefits to local communities and to mitigate any negative impact as a result of our activities.

In addition, HRC takes a constructive interest in societal matters directly or indirectly related to our business.

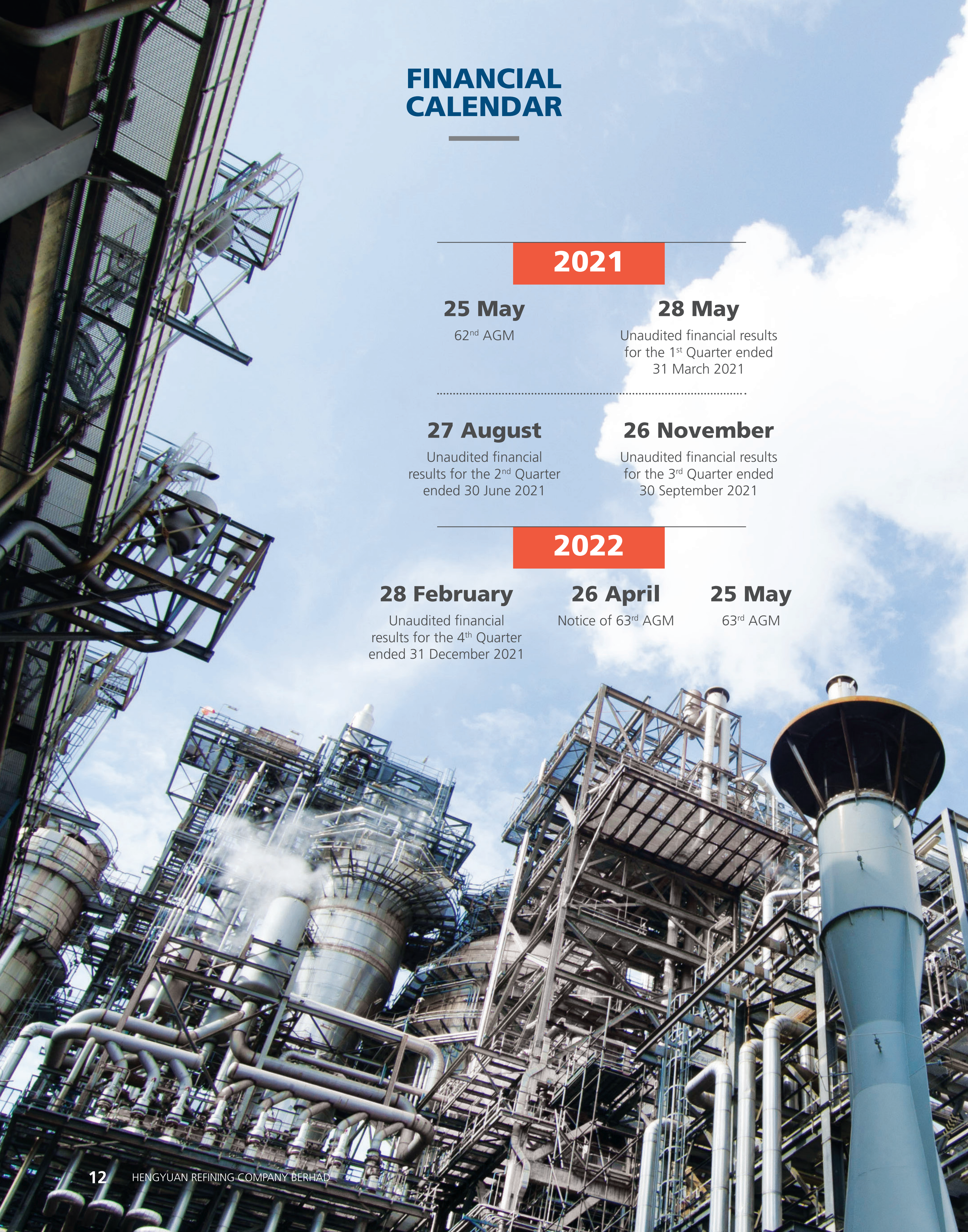
## POLITICAL ACTIVITIES

### A. Of Company

HRC acts in a socially responsible manner within the laws of Malaysia, and the laws of countries with which we have dealings in pursuit of our legitimate commercial objectives. HRC does not make payments to political parties, organisations or their representatives. HRC does not take part in party politics. When dealing with Government, HRC has the right and the responsibility to make our position known on any matters which affect us, our employees, our customers, our shareholders or local communities, in a manner which is in accordance with our core values and General Business Principles.

### B. Of Employees

Where individuals wish to engage in activities in the community, including standing for election to public office, they will be given the opportunity to do so where this is appropriate.



# FINANCIAL CALENDAR

## 2021

**25 May**
62nd AGM

**28 May**
Unaudited financial results for the 1st Quarter ended 31 March 2021

**27 August**
Unaudited financial results for the 2nd Quarter ended 30 June 2021

**26 November**
Unaudited financial results for the 3rd Quarter ended 30 September 2021

## 2022

**28 February**
Unaudited financial results for the 4th Quarter ended 31 December 2021

**26 April**
Notice of 63rd AGM

**25 May**
63rd AGM

# NOTICE OF 63RD ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Sixty-Third Annual General Meeting (63rd AGM) of Hengyuan Refining Company Berhad (the Company) will be held entirely through live streaming from the broadcast venue at **Spectrum Room, Level 3A, Connexion Conference & Event Centre (CCEC), Nexus Bangsar South City, No 7, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia (Broadcast Venue)** on **Wednesday, 25 May 2022** at **10.00 a.m.** to transact the following businesses:

## AGENDA

### ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2021 and the Reports of the Directors and Auditors thereon.

   ***[Please refer to Note (a)]***

2. To re-elect the following Directors retiring in accordance with Article 81(c) of the Constitution of the Company, and who being eligible, have offered themselves for re-election:

   i) Mr Wang, YouDe **(Ordinary Resolution 1)**

   ii) Mr Alan Hamzah Sendut **(Ordinary Resolution 2)**

   ***[Please refer to Note (b)]***

3. To re-appoint Messrs PricewaterhouseCoopers PLT as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration. **(Ordinary Resolution 3)**

4. To approve payment of Non-Executive Directors' fees and benefits of up to RM2,300,000.00 for the period from 1 June 2022 until 31 May 2023. **(Ordinary Resolution 4)**

   ***[Please refer to Note (c)]***

## SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions:

5. **PROPOSED RENEWAL OF AUTHORITY TO ALLOT AND ISSUE SHARES PURSUANT TO SECTIONS 75 AND 76 OF THE COMPANIES ACT 2016** **(Ordinary Resolution 5)**

"**THAT** subject to Sections 75 and 76 of the Companies Act, 2016 (the Act), Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Securities) and the approval of the relevant regulatory authorities, where such approval is required, the Directors of the Company be and are hereby authorised to issue and allot shares in the capital of the Company, grant rights to subscribe for shares in the Company, convert any securities into shares in the Company, or allot shares under an agreement or option or offer (New Shares) from time to time, at such price, to such persons and for such purposes and upon such terms and conditions as the Directors may in their absolute discretion deem fit, provided that the aggregate number of such New Shares to be issued and allotted, to be subscribed under any rights granted, to be issued from conversion of any security, or to be issued and allotted under an agreement or option or offer, pursuant to this resolution, when aggregated with the total number of any such shares issued during the preceding 12 months does not exceed 10 per cent of the total number of issued shares (excluding treasury shares) of the Company for the time being (Proposed 10 per cent General Mandate) **AND THAT** such authority shall continue to be in force until the conclusion of the next Annual General Meeting (AGM) of the Company or at the expiry of the period within which the next AGM is required to be held after the approval was given, whichever is the earlier, unless such approval is revoked or varied by the Company at a general meeting."

***[Please refer to Note (d)]***

6. **PROPOSED RENEWAL OF AUTHORITY FOR SHARE BUY-BACK** **(Ordinary Resolution 6)**

"**THAT** subject always to the Act, the Constitution of the Company, the Main Market Listing Requirements of Bursa Securities (Listing Requirements) and all other applicable laws, guidelines, rules and regulations, the Company be and is hereby authorised, to the fullest extent permitted by law, to purchase such number of issued shares in the Company as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that:

i. the aggregate number of issued shares in the Company (Shares) purchased (Purchased Shares) and / or held as treasury shares pursuant to this Ordinary Resolution does not exceed ten per centum (10 per cent) of the total number of issued shares of the Company as quoted on Bursa Securities as at point of purchase; and

ii. the maximum fund to be allocated by the Company for the purpose of purchasing the shares shall not exceed the aggregate of the retained profits of the Company based on the latest audited financial statements and / or the latest management accounts (where applicable) available at the time of the purchase,

(Proposed Share Buy-Back).

**AND THAT** the authority to facilitate the Proposed Share Buy-Back will commence immediately upon passing of this Ordinary Resolution and will continue to be in force until:

a. the conclusion of the next AGM of the Company following at which time the authority shall lapse unless by ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions;

b. the expiration of the period within which the next AGM after that date is required by law to be held; or

c. revoked or varied by ordinary resolution passed by the shareholders in a general meeting,

whichever occurs first, but shall not prejudice the completion of purchase(s) by the Company of its own Shares before the aforesaid expiry date and, in any event, in accordance with the Listing Requirements and any applicable laws, rules, regulations, orders, guidelines and requirements issued by any relevant authorities.

**AND THAT** the Directors of the Company be and are hereby authorised, at their discretion, to deal with the Purchased Shares until all the Purchased Shares have been dealt with by the Directors in the following manner as may be permitted by the Act, Listing Requirements, applicable laws, rules, regulations, guidelines, requirements and / or orders of any relevant authorities for the time being in force:

i. To cancel all or part of the Purchased Shares;

ii. To retain all or part of the Purchased Shares as treasury shares as defined in Section 127 of the Act;

iii. To distribute all or part of the treasury shares as dividends to the shareholders of the Company;

iv. To resell all or part of the treasury shares;

v. To transfer all or part of the treasury shares for the purposes of or under the employees' share scheme established by the Company and / or its subsidiaries;

vi. To transfer all or part of the treasury shares as purchase consideration;

vii. To sell, transfer or otherwise use the shares for such other purposes as the Minister may by order prescribe; and / or

viii. To deal with the treasury shares in the manners as allowed by the Act, Listing Requirements, applicable laws, rules, regulations, guidelines, requirements and / or orders of any relevant authorities for the time being in force.

**AND THAT** the Directors of the Company be and are hereby authorised to take all such steps as are necessary or expedient, including without limitation, the opening and maintaining of central depository account(s) under Securities Industry (Central Depositories) Act, 1991, and the entering into all other agreements, arrangements and guarantee with any party or parties, to implement, finalise and give full effect to the Proposed Share Buy-Back with full powers to assent to any conditions, modifications, revaluations, variations and / or amendments (if any) as may be imposed by the relevant authorities."

***[Please refer to Note (e)]***

7. **PROPOSED RENEWAL OF EXISTING SHAREHOLDERS' MANDATE AND PROPOSED NEW SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE** **(Ordinary Resolution 7)**

"**THAT** subject to the Listing Requirements, approval be and is hereby given for the Company to enter into recurrent related party transactions of a revenue or trading nature with the related parties as set out in Section 2.2.2 of the Circular to the Shareholders dated 26 April 2022 which are necessary for day-to-day operations and are carried out in the ordinary course of business on terms which are not more favourable to the related parties than those generally available to the public and are undertaken on an arms' length basis and not to the detriment of minority shareholders;

**AND THAT** the authority conferred by such mandate shall commence upon the passing of this resolution and continue to be in full force until:

(a) the conclusion of the next AGM of the Company at which this shareholders' mandate will lapse, unless by a resolution passed at the next AGM, the mandate is renewed;

(b) the expiration of the period within which the next AGM is required to be held pursuant to Section 340 of the Act (but must not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or

(c) revoked or varied by resolution passed by the shareholders in a general meeting;

whichever is the earlier;

**AND THAT** the Board of Directors be and is hereby authorised to complete and do all such acts and things as it may consider expedient or necessary (including executing such documents as may be required) to give effect to the transactions contemplated and / or authorised by this mandate."

***[Please refer to Note (f)]***

8. To transact any other business of the Company of which due notice shall have been given in accordance with the Companies Act 2016 and the Constitution of the Company.

**BY ORDER OF THE BOARD**

Lim Hooi Mooi (SSM PC No 201908000134 / MAICSA No 0799764)
Ong Wai Leng (SSM PC No 202008003219 / MAICSA No 7065544)
Company Secretaries

Dated this 26 April 2022
Kuala Lumpur

**NOTES:**

1. In view of the COVID-19 outbreak and as part of the safety measures, the 63rd Annual General Meeting (AGM) will be conducted on a fully virtual basis through live streaming and online remote voting via Remote Participation and Voting (RPV) facilities which are available on Tricor Investor & Issuing House Services Sdn Bhd's (Tricor's) TIIH Online website at *https://tiih.online*.

2. The Broadcast Venue of the AGM is strictly for the purpose of complying with Section 327(2) of the Companies Act 2016 which requires the Chairperson of the meeting to be present at the main venue of the meeting. ***NO SHAREHOLDERS / PROXY(IES) WILL BE ALLOWED TO BE PHYSICALLY PRESENT AT THE BROADCAST VENUE***.

3. Shareholders may exercise their right to attend, speak (including posing questions to the Board via real time submission of typed texts) and vote (collectively, participate) remotely at the 63rd AGM via the Remote Participation and Voting facilities (RPV) provided by Tricor via its **TIIH Online website at** *https://tiih.online*.

   **Please refer to the "Procedures for RPV" in the Administrative Guide for the Company's 63rd AGM and take note of Notes (4) to (16) below in order to register, participate and vote remotely via the RPV facilities.** The Company may be required to change the arrangements of the AGM at short notice due to constant evolving COVID-19 situation in Malaysia. Kindly check Bursa Malaysia Securities Berhad's website and the Company's website at *www.hrc.com.my* for the latest updates on the status of the AGM.

4. For the purpose of determining a member who shall be entitled to attend, vote and speak at the AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to the Company a **Record of Depositors as at 18 May 2022** and only a depositor whose name appears on the Record of Depositors shall be entitled to attend, vote and speak at the Meeting or appoint proxy(ies) to attend, vote and speak in his stead.

5. A member who is entitled to participate in this AGM via RPV is entitled to appoint a proxy or attorney or in the case of a corporation, to appoint a duly authorised representative to participate in his / her place. A proxy may but need not be a member of the Company.

6. A member of the Company who is entitled to attend and vote at a general meeting of the Company may appoint not more than two (2) proxies to participate instead of the member at the AGM via RPV. A member may appoint more than one proxy in relation to a meeting, provided that the member specifies the proportion of the member's shareholdings to be represented by each proxy.

7. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (Omnibus Account), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds.

8. Where an exempt authorised nominee appoints two (2) or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.

9. A proxy need not be a member of the Company. There shall be no restriction as to the qualification of the proxy.

10. The instrument appointing a proxy shall be in writing and signed by the appointor or by his attorney who is authorised in writing. In the case of a corporation, the instrument appointing a proxy or proxies must be made under seal or signed by an officer or an attorney duly authorised.

11. The signature to the instrument appointing a proxy or proxies executed outside Malaysia must be attested by a solicitor, notary public, consul or magistrate.

12. A member who wishes to participate and vote at this AGM via RPV or a member who has appointed a proxy or attorney or authorised representative to participate and vote at this AGM via RPV **must sign up or request that his/her proxy sign up as a RPV user at the TIIH Online website at *https://tiih.online***.

    Members or proxies who have registered as a RPV user **must register to attend and participate at the AGM via RPV (AGM Registration). AGM Registration is open from Tuesday, 26 April 2022 up to Wednesday, 25 May 2022.** Please follow the steps contained in the "Procedures for RPV" section of the Administrative Guide for the Company's 63rd AGM

13. The appointment of a proxy may be made in a hard copy form or by electronic means in the following manner and must be received by the Company not less than forty-eight (48) hours before the time set for holding the AGM at which the person named in the appointment proposes to vote:-

    (i) <u>In Hard Copy Form</u>
    The proxy form must be deposited by post or by hand at the office of the share registrar of the Company, Tricor Investor & Issuing House Services Sdn Bhd at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia or at its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia.

    (ii) <u>By Electronic Form</u>
    The proxy form can be electronically lodged via Tricor's TIIH Online website at *https://tiih.online*. Kindly refer to the Administrative Guide on the procedure for electronic lodgement of proxy form via TIIH Online.

    The last date and time for lodging the proxy form is **Monday, 23 May 2022 at 10.00 a.m**. We recommend that the appointment of proxy be done as early as possible so that the appointed proxy has sufficient time to complete the AGM Registration.

14. Original copies of the appointments of corporate representative or power of attorney can be submitted either by hard copy or electronically in accordance with the instructions for lodgment in Note 13 above.

15. A copy of the power of attorney may be accepted provided that it is certified notarially and / or in accordance with the applicable legal requirements in the relevant jurisdiction in which it is executed.

16. The certificate of appointment should be executed in the following manner:

    (i) If the corporate member has a common seal, the certificate of appointment should be executed under seal in accordance with the constitution of the corporate member.

    (ii) If the corporate member does not have a common seal, the certificate of appointment should be affixed with the rubber stamp of the corporate member (if any) and executed by:

       (a) at least two (2) authorised officers, of whom one shall be a director; or

       (b) any director and / or authorised officers in accordance with the laws of the country under which the corporate member is incorporated.

**Explanatory Notes:**

a. **Agenda No 1**

This item is meant for discussion only. The provisions of Section 340(1)(a) of the Act require that the audited financial statements and the Reports of the Directors and Auditors thereon be laid before the Company at its AGM. As such, this Agenda item is not a business which requires a resolution to be put to vote by shareholders.

b. **Ordinary Resolutions No 1 and No 2**

Article 81(c) of the Constitution of the Company provides that one-third (1/3) or the number nearest to one-third (1/3) of the Directors for the time being, shall retire from office at the conclusion of every annual general meeting, provided always that all Directors shall retire from office at least once in every three (3) years, but shall be eligible for re-election. As the Board currently consists of six (6) directors, two (2) shall retire in accordance with Article 81(c) at the upcoming AGM.

For the purposes of determining the eligibility of the Director to stand for re-election at the 63rd AGM, the Board through the Board Nominating and Remuneration Committee (BNRC) had considered the following:

(i) The tenure of the Director and the Company's Directors' Rotation List;

(ii) The Director's performance, based on results of the Board Effectiveness Assessment for the year 2021 (BEA 2021) which were conducted using peer and self reviews;

(iii) The Director's expertise, skills, knowledge and core competencies; and

(iv) The Director's level of contribution to the Board, taking into account the key business strategies.

On 28 March 2022, the BNRC endorsed and recommended to the Board the re-elections of Mr Wang, YouDe and Mr Alan Hazmah Sendut as Directors of the Company.

The BNRC supports the re-election of Mr Wang, YouDe as a Director of the Company for the following reasons:

(i) He has the relevant mix of experience, skills, knowledge, expertise and core competency that is beneficial to the Company, including industry specific knowledge in oil and gas and its business strategy, project management and engineering, as well as commercial economics and scheduling;

(ii) He shares personal knowledge and insights and provides useful recommendations to assist the Board in making decisions, probes the Management to ensure that varying opportunities and risks are considered, and the quality of information and assumptions are tested; and

(iii) He devotes adequate time and attention to the discharge of duties and responsibilities as a director, participates actively in board activities and works constructively with his peers.

The BNRC supports the re-election of Mr Alan Hamzah Sendut as a Director of the Company for the following reasons:

(i) He has the relevant mix of experience, skills, knowledge, expertise and core competency that is beneficial to the Company, including accounting and finance, internal controls, risk management, audit, regulatory compliance and human resource and development;

(ii) He has good understanding of the roles, duties and obligations of a director, adds value to board meetings and takes initiative to request for more information; and

(iii) He provides logical, honest opinions on issues presented without being afraid of expressing disagreement. He is also pro-active in discussing any concerns, exhibits openness and transparency.

Based on the recommendations of the BNRC and the considerations set out the above, the Board approved and supported the re-elections and re-appointments of Mr Wang, YouDe and Mr Alan Hamzah Sendut as Directors of the Company on 1 April 2022.

Mr Wang, YouDe and Mr Alan Hamzah Sendut had abstained from the deliberation and decision of their eligibilities to stand for re-election at the relevant BNRC and Board meetings.

c. **Ordinary Resolution No 4**

This resolution is to facilitate payment of Non-Executive Directors' fees and benefits for the period from 1 June 2022 to 31 May 2023.

In the event the Non-Executive Directors' fees and benefits proposed are insufficient (e.g. due to more meetings or enlarged Board size), approval will be sought at the next AGM for additional fees to meet the shortfall.

Directors' benefits include meeting allowances and other emoluments payable to Directors and in determining the estimated total, the Board had considered various factors including the number of scheduled meetings for the Board and Board Committees and covers the period from 1 June 2022 to 31 May 2023.

d. **Ordinary Resolution No 5**

The proposed Resolution No 5, if passed, will empower the Directors of the Company to issue and allot ordinary shares of the Company from time to time and to grant rights to subscribe for shares in the Company, convert any securities into shares in the Company, or allot shares under an agreement or option or offer, provided that the aggregate number of shares allotted pursuant to this resolution does not exceed 10 per cent of the total number of issued shares (excluding treasury shares) of the Company.

This proposed Resolution is a renewal of the previous year's mandate. The mandate is to provide flexibility to the Company to issue new securities without the need to convene separate general meeting to obtain its shareholders' approval so as to avoid incurring additional costs and time.

The purpose of this general mandate, if passed, will enable the Directors to take swift action in case of a need to issue and allot new shares in the Company for fund raising exercise including but not limited to further placement of shares for the purposes of funding current and / or future investment projects, working capital, repayment of bank borrowings, acquisitions and / or for issuance of shares as settlement of purchase consideration, or other circumstances arise which involve grant of rights to subscribe for shares, conversion of any securities into shares, or allotment of shares under an agreement or option or offer, or such other application as the Directors may deem fit in the best interest of the Company.

As at the date of this notice, the Company did not implement its proposal for new allotment of shares under the general mandate pursuant to Sections 75 and 76 of the Act 2016 which was approved by the shareholders at the 62nd AGM held on 25 May 2021 and will lapse at the conclusion of the 63rd AGM to be held on 25 May 2022. As at the date of this notice, there is no decision to issue new shares. Should there be a decision to issue new shares after the general mandate is sought, the Company will make an announcement of the actual purpose and utilisation of proceeds arising from such issuance of shares.

e. **Ordinary Resolution No 6**

The proposed Resolution No 6, if passed, will empower the Directors to purchase, on behalf of the Company, up to 10 per cent of the total number of issued shares of the Company by utilising the funds allocated which shall not exceed the retained profits of the Company. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next AGM of the Company.

For further information, please refer to the Share Buy-Back Statement dated 26 April 2022 accompanying the Company's Annual Report for the financial year ended 31 December 2021.

f. **Ordinary Resolution No 7**

The proposed Ordinary Resolution 7 is to seek renewal of the Shareholders' Mandate and approval for the new Shareholders' Mandate to allow the Company and / or its subsidiaries to enter into Recurrent Related Party Transactions of a Revenue or Trading Nature and to enable the Company to comply with Paragraph 10.09, Part E of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. The mandate will take effect from the date of the passing of the ordinary resolution until the next AGM of the Company unless it is revoked or varied at a general meeting. For further information, please refer to the Circular to Shareholders dated 26 April 2022 accompanying the Company's Annual Report for the financial year ended 31 December 2021.

# STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

(Pursuant to Paragraph 8.27(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad)

1. The profile of the Directors who are standing for re-election as per Agenda 2 of the Notice of the 63rd AGM are as follows:

## PROFILE OF WANG, YOUDE

**Wang, YouDe**
Non-Independent Non-Executive Director

**Nationality / Age / Gender**
Chinese / 59 / Male

**Date of Appointment**
22 December 2016

**Length of Service**
5 years, 5 months, 3 days (As of 25 May 2022)

**Date of Last Re-election**
28 May 2019

### Academic Qualification
Master's Degree in Business Management from Nankai University, Tianjin, China

### Experience
- Chairman of the Board and General Manager, Shandong Hengyuan Petrochemical Company Limited (2001-present)
- Executive President of the China Chamber of Commerce for the Petroleum Industry (2017-2019)
- Vice President in the China Chamber of Commerce for the Petroleum Industry (2007-2017)
- Deputy Mayor, Linyi County (2001-2013)
- Representative of the 12th National People's Congress of the People's Republic of China (2013-2018)

### Directorship of other Listed Issuers / Public Companies
None

### Membership of Board Committees in HRC
- Chair of Board Tender Committee
- Member of Board Nominating and Remuneration Committee
- Member of Board Projects Review Committee
- Member of Board Whistleblowing Committee

Wang, YouDe has no family relationship with any other Director and / or major shareholder of the Company. He has no conflict on interests with the Company and has not been charged with any offence within the past 10 years.

Wang, YouDe does not hold any shares in the Company.

## PROFILE OF ALAN HAMZAH SENDUT

**Alan Hamzah Sendut**
Independent Non-Executive Director

**Nationality / Age / Gender**
Malaysia / 62 / Male

**Date of Appointment**
25 May 2017

**Length of Service:**
5 years (As of 25 May 2022)

**Date of Last Re-election**
28 May 2019

### Academic Qualification
- Bachelor of Science Hons (Accountancy and Computer Science), University of Wales, Aberystwyth, United Kingdom
- Chartered Accountant, Institute of Chartered Accountants England and Wales (ICAEW)

### Professional Memberships
- Chartered Audit Committee Director, Institute of Internal Auditors Malaysia
- Member of the Malaysian Institute of Accountants
- Fellow of the Institute of Corporate Directors Malaysia
- Qualified Risk Director, Institute of Enterprise Risk Practitioners

### Experience
- 35 years of finance and business experience across multiple industries
- 25 years in C-Suite / Senior Manager roles in companies involved in motor and heavy equipment distribution, manufacturing, plantation, corporate strategy, corporate finance, and mergers and acquisitions, including as:
  - Group Finance Director, Tractors Malaysia Holdings Berhad (1996-2001)
  - Group Finance Director, Consolidated Plantations Berhad (2002-2004)
  - Executive Vice President, Group Corporate Finance, Strategy and Business Development, Sime Darby Berhad (2010-2014)
  - Managing Director, Energy and Utilities (Non-China) Division, Sime Darby Berhad (2015-2016)
- Served with PriceWaterhouse, London, United Kingdom (1982-1986)

### Directorship in other Listed Issuers / Public Companies
- Hong Leong Islamic Bank Berhad
- Khyra Legacy Berhad
- Tradewinds Plantations Berhad

### Membership of Board Committees in HRC
- Chair of Board Audit Committee
- Member of Board Risk Management Committee
- Member of Board Tender Committee
- Member of Board Whistleblowing Committee

Alan Hamzah Sendut has no family relationship with any other Director and / or major shareholder of the Company. He has no conflict on interests with the Company and has not been charged with any offence within the past 10 years.

Alan Hamzah Sendut does not hold any shares in the Company.

2. Details of the general mandate to issue shares in the Company pursuant to Sections 75 and 76 of the Companies Act 2016 are set out in Explanatory Note (d) of the Notice of AGM.

People & Leadership

# HARNESSING THE STRENGTHS OF OUR **PEOPLE & LEADERSHIP**

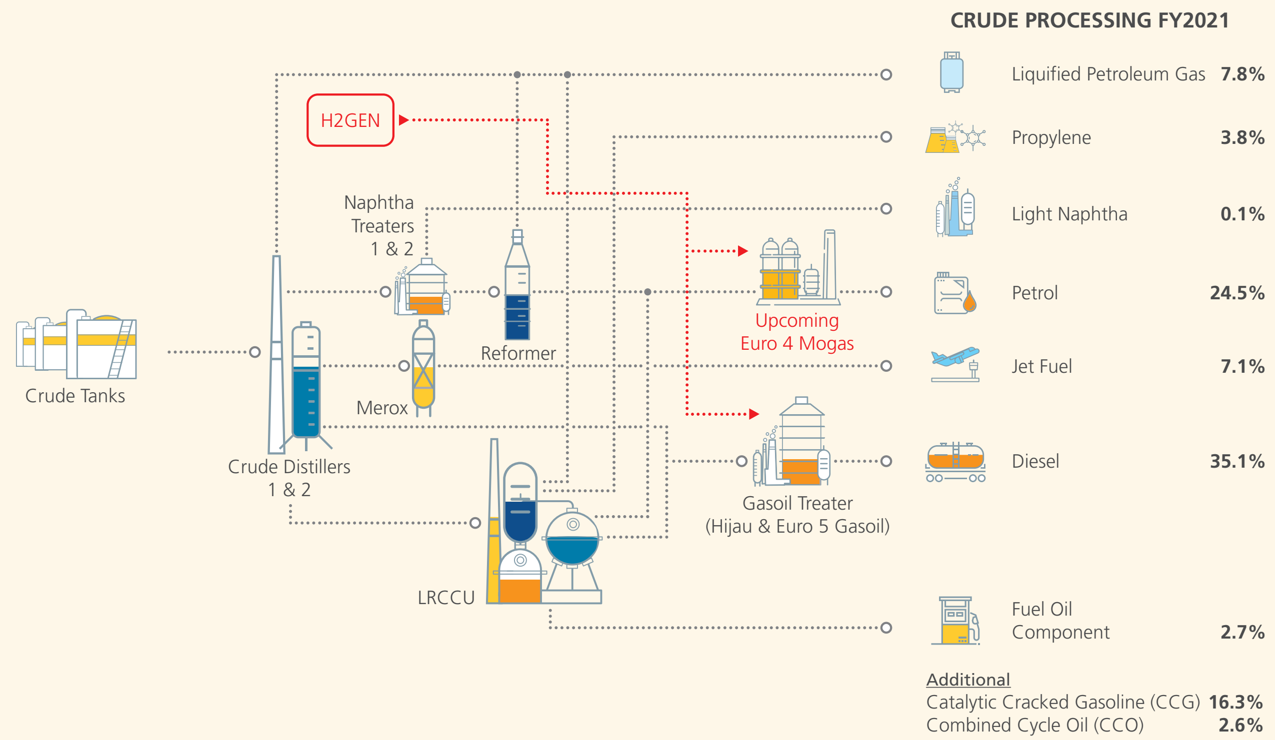
**2021 Strategic Direction**

- Ensure the health, safety and well-being of all employees
- Benchmark remuneration to market levels
- Develop and nurture internal talents as future leaders of HRC
- Provide job security and shared future aspirations

# BUSINESS OVERVIEW

- **Hengyuan Refining Company Berhad (HRC or the Company) stands tall as Malaysia's third largest refinery in Malaysia, providing significant fuel needs for the country since 1963.**
- **Based in Port Dickson, Negeri Sembilan, HRC has been operating for nearly six decades and continues to play an integral and reliable role in the nation's oil and gas industry and to the surrounding community.**
- **We process crude oil from Malaysia and all over the world and have the licensed capacity to deliver up to 156,000 barrels per day of petroleum products to customers, mainly in Malaysia and Southeast Asia.**
- **Presently, our business activities are focused on refining and processing crude oil, refinery operations and maintenance, and supplying refined products to our customers.**
- **We supply through three channels: the multi-product pipeline to the Klang Valley and KLIA, our truck loading gantry for local (Peninsular Malaysia) customers and exporting to vessels through our jetty to East Malaysia and oversea markets.**

**AN OVERVIEW OF HRC'S REFINERY**



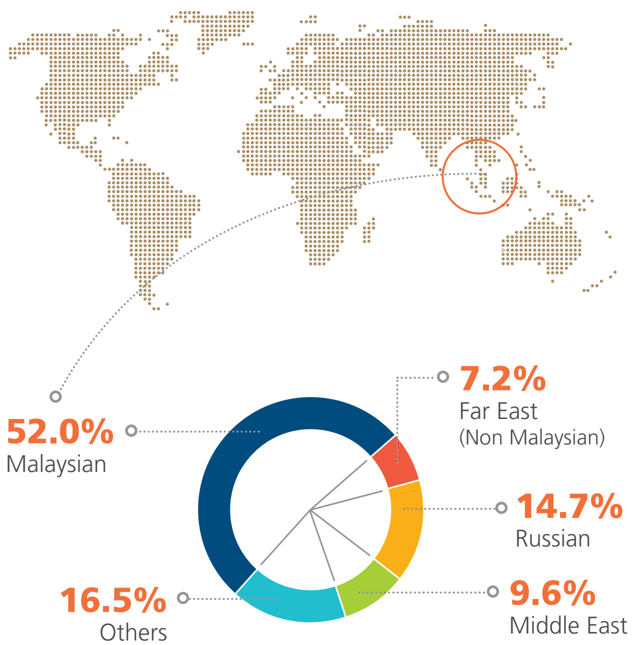

Our plant is a complex refinery. The main operating units comprise two crude distillers, a long residue catalytic cracker unit (LRCCU), two naphtha treaters and a Merox plant, one reformer, a gasoil treatment plant and an E5G unit for Euro 5 fuel specification for diesel. These assets are well maintained with a strong focus on asset integrity and reliability. Two new units to produce Euro 4M fuel specification for petrol and to produce hydrogen are under construction and on track for completion in 2022.

- We continue to focus on building more relationships with the crude supply network locally, regionally and globally to benefit from competitive pricing. To complement these diversification efforts, HRC has also implemented hedging tools and strategies to protect refining margins and inventory value the impacts of sudden crude price escalations.

*See page 36 for Stateholder Value mitigation strategies.*

- Our comprehensive range of petroleum products include liquefied petroleum gas (LPG), petrol, jet fuel, diesel, fuel oil components, sulphur and chemical feedstocks (such as light naphtha and propylene).

**SOURCES OF CRUDE**



# OUR STRATEGIC COMPASS

**The year 2021 has seen exemplary display of our core values in steadfastly achieving strategic goals amid continued challenges of COVID-19 disruptions. No matter what the circumstances were, we did not lose sight of our priorities and we continued to be resilient and operationally sustainable.**

## OUR CORE VALUES

### INTEGRITY

- Honesty
- Ethical
- Openness
- Transparent
- Speak Up
- Speak the truth
- Hold to higher standards
- Walk the Talk

### COLLABORATION

- Teamwork
- Creating lasting partnerships
- Bringing People along the Journey (nurturing / developing)
- Making things happen together

### ACCOUNTABILITY

- Doing the right thing the right way
- "I take responsibility over my actions"
- "No passing on of the responsibility, the buck stops with me"
- Going the extra mile
- Leadership at all levels

### RESPECT

- Care for each other
- Respect our stakeholders
- Diversity + Inclusion (ethnicity, faith, nationality, gender)
- Treat others as you want to be treated

### ENTREPRENEURIAL

- Treat this as my own business by having an entrepreneurial mindset
- Proactive and nimble to take on new opportunities
- Courage to step outside the comfort zone
- Challenge status quo for better efficiencies
- Passionate
- Energetic

## OUR VISION

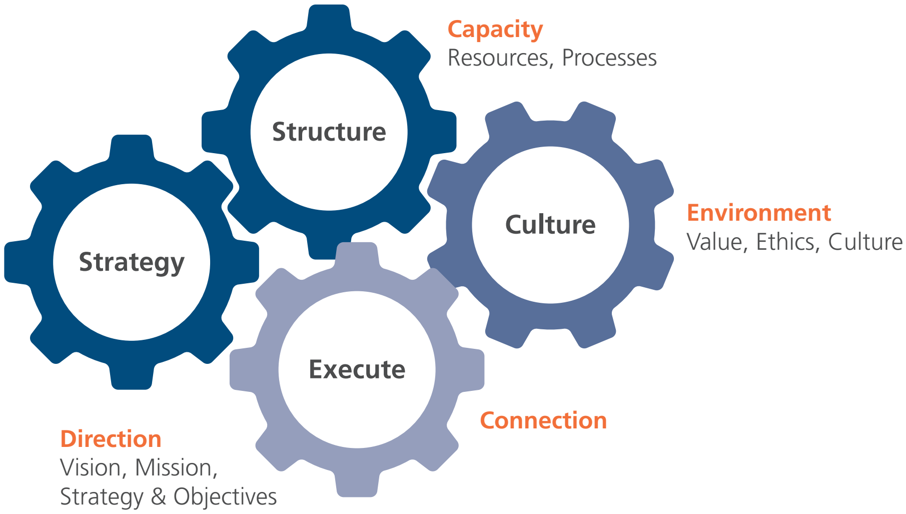
**TO BE A LEADING GLOBAL ENERGY AND PETROCHEMICAL COMPANY, PIONEERING SUSTAINABLE SOLUTIONS**

## OUR MISSION

**WE ARE COMMITTED TO SAFEGUARD OUR OPERATIONAL INTEGRITY, BE BOLD IN OUR INNOVATIONS, LEVERAGE THE STRENGTH OF OUR PEOPLE, AND TO MAXIMISE STAKEHOLDER VALUE**

# BUSINESS STRATEGY: OUR STRATEGIC FRAMEWORK

**Catalysing culture, structure, strategy and execution, HRC continued delivering improvements to the set goals of BP 2021 even amidst a challenging year.**




Under fresh leadership by our new CEO, Grant Gao, who joined us in August 2021, the HRC family was geared towards making the right connections in Direction, Environment and Capacity to Align Together towards our aspiration of becoming a leading global energy and petrochemical company, pioneering sustainable solutions.

The strategic framework that was introduced in FY2020, continued to provide much needed clarity and direction in helping us to build a more resilient work culture and operation. It remains our blueprint going forward.

| | | |
|---|---|---|
| **People & Leadership** | • Working with values<br>• Open and honest communication<br>• Employee engagement<br>• Retention | • Recognition<br>• Talent development<br>• Succession planning |
| **Operational Excellence** | • Reliability<br>• Effective work processes<br>• Cost efficiency | • Refining margin<br>• Product quality |
| **HSSE & Compliance** | • People safety<br>• Process safety<br>• Security<br>• Environment | • Health<br>• Sustainability<br>• Compliance |
| **Stakeholder Value** | • Shareholders<br>• Customers<br>• Investors<br>• Authorities | • Government<br>• Lenders<br>• Suppliers<br>• Neighbours |
| **Future Focus** | • Continuous improvement<br>• Investment projects<br>• Growth ideas | |

Operational Excellence

# STAYING FOCUSED ON **OPERATIONAL EXCELLENCE**

### 2021 Strategic Direction

- Improve unplanned downtime (UPDT) and plant availability
- Heighten Product Quality Assurance towards Zero Product Quality Incident (PQI)
- Extend Office Automation across all departments towards improved efficiency

# MARKET CHALLENGES

## 2021 GLOBAL MARKET LANDSCAPE[1]

**With markets emerging from lockdowns and rising vaccination rates, 2021 ushered in a year of economic recovery. According to the World Bank, global economic growth rebounded to an estimated 5.5 percent in 2021. At time of reporting, global energy demand is set to increase by 4.6% in 2021, more than offsetting the 4% contraction in 2020 and pushing demand 0.5% above 2019 levels. Almost 70% of the projected increase in global energy demand is in emerging markets and developing economies, where demand is set to rise to 3.4% above 2019 levels.**

Malaysia's recovery to growth has been slower than expected with recording 3.1% gross domestic development (GDP) growth in 2021. However, expectations of recovery seems likely with economic analysts forecasting an average 6% GDP growth in 2022 and the reopening of travel and hospitality sectors globally. Local market demand for fuel has already improved since the Government eased interstate travel restrictions in October 2021 and have announced an assurance of not embarking on further full lockdowns having achieved high vaccination rates within the populace.

### RECOVERY OF OIL PRICE

The improving economic environment supported a rebound in global oil demand of 5.4 mb / d, or 6% above 2020 levels. Crude oil prices increased in 2021 as global petroleum demand rose faster than petroleum supply. Brent's 2021 annual price averaged USD$71 / b, the highest in the past three years. The slower increase in production was mostly attributable to OPEC+ decision to limit production throughout 2021.

| Price Summary | 2021 | 2020 | 2019 |
|---|---|---|---|
| **Brent Crude Oil** (dollars per barrel) | **70.60** | 41.69 | 64.34 |
| Gasoline[a] (dollars per gallon) | **3.00** | 2.18 | 2.60 |
| Diesel[b] (dollars per gallon) | **3.28** | 2.56 | 3.06 |
| Natural Gas[c] (dollars per thousand cubic feet) | **12.36** | 10.76 | 12.36 |

[a] Average regular pump price
[b] On-highway retail.
[c] U.S. Residential average.

### U.S. ENERGY INFORMATION ADMINISTRATION (EIA) SHORT TERM OUTLOOK


### DOMESTIC OIL AND GAS CHALLENGES

The challenges that abound for the oil and gas industry in 2022 centre around manpower requirements, with market trends predicting the need for an upskilling of the workforce due to growing expectations of a more sustainable and digital future.

As the industry pivots to recovery, automation paves the way forward. Companies looking to digitalise and embark on technology advancements such as big data and artificial intelligence, will require skilled talent in these areas in order to improve productivity, efficiency and safety in a new dimension of business operations.

New skills will also be required to reflect the growing shift to greener energy solutions that involve harnessing technology and innovative approaches to reduce carbon footprint. As more companies acknowledge the importance of Environment, Social and Governance (ESG) practices, skilled talents in resource management, investor engagement and new energy solutions will prove vital for a sustainable future.

[1] IEA GLOBAL ENERGY REVIEW 2021

# FY2021 STRATEGIC REVIEW

## People & Leadership

As the drivers of strategic performance, our people's wellness, capabilities and commitment anchor the Company's ability to meet set goals. Ensuring our employees continue to work for us for the long-term is crucial for the success of our business. For that reason, People and Leadership continue to be key priorities for HRC in FY2021. There was dedicated continuity in our employee engagement programmes though many of these were redefined accordingly to comply to the pandemic standard operating procedures (SOPs).

Recruitment and career planning strategies were executed to retain the right talent for our business, as turnover rates rose by 5.36% during the year. Exit interviews were actively conducted to better understand the reasons for leaving, following which mitigating actions were rolled out immediately. These involved relooking into our Employee Value Propositions (EVP), updating of remuneration policies, launch of a Leadership Development Programme (LDP), heightened training and development, and increased engagement with our new Chief Executive Officer (CEO) to enhance the sense of security and purpose by attuning all employees to the Company's forward looking plans.

### STRATEGIC DIRECTION 1

**Ensuring the health, safety and well-being of all employees**

Despite ongoing COVID-19 fears and uncertainties, HRC upheld our core values, demonstrating strong support for the welfare of our employees during the year. We ensured their safety and wellbeing, as well as provided job security by maintaining all salary and benefits amidst a period of ambiguity.

Throughout the year, the Company continued to identify and implement multiple measures to keep employees protected and safe during the pandemic in every way possible. This included providing surgical masks and RTK self-testing kits for bi-weekly testing, allowing work from home for non-critical business activities and providing the flexibility of extending existing benefits towards new norm needs. For instance, during the year, employees could use their Wellness Coverage allowance for gym and fitness activities to purchase home wellness support items such as health-related equipment and ergonomic work-from-home furniture for themselves and their family members.

Putting safety first, we escalated vaccination awareness through a Myth & Fact Forum to encourage vaccination, and participated in the Government's nationwide Public-Private Partnership Immunisation Programme (PIKAS). These led to a successful Company-wide vaccination with almost all HRC employees fully vaccinated by August 2021.

Working to improve our Employees Value Proposition (EVP), HRC also enhanced employees' medical benefits during the year by linking up with a medical insurance provider to offer employees a wider pool of panel clinics and hospitals, as well as access to a premium top-up programme with competitive rates specially designed for HRC employees.

### STRATEGIC DIRECTION 2

**Benchmarking remuneration to market levels**

Our employee rights, wellbeing, welfare and assurance of fair equitable treatment are anchored through adherence to Employment Act, and the Company made regular improvements to our Human Resource and Health, Safety and Environment, as well as various remuneration policies.

We ensure that our salary, remuneration and benefits are always at par with industry standards, and that proper compensation is provided to show how we value our employees' time and commitment. The Company believes that when employees feel valued, they feel better about coming in to work and motivated to deliver better results. This improves overall company morale.

In FY2021, the following policies were updated to meet this objective:

- Pay As You Go Policy: pertaining to the issuance of performance bonus for leavers such as retirees, and end of contract staff. The updated policy now provides a clearer remuneration guideline for employees upon retirement.
- Inconvenience Allowance and Time Off In Lieu Policy: pertaining to proper compensations for employees who were asked to be on duty during their day off or rest days. This reflects appreciation for their commitment to work beyond regular working hours.

**STRATEGIC DIRECTION 3**

**Develop and nurture internal talents as future leaders of HRC**

Training and development for our employees continued to be a priority. There was an escalation of online training classes, encompassing both technical and non-technical skills, to cater to the increased number of work-from-home personnel. During the year, our employees benefitted from a total of 16,632 training hours, an average of 48.49 hours per employee.

A new Leadership Programme (LDP) was launched during the year to recognise talents with the potential to serve as future leaders in the Company, and to equip them with the required leadership skills through a structured two-years training programme. This is a win-win initiative that serves to provide a clear career progression plan for talented employees while ensuring seamless succession planning within HRC whereby any vacancies in leadership role at all levels can be immediately filled internally.

As part of the LDP, a Company-wide employee assessment exercise was completed during the year and twenty talents were identified by HRC's management team. Due to the pandemic disruptions experienced in FY2021, trainings set under the LDP only began in FY2022 and will continue through FY2023.

**STRATEGIC DIRECTION 4**

**Provide job security and shared future aspirations**

Realising that employee engagements required greater attention amidst pandemic disruptions, a key initiative was taken to create better interaction between management and respective departments in HRC. With our new Chief Executive Officer on board in August 2021, plant visits and department to department interaction sessions were arranged in line with new normal protocols. The sessions focused on providing employees greater certainty of the Company's direction and future plans, thus enhancing a stronger sense of teamwork, shared aspirations and job security going forward.

**2022 People & Leadership Priorities:**

- Initiate Training and Development Plan for FY2021's LDP
- Increase employee engagements frequency while adhering to the necessary COVID-19 SOP

*For more details on our Human Resource initiatives, please refer to page 50 of our Sustainability Report 2021.*

## Operational Excellence

The refinery continues to focus on operational excellence through improved reliability and quality delivery. Good performance on both fronts were recorded in FY2021.

Understanding that a plan is only as good as the people who drive it, HRC has advocated a competitive mindset to nurture proactive and responsive action. This was anchored by the core values of Integrity, Collaboration, Accountability, Respect and Entrepreneurial launched in FY2020. The internalisation of these values demonstrated a stronger culture of responsibility and teamwork which has enabled us to make a good headway on HRC's Reliability Plan in FY2021.

**STRATEGIC DIRECTION 1**

**Improve unplanned downtime (UPDT) and plant availability**

Good reliability is a key indicator as it assures the plant always runs at an optimal level and is ready to support commercial strategies with agility and with minimal unexpected downtimes or shutdowns. HRC's ongoing improvements and focus on defect and obstacle limination heightened the year's operational performance. In FY2021, we achieved 96.9%% plant availability, which is the highest we ever recorded since FY2018.

This was credited to strong team performance, united by a more mature Site Committed as One (SCONE) culture and guided by a good reliability framework that provided direction for proactive reliability improvements as well as clear alignment of responsibilities in overcoming threat issues.

The following highlights were pivotal in ensuring plant reliability performance:

- The development of the Reliability Plan that spans 2021 to 2024, to achieve continuous reliability improvements for the refinery, based on historical incidents with the aim of preventing similar recurrences in the future.
- Monthly dedicated tracking of proactive and reactive workstreams by a multi-disciplinary Reliability Steering Committee (RST).
- Rejuvenation and consolidation of a site-wide Asset Master Plan (AMP) to better manage obsolescence through proactive management of equipment and parts.
- Reliability Centred Maintenance (RCM) change process health check that entailed an audit checklist development and timely execution of audit. RCM trainings were also conducted for the Reliability team and other Engineering disciplines.
- More hands-on training by experienced supervisors and technicians for the junior technicians so that proper technology transfer can improve rework at the workshop.

Steadfast commitment to these reliability initiatives led to UPDT decreasing to 2.5% in FY2021. This was a significant improvement compared to the UPDT performance in previous years.

*For more details on our Reliability Management Framework and Reliability Plan initiatives, please refer to page 25 of our Sustainability Report 2021.*

## STRATEGIC DIRECTION 2

**Heighten product quality assurance towards Zero Product Quality Incident (PQI)**

We maintained solid performance in product quality giveaways (PQGA) whereby the quality of products sent to customer continued to exceed the specified requirements. In fact, HRC's FY2021 PQGA performance was our historical best when compared to the previous five years.

There were no major issues nor high and medium risk PQI during the year even with the transition from E2M diesel to Euro 5G in the first quarter of FY2021, we also successfully commissioned dual mode blending (high sulphur and low sulphur), which has significant economical upside to HRC, with no significant PQI.

All product quality targets were met at HRC's laboratory too. The continued adoption of the lab testing assurance programme ensured the quality of lab testing is at par with industry standards. Towards continuous improvement, the lab has begun collaborating with other refinery laboratories for better learnings and assistance, and is exploring more automation to improve accuracy of results and reduction of testing time.

*For more details on our product quality, please refer to page 23 of our Sustainability Report 2021.*

## STRATEGIC DIRECTION 3

**Extend Office Automation across all departments towards improved efficiency**

In FY2021, office automation across all departments reached over 90% completion as part of the Business Process Management (BPM) plan. This entailed making all work process related forms and procedures available online for easier access and applications.

The migration of IT services and data into the cloud has also kicked off with about 85% completion during the year. Through this migration, we will soon be able to manage our IT infrastructure remotely with minimal security risk, minimised inconvenience and cost of maintaining on-premise hardware. This move ensures HRC's ability to deal with escalations in online demand and remote working, ensuring readiness for increased business agility and flexibility in the near future.

### 2022 Priorities

- Champion asset reliability and integrity management
- Inculcate cost leadership culture
- Focus on digitalising work processes to increase efficiency and productivity
- Encourage pursuit of margin improvement tactics

## HSSE & Compliance

HRC's HSSE & Compliance goal is to make safe operations safer every day. Quality, Health, Safety, Security and Environment and Social Performance (QHSSE & SP) are integral disciplines embedded in all our business activities. We strive for personal safety, process safety, security, compliance as well as focus on protecting the environment, health of our stakeholders, and business sustainability.

The health and safety of our people continue to be the main focus in FY2021. Through consistent efforts in nurturing a safety mindset, HRC achieved 6.9 million manhours without Loss time Injury (LTI) as of 31 December 2021, whilst maintaining Zero Total Recordable Case in all of our projects.

Another important priority for the year was the ability to transition seamlessly within the new operating norms. As we cannot determine how long the COVID-19 pandemic would remain as a risk to our economy and society, the HSSE priority in 2021 was to remain vigilant in ensuring that our employees are not exposed to the threats of COVID-19 at site. HRC's success on this front is a credit to our robust Business Continuity Plan and stringent COVID-19 preventive measures.

### STRATEGIC DIRECTION 1

**Sustain Personal Safety towards Goal Zero Safety Performance**

We remain mindful that building a safety culture is an on-going process and thus, we have established the following initiatives to help create constant awareness of our safety goals. Due to the pandemic disruption, some of these initiatives have been transformed to virtual events and new channels have been introduced.

- **Assurance Walks:** For health and safety reasons, assurance walks such as Leadership Team (LT) "*Turun Padang*" and Goal Zero Walks were held at a pre-determined schedule during the year. The LT "*Turun Padang*" is an important element for visible safety leadership and serves as a pulse check on the current health of our HSSE standards implementation on site. It also creates an opportunity for leaders to engage with employees and contractors on HSSE matters. The Goal Zero Walk was centered on different themes of key process assurance such as Process Safety Field Observation; Ensure Safe Production & Process Isolation; and COVID-19 Health Check & Compliance, among others.
- **Safety Campaigns:** For FY2021, we introduced new campaigns and initiatives to highlight safety issues such as Slip, Trip & Fall Campaign - Double Lanyard Implementation (when working from heights), Ideal Workstation Awareness Campaign (to promote adoption of ergonomic workspaces at home) and Risk Assessment Matrix (RAM) Refresher & Familiarisation to update HRC's distinct safety language across the Company. Although the annual Safety Day event was rescheduled to January 2022, preparation works and smaller scale activities that led up to the annual event went on as planned.
- **Intervention:** Entering its second year, the monthly CEO HSSE Award continued to encourage on-site intervention through Near Miss Potential Incidents (NMPI) reporting. A total of 5,273 reports were received for the year, which was commendable given the disruption of Assurance Walks due to COVID-19, NMPI not being a key performance indicator, and the fact that there were no turnarounds scheduled.
- **Communication:** The in-house QHSSE e-newsletter "UNZIPPED" was published twice in 2021 to share information pertaining to HSSE matters, updates on upcoming initiatives, short surveys, tips, and safety reminders. For external stakeholders, publicly available information was curated jointly with the Department of Occupational Health and Safety (DOSH) through its CIMAH (Controls of Industrial Major Hazard Regulation 1996) newsletter. CIMAH states the need to communicate major hazards present at our site and our community safety protocols to our fenceline community every three years.
- **Training Programmes:** About 26 training sessions covering Emergency Response drills and HSSE training were conducted during the year for 392 participants. These included:
  - An online training session on Incident Command System (ICS) for employees from various departments at all levels. This is in preparation for effective management of incidents, including understanding the role and functions of the command team.
  - A major on-site emergency response drill with BOMBA was held once the lockdown was lifted to maintain HRC's emergency preparedness and responsiveness.
  - As part of the new normal workflow, Virtual Safety Induction Training for visitors and vendors was implemented to ensure our goal of No Harm to People extended to all who visited our worksite.

## STRATEGIC DIRECTION 2

**Maintain a safe environment for the workforce with transition into endemic protocols.**

HRC's New Norm Committee continued to be of service in helping to set stringent protocols and guidelines for smooth business continuity amidst the challenges caused by the pandemic and the emergence of the Delta and Omicron variants. In total, 50 Employee Information communication on pandemic risks and actions, and up to 25 new normal protocols were rolled out since the New Norm Committee was established in FY2020.

Some of the new COVID-19 New Normal Culturisation & Protocols that were introduced in 2021 include:

- Protocol to submit valid RTK / PCR screening results before entering HRC premises
- COVID-19 Department Self-Evaluation
- Establishment of a Company directive on Vaccinated and Non-vaccinated entry management to HRC
- Make or Break (MOB) Protocols which are strict protocols for contracted specialists recruited for repair of critical equipment. These protocols ensure that these critical personnel are kept safe and protected to the best of our ability as any delay to repairs will result in plant disruptions
- Compliance to bi-weekly testing

In addition, to help accelerate the national vaccination rate, the Company provided strong encouragement by organising The Myth & Fact Forum on Vaccination for all employees on May 2021. This was a prelude to HRC stepping up as one of the first few companies in Negeri Sembilan to participate in the PIKAS programme. Nearly all HRC employees were fully vaccinated by August 2021.

In May 2021, when COVID-19 infections were on the rise, these safety protocols helped to manage the spread of infections as positive cases were detected among several HRC contract workers and a few employees. All the required measures were implemented immediately. The good cooperation with contractors, Health District Office and other relevant government officials ensured a well-controlled isolation and quarantine process. As a result, we avoided critical cases and controlled the infection from spreading further.

## STRATEGIC DIRECTION 3

**Heighten the Company's maturity in Process Safety Excellence**

A more structured Process Safety Management (PSM) framework, charting a multi-year journey towards achieving Process Safety Excellence by 2023, was developed and operationalised in April 2021 to bring all 20 existing work processes under a united umbrella. The framework is designed to help HRC manage the integrity of our operating systems and processes that handle hazardous material.

We rolled out the first stage of HRC's refreshed PSM framework with three series of virtual engagements to build awareness and understanding. This was followed by a major improvement on Process Knowledge Management in understanding hazards and risks.

The primary objective of the PSM is to maintain accurate, complete and comprehensive information that can be accessed on demand via the Document Matrix through HRC's intranet. Information provided included:

- A full list of process knowledge documents;
- Assigned custodian of each document;
- The required reviewers; and
- Storage location of the document

Site Causal Learnings for all incidents and quarterly Learnings From Incident (LFI) continued to be held so that lessons can be learnt to identify causes of incidents, improve responses, and prevent recurrence.

There was one Process Safety Event (PSE) recorded in January 2021 involving a Kero Minus leak that exceeded the API Tier 2 threshold. The leak was immediately identified and repaired with learning outcomes captured, shared site-wide and centrally tracked within the iMax incident management and reporting platform.

*For more details on our new PSM framework and API measures for the year, please refer to page 35 of our Sustainability Report 2021.*

## STRATEGIC DIRECTION 4

**Achieve all compliance and enhance environmental scorecard**

On the compliance front, achievements included the issuance of a new Integrated Management System (IMS) manual (combining standards for ISO 45001, 14001 and 9001) and the successful completion of external audits by SIRIM on these standards in relation to QHSSE as well as two others. This supports HRC's efforts to maintain standards on par with industry best practices.

## 2021 Certification Achievements

**Zero non-conformity findings and zero opportunity for improvements (OFIs)**

- ISO 9001 - Quality Management Systems
- ISO 14001 - Environmental Management Systems
- ISO 45001 - Occupational Safety & Health Management System

**2 OFIs each were recorded for the following certifications:**

- ISO 27001 - 2013 Information Security Management System
- ISO 37001 - 2016 Anti-Bribery Management Systems

Moving forward, we are making mindful progress towards a cleaner energy future through compliance to government environmental and fuel regulations. Through ongoing and completed key investment projects, HRC continues to monitor and improve the quality of air emissions coming from our refinery operations, and grow capabilities in producing cleaner fuel with reduced sulphur and carbon emissions.

All matters related to environment are reported to the Environmental Regulatory Compliance Management Committee (ERCMC) towards better responsiveness to environmental issues. The ERCMC members are tasked to actively monitor compliance status of applicable environmental regulations, outcomes of environmental monitoring and audits, introduction of the enhanced public complaints framework and status of key environmental projects. One of the proactive steps taken by the ERCMC has been the commissioning of a live stack emission online monitoring system through collaboration with the Department of Environment (DOE). The system ensures all emissions are well below the limit and that any excursion due to plant upsets are mitigated quickly.

Good management of natural resources is also our way forward towards a sustainable future. Several initiatives on this front for FY2021 included:

- Continuous tracking of water usage to optimise water consumption at specific high-consumption equipment and maximise the recycling of water in refinery boilers and cooling towers.
- Ensuring our effluent water continues to comply to all the parameters under the Environmental Quality (Industrial Effluent) Regulations 2009. In FY2021, we made good progress and recorded our best oil in effluent quality level in recent years.
- During the year, to encourage environmental mindfulness within our team, we participated in an E-Waste Recycling Environmental Campaign entitled "Recycle for the Life Cycle" in conjunction with Hari Alam Sekitar Negara 2021. Organised by the Department of Environment (DOE), it involved recyclable electrical waste collection from several departments in HRC as well as household E-waste from HRC staff. Through this combined effort, HRC gathered almost 1 tonne of E-Waste. The exercise helped create awareness of the monetary value that can be gained from responsible recycling of electrical waste, as opposed to spending money to dispose them as Scheduled Waste (hazardous waste).
- We also completed modification works for scheduled waste storage with the construction of a sump for collection of spillage, levelling of floor and internal drainage, as well as repair of a rain gutter to avoid flooding.

**2022 Priorities**

- New Normal Culturisation for COVID-19 Response and Assurance
- Compliance to new way of developing Pre Incident Planning (PIP), conducting drills and Fire Fighting Equipment Maintenance (FFEM)
- Intensive training to increase competency based on Training Needs Analysis (TNA), including for contractor supervisor, to refresh skills after the pandemic disruption

## HRC's Commitment Statement

- Pursue the goal of no harm to people;
- Protect the environment;
- Use materials and energy efficiently to minimise the impact to the environment;
- Operates the refinery safely and assures its integrity;
- Respect our neighbours and contribute to the community at large;
- Advocate best practices in our industry and lead by example;
- Embrace HSSE & SP performance as a core value in all our business activities;
- Deliver our products and services in a responsible manner consistent with these aims;
- Report our HSSE & SP performance to our stakeholders;
- Promote a culture in which all HRC employees and business partners share these commitments; and
- Provide a secure and respectful working environment for the well-being of employees and business partners.

## Stakeholder Value

Most of the initiatives intended to deliver sustainable value to our shareholders, investors and community were sustained through FY2020 and FY2021. These included engaging a wider selection of vendors, implementing proper cost controls, improving negotiations and staying agile and responsive in protecting our margins.

Outside of operations, we are committed to be socially responsible in our business affairs and make a positive contribution to our local community through social investment.

### STRATEGIC DIRECTION 1

**Drive cost optimisation to increase margins and overall product value**

We faced uncertain demand in FY2021 as pandemic lockdowns continued to be implemented throughout the year. HRC's commercial team worked hard to mitigate costs and capturing windows of opportunity to grow margins.

Adhering to HRCs Business Improvement Plan (BIP) strategies, we maximised commercial value through product cracks and inventory hedging strategies. Greater agility in production planning was also executed, whereby production was reduced when margin was not favourable and maximised when demand picked up again.

For instance, as jet fuel demand remained low in FY2021 due to reduction in air travel, HRC normalised processing of jet fuel components and produce diesel instead, in line with the communities' and market's needs at that time. When a new gasoil specification with lower sulphur content was mandated in Malaysia on 1 April 2021, we managed our Combined Cycle Oil (CCO) sales effectively to favorably reflect CCO value when pooled as Fuel oil. So, though challenged by the limits of our gasoil desulphurisation capability, we managed to opportunistically advance sales of this new gasoil specification and benefitted from higher price gains.

As market demand improved in the second half of the year, our total production volume increased by 1.8 million barrels to 36 million barrels with production rate ramped up in tandem with demand and product cracks improvement to capture higher refining margins.

During the year, HRC's commercial team also managed to secure a five-year term renewal for crude oil supply at a competitive value with better working capital and extended payment terms. This was made possible by leveraging on the good relationship we have built with our established partner.

*For more details on our Production achievements, please refer to page 27 of our Sustainability Report 2021.*

### STRATEGIC DIRECTION 2

**Enhance Supply Chain quality, reliability and efficiency**

Having embedded due diligence practices in selecting reliable vendors of good repute, HRC did not experience any significant supply chain disruptions during the year. Though some challenges were faced on the local front when lockdowns were imposed, these were easily overcome due to the good partnership and cooperation that we have forged with our vendors.

In FY2021, we intensified our search for more competitive bids for materials and services sourcing, by widening our selection of vendors, both domestic and international. To this end, there was a marked reduction in single source contracts in FY2021 to ensure the Company benefits from competitive gains of an open tendering system.

We heightened our tendering processes, harnessing electronic tendering and e-contract management system capabilities to increase efficiencies in the procurement process. Another initiative that proved fruitful was the roping in of expertise from HRC's technical departments in evaluating and deciding on the best competitive offer of the right quality product. Utilising vendor resources of our major shareholding company in China, we made headway in receiving more competitive international offers.

It is to be noted however, that in line with HRC's commitment to provide employment opportunities locally and in optimising cost savings, Malaysian suppliers were targeted for a wide selection of service contracts, such as in providing labour services to the Company's key projects. The number of contracts awarded to Malaysian suppliers increased in FY2021 also due to the impact of the global pandemic which created delays and higher cost in international supply chains.

*For more details on our Supply Chain Management, please refer to page 21 of our Sustainability Report 2020.*

STRATEGIC DIRECTION 3

**Continuous engagement with external stakeholders and through corporate social responsibility (CSR)**

In view of Malaysia's movement control order restrictions imposed in 2021, HRC's physical engagements with stakeholders were limited during the year to keep our stakeholders safe. However, feedback and announcement channels were kept open and accessible to ensure communication was not compromised. Pre-operational activities notification practices were ongoing whereby notification texts were distributed to all relevant local authorities, fenceline community representatives and residential areas surrounding our refinery. This ensured that the community remained informed and aware of our activities at all times.

Through our well publicised community feedback mechanism and updated Public Complaints Frame Work, members of the public could safely and easily get in touch with us. During the year, there was only one public complaint received about noise coming from the refinery due to the start-up of our process units after an unplanned trip. The complaint was quickly addressed and resolved.

The Company's annual festive contributions and meetings with selected stakeholders were conducted with proper SOPs in place with all preventive measures taken. We continued to engage face to face with key focal contacts from the local authorities to provide necessary business updates, and hand out festive contributions to families in need, albeit at a smaller scale than before.

At all times, HRC was responsive to the needs of fenceline communities and critical stakeholders in times of need. We collaborated with the Fisheries Department Port Dickson to assist 178 fishermen whose livelihoods were impacted by the COVID-19 pandemic, through the provision of fishing supplies, medical kits and torchlights. We also contributed test kits, hand sanitisers and thermometers to the local police department as part of social welfare support to frontliners during the COVID-19 pandemic. Towards the end of 2021, when the country experienced devastating floods, one of our fenceline communities (Kampung Paya) was impacted. HRC responded with urgent food aid contribution to the people affected by the flood.

*For more details on our Community Engagement initiatives, please refer to page 58 of our Sustainability Report 2021.*

**2022 Priorities**

- Capture good value Malaysian crude oil at competitive rates
- Diversify our pool of vendors
- Continue to engage external stakeholders
- Continue to protect refinery margins

### Future Focus

Among the goals under the Future Focus strategy is to ensure that our refinery continues to run efficiently. We intend to deliver on-spec fuel with reliability, quality and minimal downtime through upgraded capabilities and well maintained assets. At the same time, we are committed to staying on track of our future-focused projects to ensure HRC remains competitive and continues to advance towards long-term sustainable commitments on climate change.

With current key investment projects on track, HRC has started to focus on preparation works for the major turnaround in May 2023. Proper planning is crucial to ensure maximum repairs and upgrades can be done within the planned timeline and that the refinery will run safely and reliably until the next turnaround.

Another significant change for a better and more efficient future are the digitalisation efforts that have been steadily advanced in 2021 and will continue to escalate in the coming years.

## UPDATES ON KEY INVESTMENT PROJECTS

### EURO 5G (E5G)

**CONTEXT**: The Malaysian Government deferred the mandated implementation date for Euro 5 Gasoil specification compliance from 1 September 2020 to 1 April 2021.

The implementation of Euro 5 gasoil will improve the air quality status as the fuel is cleaner with a reduced sulphur content of 10 parts per million (ppm) from 500 ppm.

**CURRENT STATUS**: HRC met the deadline and started rolling out supply of on-spec product from March 2021.

This project was fundamental to our business as it was crucial to meet new requirements of the Environmental Quality Regulations 2015 with Phase-1 compliance set for 1 April 2021. The start-up of E5G production during the year under review delivers on HRC's goal to assure a sustainable foundation for profitable future business, while ensuing the overriding sustainable goal of further improving air quality.

Furthermore, our current E5G capabilities has enabled the refinery to refine higher sulphur crudes to lower sulphur diesel, which could potentially produce higher refining margins. Upon completion of the H2GEN project, HRC will be ready to implement Phase-2 and Phase-3 E5G specifications for even cleaner fuel with less carbon emissions.

### EURO 4M (E4M)

**CONTEXT**: The E4M project is crucial for the sustainability of the business to meet the local product specification requirements. The plant, which will have a capacity of 1.15 million tonnes per year, will use a combination of hydro-processing and liquid-liquid extraction technology. This has been applied successfully by the licensor at various operating plants in China.

**CURRENT STATUS**: Despite the challenges and setbacks caused by the COVID-pandemic lockdowns, construction works on our E4M project is on track. We are determined to complete the Euro 4M project by the second quarter of 2022.

### H2GEN

**CONTEXT**: Post implementation of both E4M and E5G projects, HRC will be short of hydrogen to desulphurise Mogas and Gasoil components which would result in loss of product margin. The H2GEN project is developed to provide hydrogen by taking Natural Gas as feedstock.

**CURRENT STATUS**: Currently the project is in the commissioning stage having overcome the challenges of receiving materials, supplies and specialists from overseas due to the pandemic disruptions.

#### STRATEGIC DIRECTION 1

**Enhance plant productivity upon completion of Major Turnaround 2023 (MTA 2023)**

HRC's major turnaround is planned for May 2023 and preparations have begun in earnest in FY2021. The five-year gap from the last turnaround is a celebrated achievement as most turnarounds for a refinery of our size is mandated every three to four years.

By prolonging the refinery's Major Turnaround to a five-year cycle, HRC has been able to increase our productivity and competitiveness. The team has worked closely with DOSH from Federal and State levels to ensure all requirements for the turnaround extension were met and going forward, we target to repeat this five-year cycle for the next turnaround too.

Meanwhile, HRC is maintaining good performance in driving the goals of the Reliability Management Framework and Asset Master Plan to ensure that threats to our equipments and assets are proactively being identified and reported for better MTA 2023 scope planning.

STRATEGIC DIRECTION 2

**Further our digitalisation journey to improve business scalability and agility**

HRC's digitalisation journey is set to be accelerated now that the office automation platform is nearing full completion. The next step in heightening Business Performance Management (BPM) via digitalisation is to integrate all workflow applications towards enhanced project management collaboration. A targeted improvement is to develop a single sign-in procedure to allow employees to access all available data by using one single log in credential.

Leveraging on the planning done in FY2021, we will be extending cybersecurity and IT infrastructure enhancements across HRC's office and refinery site. The groundwork for business agility transformation is also being laid to facilitate business responsiveness to changing requirements. We also intend to further leverage on Cloud application platforms in FY2022 in order to better support our business evolution needs.

**2022 Priorities**

- Drive for the best scoping for the Major Turnaround exercise in 2023 to ensure a successful implementation
- Integrate Information Technology with Operational Technology towards Business Digitalisation Transformation

# FINANCIAL REVIEW

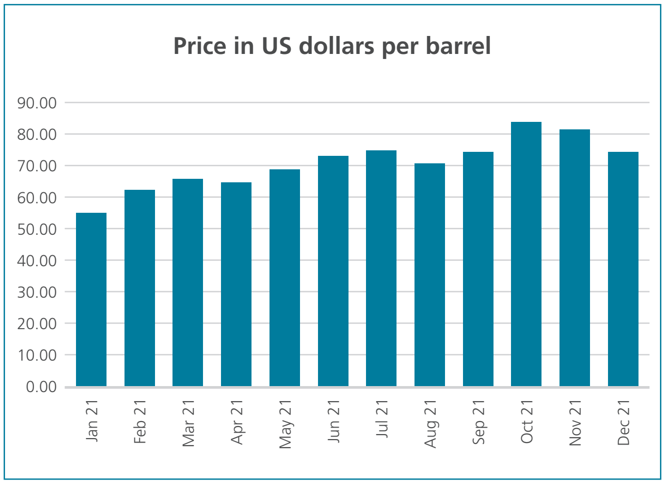
## MARGIN AND FINANCIAL PERFORMANCE

In the year under review, HRC registered a profit after tax of RM82.7 million compared to the previous financial year which reported a profit after tax of RM251.0 million. Refining margins and crude prices continued to remain volatile during the year resulting in a full year average Current Cost of Stock margin (CCS) of USD3.44 / bbl (FY2020: USD5.23 / bbl) and gross profit margin of USD7.23 / bbl (FY2020: USD 2.68 / bbl) including the effects of crack swaps. Further analysis of the financial performance is as follows:

### Revenue and Gross Margin

HRC recorded a revenue of RM12.0 billion in FY2021 compared to the revenues of RM7.2 billion in FY2020. The increase in revenue of RM4.8 billion or 67.3% were attributed to higher price and sales volume. Higher sales volume was primarily supported by the improved product cracks and better crude processing margin as the oil demand picked up amid the improved COVID-19 situation across many countries.

**BRENT OIL PRICE**




In FY2021, the price of Brent crude oil averaged at USD71 / bbl, USD29 / bbl higher than its FY2020 average. Crude oil prices increased in 2021 in tandem with increasing COVID-19 vaccination rates, loosening pandemic-related restrictions, and a growing economy resulted in a spike in global petroleum demand. Global petroleum production increased more slowly than demand, driving higher prices. The slower increase in production was mostly attributable to OPEC+ crude oil production cuts that started in late 2020.

Stockholding gains / (loss) for FY2021 (including the effects of commodity swaps) were USD0.39 / bbl (2020: (USD0.50) / bbl).

The hedging strategy undertaken by HRC has protected the Company's gross profit margin from eroding although the Company faced challenging external factors such as market volatility and COVID-19 restrictions in Malaysia.

# FINANCIAL REVIEW

## Income and Expenses

In FY2021, as compared to FY2020, HRC recorded a 3.3% increase in its annual sales volume, which combined with higher refined product prices, contributed to the higher gross income. The exceptional refining margins experienced in Quarter 4, 2021 with the oil demand picking up positively contributed to the good performance of the Company. Manufacturing expenses and finance costs were lower compared to FY2020 as a result of company-wide cost optimisation initiatives. However, HRC recorded a net foreign exchange loss in the year with mitigation efforts to minimise fluctuation exposure of Ringgit Malaysia against the US Dollar via foreign currency hedging for crude purchases.

The increase in tax expense was due to under-provision of tax liability in prior years from the tax audit assessment which reduces the unutilised tax losses brought forward, and consequently to the deferred tax assets recognised.

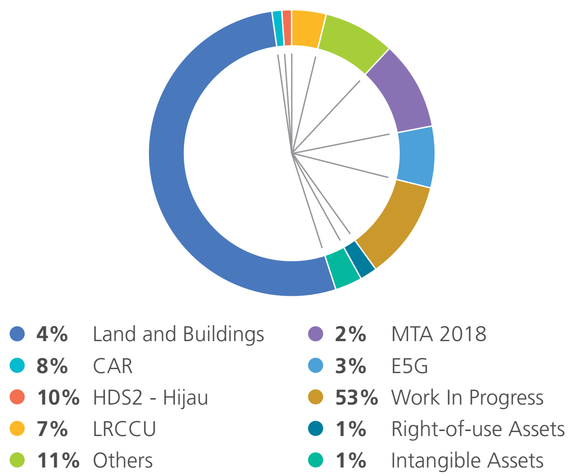
The overall impact resulted in profit after tax decreasing by 67.1% or RM168.3 million as compared to FY2020.

## Total Assets and Liabilities

Total assets increased by RM1.0 billion or 21.9% from the previous financial year. Details of total assets of RM5.5 billion in FY2021 are set out below:

- Carrying amount of fixed assets i.e. property, plant and equipment, intangible assets, right-of-use assets of RM2.0 billion comprises:

**Carrying Amount of Fixed Assets**




- The valuation basis of these assets is as stated in our accounting policies.
- The Company's current assets comprise of derivatives that have maturity of less than 12 months, inventories, receivables and cash. Current assets have increased from RM2.5 billion to RM3.4 billion, an increase of 39.7% as compared to FY2020. The increase is mainly attributable to increase in inventory and receivables as at year end. Inventory balances as at current financial year increased by 49.5% or RM520.9 million whereas receivables balances increased by 100.2% or RM514.3 million, both attributed by the increase in global oil prices.

Total liabilities have increased by 47.2% or RM1.1 billion from RM2.3 billion to RM3.4 billion in FY2021. Further details are set out below:

- Current liabilities comprise mainly of payables, derivatives with maturity of less than 12 months, revolving credit, and a portion of lease and term loan balances that are repayable within the next 12 months. Trade payables mainly relates to payables for crude purchases and payables relating to capital expenditure. Trade payables are higher in FY2021 due to higher price of crude purchased as at year end.
- Non-current liabilities comprise of leases, term loans, deferred tax liabilities and derivatives with maturity of more than 12 months. Term loans are repayable over 13 months, denominated in USD and are secured by way of charges on the Company's assets.

## Cashflow

Cash generated from operating activities was utilised mainly for capital investment purposes for projects including E4M, E5G and Hydrogen Manufacturing Unit (H2GEN), and to reduce interest expense through optimising loan utilisation. Hence, the cash balance as at the end of the year was lower at RM584.5 million compared to RM683.8 million in FY2020.

## Dividends

The Board of Directors assesses the cash flows prior to declaration of dividend in compliance with the Companies Act 2016. The Board has formed a view that it would not be prudent for the Company to declare dividends at this juncture, given the completion of large projects and volatility of the market. Hence no dividends have been declared for the financial year ended 31 December 2021. The Board will continue to review the dividend prospects taking into account long-term value creation for its shareholders.

# FY2021 KEY PERFORMANCE INDICATORS (KPIs)

Our KPIs assess the performance of the Company across all aspects of operations in a balanced Business Performance Scorecard. Non-financial indicators include measures of production and reliability, safety, commercial relevance, sustainability and governance. Financial indicators cover margin, financial performance and return on investment. Additional KPIs tied to sustainability are elaborated in our Sustainability Report 2021 which is available on our website at *http://hrc.com.my/sustainability-report.html.*

| KPI SCORECARD | | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|---|
| SAFETY | Lost Time Injuries (LTI) | **0** | 1 | 0 | 0 | 0 |
| | LTI Free Manhours Worked | **6.9** | 3.0 | 10.1 | 5.6 | 2.0 |
| | Process Safety Events (API Tier 1) | **0** | 1 | 0 | 1 | 1 |
| | Process Safety Events (API Tier 2) | **1** | 2 | 2 | 0 | 2 |
| | First Aid Cases (FAC) | **2** | 6 | 6 | 11 | 5 |
| PRODUCTION & RELIABILITY | Operational Availability % | **96.9** | 95.4 | 96.3 | 79.4 | 97.4 |
| | Unplanned Downtime (UPDT) % | **2.5** | 4.6 | 3.7 | 3.1 | 2.3 |
| | Production Volume (million bbl) | **35.0** | 34.2 | 38.8 | 32.5 | 39.7 |
| MARGIN & FINANCIAL PERFORMANCE | Refining Margin (FIFO) (USD / bbl) | **7.2** | 2.7 | 3.3 | 3.0 | 8.4 |
| | Sales Volume ('000 bbl) | **36.3** | 35.1 | 41.9 | 35.2 | 41.1 |
| | Revenue (RM billion) | **12,006** | 7,176 | 12,637 | 11,241 | 11,583 |
| | Profit After Tax (RM million) | **83** | 251 | 35 | 31 | 930 |
| | Cash Generated From Operations (RM million) | **224** | 435 | 1,259 | 380 | 477 |
| | Quick Ratio | **0.6** | 0.9 | 0.8 | 1.0 | 2.5 |
| RETURN ON INVESTMENT | Shareholders' Funds (RM million) | **2,052** | 2,168 | 2,011 | 2,022 | 1,789 |
| | Earnings Per Share (sen) | **28** | 84 | 12 | 10 | 310 |
| | Return on Average Capital Employed (times) (EBIT / (Average total assets-average current liability) | **0.1** | 0.1 | - | - | 0.4 |
| SUSTAINABLE DEVELOPMENT | Energy Intensity Index (EII) | **113.1** | 116.9 | 110.9 | 111.7 | 111.5 |
| | Effluents – Average Oil in Water Concentration (avg mg / l) | **0.6** | 1.7 | 1.0 | 1.0 | 1.2 |
| | Waste Management | | | | | |
| | • Effluent Treatment plant (ETP) Sludge (MT) | **196** | 328 | 305 | 184 | 663 |
| | • Spent Oil Water Emulsion (MT) | **774** | 1,102 | 1,374 | 2,175 | 1,794 |
| | Public Complaints | **1** | 10 | 5 | 3 | 5 |
| | Social / Community Project Investment (RM'000) | **26.2** | 19.6 | 66.2 | 68.8 | 41.9 |

# RISKS & OPPORTUNITIES

**HRC has in place a robust risk assessment matrix that captures all significant risks and opportunities which is reviewed on a quarterly basis by the Management Team and the Board of Directors via the Board Risk Management Committee. This enables HRC to identify and assess the Company's risks and prepare mitigation plans in advance to ensure capability to manage any risk which arises.**

## RISKS

### Asset Integrity

The oil refining business has several inherent risks associated with personal and process safety and asset integrity, among others. HRC applies and continues to enhance best practices to manage all these risks.

### Project Risks

All HRC ongoing projects include risk assessments and technical and construction risk mitigations. HRC expects to complete and commission all major key projects as scheduled.

### Margin and Commercial Risks

As an independent refinery, HRC is exposed to oil refining margin and oil price fluctuations which are beyond HRC's control. To mitigate such risks, HRC has taken initiatives to selectively hedge against crude price and refining margin fluctuations together with inventory hedging to manage exposure to sudden oil price changes. HRC also understands that to remain in business and to reduce reliance on a single customer is key for the refinery's survival. Therefore, in recent years HRC has actively developed sales to various oil and gas players in the market, both domestically and internationally.

### Environmental Related Risk

We are conscious and mindful of the need to utilise resources and energy more efficiently to minimise environmental impacts throughout our operations. We have internal policies in place that enables us to actively manage our environmental footprint. In addition, HRC also recognises Climate Change as a relevant long-term risk, therefore, climate change risks from HRC's operations are now included into the risk register to be closely monitored. In FY2022, HRC intends to start conducting quarterly GHG emissions accounting with the aim of analysing trends more closely and as much as practical, minimise any potential risks quickly.

## OPPORTUNITY

### Cleaner Energy

HRC noted the general trends to higher demand for cleaner energy and potential slowing demand for hydrocarbon transport fuels. Strategic planning was formulated by looking into options for future investment into petrochemicals and renewable energy / alternative energy to add on to our strong presence in hydrocarbon products.

# MOVING FORWARD INTO 2022

**Demand for oil is on a recovery trend due to the reopening of international travel and escalation in market activities. However, oil prices remain unpredictable given the third wave of the Omicron virus, which has been named by the World Health Organisation (WHO) as a Variant of Concern (VOC)[2]. Crude prices are still forecasted to head higher in 2022 due to industry observations that most oil producers can only plan on delivering modest production growth in 2022, even in the face of increasing demand. The Organisation of the Petroleum Exporting Countries (OPEC) has maintained its tight grip on supply with several member nations facing unexpected production challenges.**

With demand expected to recover to pre-pandemic levels later in 2022, the oil market will likely remain tight. This dynamic sets the stage for a potential price spike if the industry experiences a major supply disruption, with the possibility of prices topping USD$100 a barrel[3] at some point during the year. Competition in the refining industry also remains stiff as there is global refinery over capacity in abundance. Any increase in demand can be easily replaced with increased utilisation.

Despite the challenges abound in the global landscape in 2022, in addition to prioritising personal and process safety at the plant, HRC remains committed to deliver continuous value to its shareholders and stakeholders by focusing on these initiatives below:

- **Optimising organisational strength through talent development**

  Training and development for HRC's LDP programme has initiated in 2022 and will carry on till 2023 to provide a clear and structured career progression plan for talented employees while providing an opportunity for HRC to fill up any internal vacancies in critical leadership roles at all levels immediately. In FY2023, the subsequent round of talent identification will be follow through.

- **Strengthening a continuous improvement mindset**

  Following the launch of the corporate vision, mission and core values, and the introduction of the strategic framework, the next step is to amalgamate these key initiatives by instilling a continuous improvement mindset. Continuous improvement is part of the characteristics that drive the 'Future Focus' element of our strategic framework.

- **Enhance cost efficiency and work processes**

  We are riding the wave of Industrial Revolution 4.0, whereby digitalisation will be the gamechanger for HRC as it will aid in decreasing operational costs and at the same time enhance operational efficiencies. Having neared completion in implementing the Office Automation (OA) company-wide to improve workflow, HRC is now ready for the next step to accelerate into BPM middleware. This will integrate the different workflows and result in more effective project management. Moving forward, HRC's digital transformation in IT and business will be expanded to include the rolling out of initiatives that relate to:

  - Business Agility
  - Information Technology and Operations Technology Fusion
  - Cyber security

- **Prepare for MTA 2023**

  Driven by legislative requirements as part of the cyclical inspection programme and license renewal stipulated by DOSH, the preparation and planning for this turnaround event will be a major focus area to the Company in year 2022.

- **E4M start-up**

  HRC's project E4M is planned to commission in the second quarter of 2022. This will ensure that all mogas components are blendable to meet E4M specification without any access of high sulphur mogas components from site. The project will allow the refinery to continue optimising its crude slate to be commercially competitive upon commission.

- **Implement Green Energy Initiatives**

  HRC launched an Energy Masterplan in FY2020 with the aim to improve our energy performance. However, due to the challenges posed by pandemic-related disruptions, several energy related tactics that require hardware change and funding had slight delay in implementation. Nonetheless, this setback does not deter us from pursuing our aspiration of implementing any green energy initiatives. Moving forward, HRC will review and update the plan to set new goals for 2022 and beyond.

  HRC is also actively exploring new and matured technology to further optimise and reduce the energy consumption of the infrastructure and facilities at our non-processing areas. One of the on-going feasibility study involves the viability of solar panel application to reduce the dependency from the power grid and advance towards a green building philosophy.

[2] https://www.who.int/news/item/26-11-2021-classification-of-omicron-(b.1.1.529)-sars-cov-2-variant-of-concern
[3] https://www.fool.com/investing/2022/01/08/3-bold-oil-market-predictions-for-2022/

Stakeholder Value

# CONTINUING TO DELIVER **STAKEHOLDER VALUE**

### 2021 Strategic Direction

- Drive cost optimisation to increase margins and overall product value
- Enhance supply chain quality, reliability and efficiency
- Continuous engagement with external stakeholders and sustain Corporate Social Responsibility

03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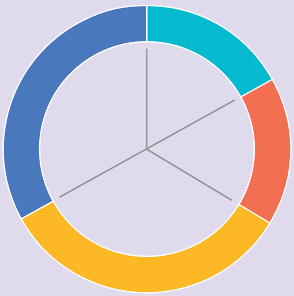
# BOARD OF DIRECTORS' PROFILE

## BOARD DIVERSITY

### ETHNICITY



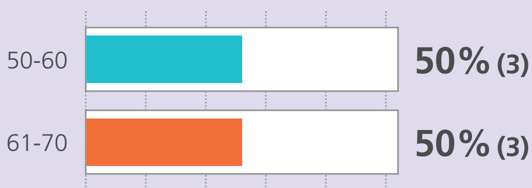
- **33.33% (2)** Malay (Malaysian)
- **16.67% (1)** Chinese (Malaysian)
- **16.67% (1)** Indian (Malaysian)
- **33.33% (2)** Chinese (Foreign)

### NATIONALITY

**66.67%** Malaysian

**33.33%** Non-Malaysian

### AGE GROUP




## WANG, YOUDE

Chairman
Non-Independent Non-Executive Director

**Chinese | Age 59 | Male**

**Date of Appointment**
22 December 2016

**Academic Qualification**
Master's Degree in Business Management from Nankai University, Tianjin, China.

**Experience**
- Chairman of the Board and General Manager, Shandong Hengyuan Petrochemical Company Limited (2001-present)
- Executive President of the China Chamber of Commerce for the Petroleum Industry (2017-2019)
- Vice President in the China Chamber of Commerce for the Petroleum Industry (2007-2017)
- Deputy Mayor, Linyi County (2001-2013)
- Representative of the 12th National People's Congress of the People's Republic of China (2013-2018)

**Directorship in other Listed Issuers / Public Companies**
None

**Membership of Board Committees in HRC**
- Chair of Board Tender Committee
- Member of Board Nominating and Remuneration Committee
- Member of Board Projects Review Committee
- Member of Board Whistleblowing Committee

## WANG, ZONGQUAN
Deputy Chairman
Non-Independent Non-Executive Director

**Chinese | Age 59 | Male**

### Date of Appointment
22 December 2016

### Academic Qualification / Professional Membership
Degree in Chemical Machinery, Chengdu Institute of Water Conservancy and Hydropower Survey and Design

### Experience
- Over 30 years of experience in production management, units installation, projects construction and enterprise management of the petrochemical business including as:
  - Deputy General Manager, Shandong Hengyuan Petrochemical Company Limited (2002-present)
  - Various leadership positions in refining, units installation and management departments of the petrochemical business in Shandong Hengyuan Petrochemical Company Limited including as Head of the Equipment Control department of an installation engineering company within the Group (1988-2002)

### Directorship in other Listed Issuers / Public Companies
None

### Membership of Board Committees in HRC
- Chair of Board Risk Management Committee
- Chair of Board Projects Review Committee
- Member of Board Tender Committee

## ALAN HAMZAH SENDUT
Independent Non-Executive Director

**Malaysian | Age 62 | Male**

### Date of Appointment
25 May 2017

### Academic Qualification
- Bachelor of Science Hons (Accountancy and Computer Science), University of Wales, Aberystwyth, United Kingdom
- Chartered Accountant, Institute of Chartered Accountants England and Wales (ICAEW)

### Professional Memberships
- Chartered Audit Committee Director, Institute of Internal Auditors Malaysia
- Member of the Malaysian Institute of Accountants
- Fellow of the Institute of Corporate Directors Malaysia
- Qualified Risk Director, Institute of Enterprise Risk Practitioners

### Experience
- 35 years of finance and business experience across multiple industries
- 25 years in C-Suite / Senior Manager roles in companies involved in motor and heavy equipment distribution, manufacturing, plantation, corporate strategy, corporate finance, and mergers and acquisitions, including as:
  - Group Finance Director, Tractors Malaysia Holdings Berhad (1996-2001)
  - Group Finance Director, Consolidated Plantations Berhad (2002-2004)
  - Executive Vice President, Group Corporate Finance, Strategy and Business Development, Sime Darby Berhad (2010-2014)
  - Managing Director, Energy and Utilities (Non-China) Division, Sime Darby Berhad (2015-2016)
- Served with PriceWaterhouse, London, United Kingdom (1982-1986)

### Directorship in other Listed Issuers / Public Companies
- Hong Leong Islamic Bank Berhad
- Khyra Legacy Berhad
- Tradewinds Plantations Berhad

### Membership of Board Committees in HRC
- Chair of Board Audit Committee
- Member of Board Risk Management Committee
- Member of Board Tender Committee
- Member of Board Whistleblowing Committee

## FAUZIAH HISHAM
Independent Non-Executive Director

**Malaysian | Age 66 | Female**

**Date of Appointment**
1 June 2017

**Professional Membership**
- Associate of The Chartered Governance Institute, United Kingdom
- Qualified Risk Director, Institute of Enterprise Risk Practitioners

**Experience**
- Over 30 years of experience in the banking industry with various leadership roles, including as:
  - Chairman of the Board of Directors, J.P. Morgan Chase Bank Berhad (2015-2018)
  - Country Group Representative & Executive Director, Institutional Banking, Australia & New Zealand Banking Group Ltd (2008-2014)
  - Managing Director, Strategic Client Coverage Group, Standard Chartered Bank Malaysia Berhad (2006-2008)
  - Chief Executive Officer, J.P. Morgan Chase Bank Berhad (2002-2006)

**Directorship in other Listed Issuers / Public Companies**
- Agensi Kaunseling & Pengurusan Kredit (a subsidiary of Bank Negara Malaysia)
- Malayan Banking Berhad
- Maybank Ageas Holdings Berhad
- Maybank Philippines Inc
- Maybank Trustees Berhad

**Membership of Board Committees in HRC**
- Member of Board Audit Committee
- Member of Board Nominating and Remuneration Committee

## LIANG KOK SIANG
Independent Non-Executive Director

**Malaysian | Age 66 | Male**

**Date of Appointment**
1 June 2017

**Academic Qualification**
- Bachelor of Science Hons (Chemistry), University of Malaya

**Professional Memberships**
- Member, Malaysian Institute of Chemistry
- IMD Alumni
- Fellow, Institute of Corporate Directors Malaysia

**Experience**
- 35 years with Shell Malaysia, in various commercial leadership roles:
  - Managing Director, Shell MDS (2016)
  - Director and General Manager, Marketing and Commercial, Shell MDS (2001-2016)
  - Founder and General Manager, BonusLink (1997-2001)
  - Senior management positions in the Retail, Lubricants and Chemicals businesses (1981-1997)

**Directorship in other Listed Issuers / Public Companies**
None

**Membership of Board Committees in HRC**
- Chair of Board Whistleblowing Committee
- Member of Board Audit Committee
- Member of Board Risk Committee
- Member of Board Tender Committee

## SURINDERDEEP SINGH MOHINDAR SINGH

Independent Non-Executive Director

**Malaysian | Age 53 | Male**

### Date of Appointment

23 February 2019

### Academic Qualification

- Bachelor of Computer Science (Hons), University of Technology, Malaysia
- Master of Business and Administration, Henley Management College, United Kingdom

### Experience

- Head of Enterprise Business and Solutions in Celcom Axiata Sdn Bhd (2017-2018)
- 24 years with the Shell Group of Companies, including as:
  - General Manager, Strategy and Portfolio, Shell Malaysia Ltd (2014-2016)
  - General Manager, Shell Marine Products (2009-2014)
  - Managing Director, Shell India Marketing Private Limited (2007-2008)
  - Vice President Director, Shell Indonesia (2004-2006)
  - Various leadership positions, including Regional Retail Manager, Operations Excellence Manager and Site System Techincal Analyst with Pilipinas Shell Petroleum Company and Shell Malaysia Trading Sdn Bhd (1993-2004)

### Directorship in other Listed Issuers / Public Companies

None

### Membership of Board Committees in HRC

- Chair of Board Nominating and Remuneration Committee
- Member of Board Audit Committee
- Member of Board Projects Review Committee

**NOTE:**

Unless otherwise stated, all Directors have no family relationship with any other Director and / or major shareholder of our Company. They have no conflict of interest with our Company and have not been charged with any offence within the past 10 years.

# MANAGEMENT TEAM PROFILE


01 **Grant Gao Jin Liang**
Chief Executive Officer

02 **Elwin Tan Chun Siang**
Chief Financial Officer

03 **Tan Wei Chen**
Chief Operations Officer

04 **William Chen Jung Huei**
Chief Commercial Officer

05 **Zulhazmi Mohamad**
Chief Government Relations Officer

06 **Zainudin Zulkifli**
Senior Manager, Engineering

07 **Chang Chuak Shin**
Manager, Quality and HSSE

08 **Vikas Rishi**
Senior Manager, Technology

09 **Nur Izatul Fitri Hussein**
Chief Internal Auditor

10 **Xiang Rui Tao**
Manager, Contract & Procurement

11 **Zaeem Chan Hee Teck**
Head, Human Resource

## GRANT GAO JIN LIANG

Chief Executive Officer

**Chinese | Age 47 | Male**

**Appointed**: August 2021

Grant holds a Master in Business Administration Degree from Xi'an Jiaotong University and a Degree holder in Mechanical Engineering and Automation from Dalian University of Technology in China. He carries with him more than 20 years of experience that spans across different industries from electronics to fine chemical, petrochemical and advanced material, in both operations and general management.

Grant commenced his career in 1997 as a Production Supervisor at SKY Motor Co., Ltd, then at USI Electronic (Shenzhen) Co., Ltd; DuPont China Holding Co., Ltd; and BP Castrol Lubricants (China) Co., Ltd. In 2005, he assumed the role as Production Manager at Rockwood (Taicang) Pigments Co., Ltd. Subsequently as the Production Director at Evonik Sanzheng (Chongqing) Fine Chemical Co., Ltd in 2009. From 2011 to 2020, Grant held the position of Plant Manager at Total Lubricants (China) Co. Ltd.

One of his greatest achievements was when he led and successfully completed establishing the Total Tianjin manufacturing plant and upgraded an old Guangzhou plant. He has also successfully initiated and ran the operational excellence projects of Lean, Total Productive Maintenance (TPM) and Total Quality Management (TQM) at Total.

Prior to joining HRC, Grant was the General Manager at PVYX High Performance Materials Co., Ltd in China.

## ELWIN TAN CHUN SIANG

Chief Financial Officer

**Malaysian | Age 49 | Male**

**Appointed**: May 2021

Elwin holds a Master's degree of Executive Master of Business Administration (EMBA) from the University of Strathclyde Business School, United Kingdom. He is a member of Chartered Global Management Accountant (CGMA) of the Chartered Institutes of Management Accountants and a Chartered Accountant of the Malaysian Institute of Accountants.

Elwin has vast finance management experience in Malaysia and China. He held various senior finance roles in aviation industry, edible oil refineries and wood processing industry over the last 20 years. He began his professional career as an Accountant with Hume Redland Readymix Sdn Bhd in 1999. Since then, he has expanded his careers in financial management with Hong Yang Wood Industries Co., Ltd and Hubei Zhong Chang Vegetables Oil Co., Ltd.

Elwin held various roles in AAR CORP as General Manager and Financial Controller. He was the Chief Financial Officer in Flightparts (Xiamen) Component Services Co., Ltd. before assuming his current role in HRC.

## TAN WEI CHEN

Chief Operations Officer

**Malaysian | Age 45 | Male**

**Appointed**: October 2020

Wei Chen holds a Bachelor of Chemical Engineering from the University of Malaya. He started as a Technologist in HRC, and has more than 20 years' experience in oil and gas. His experience spans across technology, economics and scheduling, supply chain optimisation and operations. He took on an expatriate assignment in Singapore as Refinery Planner from 2006 to 2010.

Since 2010, Wei Chen has held managerial and leadership positions where he was the Site Economics and Scheduling Manager, Production Unit 1 (PU1) Manager and Production Unit 2 (PU2) Manager, prior to assuming current role. Wei Chen oversees the assets of Long Residue Catalytic Cracking unit, Hydrodesulphurisation Unit, Sulphur recovery unit and others. He also ensures execution, integration and alignment of the work processes with the support of multidisciplinary support teams.

Through the years, he has achieved several key milestones, spanning from organisation effectiveness improvement projects, major refinery turnarounds, hydrocarbon management review and cash uplift programme, introduction of new process units like Hydrodesulphurisation 2, process units to meet Clean Air Regulation, the transition to HRC and many others.

## WILLIAM CHEN JUNG HUEI

Chief Commercial Officer

**Taiwanese | Age 48 | Male**

**Appointed**: April 2017

William holds a Masters in International Business Management from Soochow University, Taiwan.

He began his career with Formosa Plastics Group, Taiwan in 1999, and has over 18 years of commercial experience including being a crude oil trader, a trading manager of naphtha supply and a general manager of petrochemical feedstocks.

# MANAGEMENT TEAM PROFILE

## ZULHAZMI MOHAMAD
Chief Government Relations Officer

**Malaysian | Age 51 | Male**

**Appointed**: March 2019

Zulhazmi holds a Bachelor of Electrical Engineering (Hons) from the University of Southampton, UK. He joined the Company in 1994, and has held multiple jobs in projects, engineering, and maintenance over the last 25 years, including the detailed design and construction of the state-of-the-art Long Residue Catalytic Converter Unit (LRCCU) project. He was also involved in the design, construction, commissioning and start-up of the HIJAU complex for HRC in Port Dickson.

He was the HRC Engineering Senior Manager from 2011 and was appointed as Chief Projects Officer in 2018. He later assumed the role as the Chief Government Relations Officer in 2019 and support the Company in mediating business and operational issue through advice and identifying relevant interventions and strategies, to help resolve critical situations or disputes that involve government, regulation and legislation.

## ZAINUDIN ZULKIFLI
Senior Manager, Engineering

**Malaysian | Age 58 | Male**

**Appointed**: April 2020

Zainudin holds a Bachelor of Engineering Degree from University of Canterbury, New Zealand. He has been in the petrochemical, chemicals and oil & gas business in the last 32 years. He joined HRC on April 2020.

Prior to joining HRC he was the Chief Technical Officer with Science-Tech Solutions Sdn Bhd and before that he was the Chief Operating Officer with KNM Group Bhd looking after manufacturing plants in China, Indonesia, Australia, Canada and also Malaysia. He was with BASF as the Site-cum-Manufacturing Director, looking after all manufacturing sites in Malaysia for over 15 years. He also looked after Reliability and Site Inspection Group, Rotating Equipment Group and Contractor Management Group.

Prior to that role, he was seconded to Shell Chemicals Seraya Pte Ltd to look after Engineering and Maintenance for the joint venture petrochemical plants between Shell and BASF located in Jurong Island, Singapore. Zainudin was also the General Manager for Wembley, Malaysia's pioneer boiler and pressure vessel manufacturer and was involved with projects such as KLCC and Kuala Lumpur International Airport. He had experiences in the Project Management involved in the Shell New Jetty, Import & Export New Facility, ExxonMobil Jetty Refurbishment & Upgrading in Port Dickson and Melaka Petronas Second Refinery while working with EPC International French company.

## CHANG CHUAK SHIN
Manager, Quality and HSSE

**Malaysian | Age 37 | Male**

**Appointed**: August 2021

Chang Chuak Shin holds a Bachelors of Mechanical Engineering (Hons) from Universiti Tenaga Nasional, Malaysia. He is a Member of Board of Engineer Malaysia and a Certified Maintenance and Reliability Practitioner (CMRP).

Chang has been working with the Company for over 13 years. He joined the Company (formerly known as Shell Refining Company FOM Berhad) under the company's graduate programme in year 2009 and started his career as a Rotating Equipment Engineer in the company before taking the role as Maintenance Excellence Advisor in 2016. Subsequently, he was seconded to the Project team in 2018 as Plant Major Turnaround Coordinator and in 2019, he was appointed as the Plant Maintenance Manager.

Across his career with HRC, Chang has led and driven various efforts in the refinery including plant troubleshooting, implementing initiatives to achieve plant optimisation and flawless execution as well as leading his team to achieve zero safety recordable cases record.

## VIKAS RISHI
Senior Manager, Technology

**Indian | Age 40 | Male**

**Appointed**: March 2022

Vikas holds a Bachelor Degree Chemical engineering from Thapar University, India.

He has a total of 18 years of diverse experience and previously worked with two renowned oil & gas refining companies i.e Reliance Petroleum and Hindustan Petroleum-Mittal Energy Limited in Technology Department. In 2018, he took on the role of Technology Section Head-PU1, Oil Movement and HDS-2 until March 2022 at HRC.

In the accumulated years of downstream business, Vikas has worked in Technology / Technical Service, Plant Operations, revamp Projects & Commissioning, Turnarounds. He has experience in various Refining Technologies i.e. Crude Distillation, Thermal Cracking (Delayed Coking), Reforming, Hydro-treating and Merox Technologies.

## NUR IZATUL FITRI HUSSEIN
Chief Internal Auditor

**Malaysian | Age 39 | Female**

**Appointed**: February 2018

Izatul holds a Bachelor's Degree in Accountancy (Hons) from Universiti Utara Malaysia and a Certification in Risk Management Assurance from The Institute of Internal Auditors Inc. She is a Certified Internal Auditor, Certified Fraud Examiner and Chartered Accountant with over 16 years of extensive experience in internal controls, enterprise risk management, corporate governance, compliance, fraud examination and forensic accounting.

She is a Chartered Member of The Institute of Internal Auditors Malaysia, member of the Malaysian Institute of Accountants and member of Association of Certified Fraud Examiners. She began her career as a consultant at Ernst & Young Advisory Services Sdn Bhd. She later joined several public listed companies from diverse industries as an Internal Auditor and Risk Officer.

## XIANG RUI TAO
Manager, Contract & Procurement

**Chinese | Age 32 | Male**

**Appointed**: November 2021

Xiang Rui Tao holds a Bachelor Degree from University of Guangxi Normal University and is a certified holder of the Certification Scheme for Personnel 3.1 (CSWIP 3.1).

Xiang's career started in Saudi Arabia where he was attached to major projects of constructing new petroleum oil refineries and petrochemical plants. His responsibilities evolved around overseeing and managing the projects at multiple levels. After his stint in Saudi Arabia, he returned to China to join Shandong Hengyuan Petrochemical Group company. In year 2018, he was assigned to HRC Port Dickson, Malaysia where he worked as a Project Interface Advisor & CEO Interface Officer and later as the Lead Governance, Contract Management (Administrator) before he assume the current role as Contract & Procurement Manager in year 2021.

## ZAEEM CHAN HEE TECK
Head, Human Resource

**Malaysian | Age 45 | Male**

**Appointed**: March 2022

Zaeem holds a Master in Business Administration Degree in Strategic Marketing from University of Lincoln UK and Bachelor of Arts Degree (First Class Honours) in Business Administration from University of Hertfordshire, UK. Additionally, he holds a Diploma in Business Management from Swansea Institute of Higher Education, Wales, United Kingdom. He is also certified in Thomas International DISC, SHL Occupational Personality Questionnaire (OPQ), Behavioural Based Interviewing Skills, and DDI Conflict Management as well as a certified member in Personnel Management from Malaysia Institute of Human Resource Management (MIHRM).

He has 23 years of experience in Strategic HR and Operational, Consulting experience in Talent Acquisition & Management, Leadership, HR Process, and Systems Transformation. Zaeem has worked across Asia Pacific countries.

He started his career as a Consultant in Human Resources Practice KPMG Consulting. He then moved on to the corporate and talent solutions space where he held managerial roles. Prior to joining HRC, Zaeem worked for TDCX Malaysia, a Business Process Outsourcing (BPO) services company. He was formerly the Head of HR for Nokia Networks Malaysia and Myanmar. He has also worked for Standard Chartered Group, Citibank, HUAWEI Technologies, IBM, Futurestep Korn / Ferry, MAXIS, Prudential, DIGI Telenor, KPMG Consulting, HELP University and INTI LAURETTE Education Group.

HSSE & Compliance

# STRONGLY ANCHORED ON **HSSE & COMPLIANCE**

**2021 Strategic Direction**

- Sustain personal safety towards goal zero safety performance
- Maintain a safe environment for the workforce with transition into endemic protocols
- Heighten the Company's process safety maturity towards process safety excellence
- Achieve all compliance and enhance environmental scorecard

04


NO EXTRA CHAIRS ALLOWED
MAINTAIN SAFE DISTANCE
Vision, Mission & Objective
Vision
To be a leading global energy and petrochemical company, pioneering sustainable solutions.
Mission
Values
Purpose
We Power Human Connections

# CORPORATE GOVERNANCE OVERVIEW STATEMENT

**Hengyuan Refining Company Berhad (HRC or the Company) is committed to upholding honesty, integrity and fairness in all aspects of its business and operations and ensuring that good corporate governance is practised as part of building a sustainable and long-term business.**

The Company continues to be recognised in the Minority Shareholders Watch Group (MSWG) Corporate Governance Awards 2020 as one of the top 100 companies for corporate governance disclosure. In December 2021, HRC received the maximum four (4) stars in Economic, Social and Governance (ESG) ratings, ranking the Company amongst the top 25 per cent public companies listed in the FTSE Bursa Malaysia Emas Index which were assessed by FTSE Russell. These achievements were accorded to the Company based on public information and disclosures in the financial year ended 2021. HRC shall continue its efforts in practising and promoting good corporate governance as part of the fundamental principles of the Company.

The Board of Directors (Board) is pleased to provide an overview of the Company's corporate governance practices during the financial year ended 31 December 2021 (FY2021), including key focus areas and future priorities, in accordance with the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Malaysia) and the Malaysian Code on Corporate Governance (MCCG). This statement is to be read together with the Company's Corporate Governance Report 2021 which is published on the Company's website at *www.hrc.com.my*.

## PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

### I. BOARD RESPONSIBILITIES

The primary role of the Board is to represent, promote and protect the interests of the Company, including its shareholders and stakeholders. To effectively discharge the Board's functions and responsibilities, certain powers are delegated to the Management and the following Board Committees:

i. **Board Audit Committee (BAC);**
ii. **Board Nominating and Remuneration Committee (BNRC);**
iii. **Board Risk Management Committee (BRMC);**
iv. **Board Projects Review Committee (BPRC);**
v. **Board Tender Committee (BTC); and**
vi. **Board Whistleblowing Committee (BWC).**

Amongst others, the Board assumes the following responsibilities:

| No | Principal Responsibilities | Explanation and updates for FY2021 |
|---|---|---|
| i. | Together with senior management, promote good corporate governance culture within the Company which reinforces ethical, prudent and professional behaviour | The Company has a full set of governance controls, policies and procedures, including HRC's General Business Principles, Code of Conduct, Anti-Bribery and Corruption Policy, Anti-Bribery & Corruption and Anti-Money Laundering Manual, Manual of Authorities, a control framework and approval checks at various levels to instil good corporate governance practices within the Company. |
| ii. | Reviewing and adopting a strategic plan for the Company | On 26 November 2021, the Board reviewed the 2022 Strategic Framework and approved the Business Plan 2022 tabled by the Management, which sets out the strategies and timelines to achieve both short-term and long-term value creation for the Company.<br><br>The areas of focus included Health, Safety, Security & Environment (HSSE) & Compliance, People & Leadership, Stakeholder Value, Operational Excellence and Future Focus. |

| No | Principal Responsibilities | Explanation and updates for FY2021 |
|---|---|---|
| iii. | Overseeing the conduct of the Company's business | The Board oversees the Company's business and assesses the performance of the Management to determine whether the business is properly managed in accordance with the Company's objectives. This includes the Company's financial management and performance, operational excellence, control and accountability systems, corporate governance, risk management practices, compliance to laws and regulations (including HSSE compliance) and human capital management.<br><br>The Board and Board Committees reviews, challenges and deliberates on proposals tabled by the Management and discusses the Company's performance during Board and Board Committee meetings.<br><br>A scorecard based on Key Performance Indicators (KPIs) set for the Management is utilised by the Board to measure the performance and effectiveness of the Company. |
| iv. | Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures | The Board understands that business decisions involve taking appropriate risks and sets the risk appetite for the Company. To ensure appropriate internal controls and mitigation measures are in place, the BAC and BRMC assist the Board in assessing and anticipating potential risks to the Company and recommend appropriate actions to be taken to mitigate the risks.<br><br>The BAC oversees the internal controls system of the Company while the BRMC ensures that an effective risk management framework is in place. The Committees also ensure that the Company's internal controls and risk management framework are periodically tested for its effectiveness and integrity. |
| v. | Succession planning | The BNRC assists the Board to oversee the nomination function to ensure that key members of senior management have the necessary skills and experience, and that orderly succession planning for directors and senior management is in place.<br><br>The appointments, discipline and termination of key positions in senior management, such as the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Head of Human Resource (HR) are evaluated by the BNRC before recommendations are made to the Board.<br><br>The BNRC also reviews the leadership needs of the Company on a regular basis and ensures that an appropriate succession planning framework, talent management and human capital development programme is in place for senior management positions. Succession plans are discussed in the quarterly BNRC meetings.<br><br>The BNRC recommends nominations to the Board and Board Committees, based on objective criteria, merit and with due regard for diversity in of gender, nationality, age, culture, socio-economic background, skills, experience and independence. The Committee also oversees the annual assessment of the effectiveness of the Board, the Board Committees and individual directors, and evaluates the Board's composition to ensure that they are in line with the Company's requirements. |
| vi. | Overseeing the development and implementation of a stakeholder communications policy for the Company | The Company keeps its stakeholders updated through communications published on the Company's website and announcements made to Bursa Malaysia, including general announcements and the Company's quarterly financial reports, annual report, sustainability report and circulars to shareholders, as well as virtual town hall meetings and employee information circulars, whenever required. Apart from that, the Company continues to engage in active communications with the communities near the Company's site in Port Dickson to foster close relationships and keep its neighbours informed on matters that may affect them. |

| No | Principal Responsibilities | Explanation and updates for FY2021 |
|---|---|---|
| vii | Reviewing the adequacy and the integrity of the management information and internal control systems of the Company | The management information and internal control systems of the Company are governed by the control framework approved by the Board. The framework includes management processes on risk management, controls and assurances to support the Company's business objective.<br><br>The Board reviews the integrity of the Company's financial and non-financial reporting with the assistance of the BAC and the BRMC.<br><br>The Board is also supported by the Company's internal audit and risk and integrity functions to ensure that internal controls are properly managed.<br><br>Further details of the risk management and internal control framework are provided in the Company's Statement on Risk Management and Internal Control is available on page 67 of this Annual Report. |

The primary roles and responsibilities of the Board and Board Committees are contained in the Board Charter and the Terms of References (TOR) of the respective Board Committees. They are published on the Company's website at *www.hrc.com.my*.

### Separation of Positions of the Chairman and Chief Executive Officer

Mr Wang, YouDe continues to hold the position of Chairman of the Board and is responsible for instilling good corporate governance practices, leadership and effectiveness of the Board. The role of the Chairman and the CEO are distinct and separate, and the positions are held by different individuals.

Mr Gao Jin Liang is the CEO of the Company, having assumed his position with effect from 4 August 2021. He is not, and has never been, a member of the Board of the Company.

### Company Secretary

The Company is supported by two (2) professionally qualified and competent Company Secretaries who provide, amongst others, advisory services to the Board on their roles and responsibilities, corporate disclosures, corporate governance issues and compliance with relevant policies and procedures, laws and regulatory requirements, and assist the Board in applying governance practices to meet the Board's needs and stakeholders' expectations.

### Access to Meeting Materials

The notices and agenda of meetings and the relevant board papers are circulated to members of the Board and Board Committees at least five (5) working days prior to the meeting to ensure that there is sufficient time and information for its members to review and evaluate the matters to be deliberated at meetings.

The Company uses an online collaborative software to facilitate the effective distribution of board meeting materials and allow Board members to easily access, review and comment on the Board papers securely.

The Board Charter and TOR of the respective Board Committees specifies that minutes of the meetings (in draft form) are to be circulated to the Board and respective Board Committee members within 10 working days of the meeting. Minutes in final draft form) will be distributed to the Board and the respective Board Committees at least five (5) working days before the following meeting and shall be approved by the chairman of the meeting at which the proceedings were held or by the chairman of the next succeeding meeting.

Based on the results of the Board Effectiveness Assessment FY2021 (BEA FY2021), Board members wish to see further improvements to the quality of the board papers, including a reduction in unnecessary length, and the timeliness of circulation of meeting minutes, so that effective board discussions and decision-making can be achieved.

### Board Charter

The Board reviews and evaluates the adequacy of its Board Charter on a regular basis to ensure that there is clarity in the roles and responsibilities of the Board, its committees, individual directors, the relationship between the Board and Management and issues reserved for the Board.

The Board Charter was updated on 27 August 2021 to be consistent with the revised TOR of the BAC, to include the BAC's responsibility to ensure that senior management establishes a framework for managing conflict of interest situations and related party transactions, and reviews and endorses the terms of related party transactions on behalf of the Board and in the best interests of the Company.

The Board Charter is published on the Company's website at *www.hrc.com.my*.

### Code of Conduct

The Company continues to enforce strict compliance to its Code of Conduct, which provides information and guidelines for the Company to achieve its business principles and core values in the conduct of its businesses and operations. The Code of Conduct addresses areas which include, but is not limited to, unacceptable behaviour, conflict of interests, breach of laws and regulations, insider dealing, use of information technology and electronic communications, data privacy, intellectual property, information and records management, disclosures and business communication.

The Code of Conduct is supplemented by the Company's Gift & Hospitality Procedure, which sets out the procedures for accepting, receiving and declaring gifts from the Company's business partners.

The Company's Anti-Bribery & Corruption & Anti-Money Laundering Manual (ABC & AML Manual) further solidifies the Company's proactive measures in ensuring that its employees and business partners comply with laws and regulations that prohibit bribery, corruption and money laundering.

The Code of Conduct and ABC & AML Manual are accessible on the Company's website at *www.hrc.com.my*.

### Whistleblowing

The Company has a Whistleblowing Policy to encourage and facilitate the disclosure of genuine and legitimate improper conduct raised by employees of HRC, employees of HRC's contractors, vendors, customers and members of the public at the earliest opportunity.

In addition, the BWC was established by the Board to carry out the following objectives:

i. Review, investigate and resolve complaints of improper conduct of any member of the Board or any employee of the Company that is submitted to the BWC through the Company's whistleblowing channel;

ii. Develop the Company's Whistleblowing Policy and procedures and to implement them together with the management of the Company; and

iii. Periodically assess the adequacy and effectiveness of the Company's Whistleblowing Policy and procedures and to revise them as necessary.

The Board regularly reviews and updates the Company's Whistleblowing Policy. On 26 March 2021, the Whistleblowing Policy was enhanced to allow for disclosures of improper conduct in any language, for the benefit of whistleblowers. Responses by HRC would be made in English, which is the official business language of the Company.

The Whistleblowing Policy and Terms of Reference of the BWC are published on the Company's website at *www.hrc.com.my*.

### Addressing Sustainability Risks and Opportunities

Amongst the roles of the Board is to ensure that the Company adopts a strategic plan that supports both short-term and long-term value creation and includes strategies on economic, environmental, safety & health, social and governance considerations underpinning sustainability.

The Board sits on top of the Company's sustainability governance structure and holds overall responsibility and oversight on all sustainability matters of the Company. Directors stays abreast of sustainability issues relevant to the Company by reviewing and approving sustainability strategies, targets, risks and opportunities, which are proposed and developed by the CEO and management team, based on reports from steering committees and the respective departments of the Company. The management team also provides leadership and oversees implementation of the sustainability strategy.

Risks and opportunities arising from sustainability issues are identified and tracked quarterly in risk and opportunities registers monitored by the Risk & Integrity Department. The registers are presented to the BRMC at its quarterly meetings.

Performance evaluations of the Board and senior management include a review of their performance in addressing the Company's material sustainability risks and opportunities. In the BEA FY2021, directors strongly agreed that Board considered sustainability factors when exercising its duties, including in the development and implementation of company strategies, business plans, major plans of action and risk management. Directors also felt that sustainability matters are sufficiently reported in Board materials and discussed at Board and Board Committee meetings.

The performance evaluation of senior management takes into account the Company's scorecard and results, which includes material sustainability risks and opportunities in the areas of HSSE and compliance, operational excellence, financial performance and stakeholder value.

The Company's sustainability governance, targets, performance and initiatives are set out in the annual Sustainability Report and is publicly available to all internal and external stakeholders on the Company's website at *www.hrc.com.my*. The website also sets out the Company's practices towards climate change, pollution and resources management, and water consumption and management.

## II. BOARD COMPOSITION

As at 31 December 2021, the Board consists of six (6) directors, comprising two (2) Non-Independent Non-Executive Directors and four (4) Independent Non-Executive Directors, to ensure balance of power and authority within the Board.

As at 31 December 2021, none of the Company's Independent Non-Executive Directors have served beyond nine (9) years on the Board. The Company's Board Charter specifies that the tenure of an Independent Non-Executive Director should not exceed a cumulative term limit of nine (9) years.

On 27 August 2021, the Board amended the TOR of the BNRC to remove the option for recommending the retainment of independent directors after a term of 12 years, to be in line with Practice 5.3 of the MCCG. The TOR also provides that where the Board intends to retain an independent director beyond nine (9) years, justification should be provided and shareholders' approval will need to be sought via a two-tier voting process.

On 26 March 2021, the Board approved the 62nd Annual General Meeting (AGM) notice containing the agendas of the re-election of directors Liang Kok Siang, Surinderdeep Singh Mohindar Singh and Loy Swee Im.

Profiles of the directors seeking re-election were included in the FY2020 Annual Report issued together with the notice of meeting. The profiles included details of the directors' age, gender, working experience, any conflict of interest and directorship in other companies. The 62nd AGM Notice was issued to shareholders on 26 April 2021.

### Board and Senior Management Diversity

The Board recognises the importance of having a diverse board and senior management with a mix of relevant skills, expertise and experience to provide diverse perspectives and insights for decision making in the best interests of the Company. The BNRC assists the Board with screening and selection of candidates for the Board and key members of the Company's management team in accordance with the Board Diversity Policy and the Committee's TOR.

Factors considered by the BNRC include the candidate's skills, knowledge, expertise and experience, time commitment, character, professionalism and integrity, ability to work cohesively with other members, age, gender, culture, nationality, socio-economic background, number of directorships in other companies, and the requirements of the Company.

As at 31 December 2021, the Board consists of the following:

| | Race / Ethnicity | | | | Nationality | |
|---|---|---|---|---|---|---|
| Number of Directors | Malay | Chinese | Indian | Others | Malaysian | Foreigner |
| | 2 | 1 | 1 | 2 | 4 | 2 |

| | Age Group | | Gender | |
|---|---|---|---|---|
| Number of Directors | 50-59 | 60-69 | Male | Female |
| | 3 | 3 | 5 | 1 |

| No | Experience / Skills | Percentage |
|---|---|---|
| 1 | Corporate Governance | 83% |
| 2 | Regulatory Compliance / Legal | 67% |
| 3 | Internal Controls / Risk Management / Audit | 67% |
| 4 | Finance: Accounting / Treasury / Tax | 67% |
| 5 | Corporate Finance / Mergers & Acquisitions | 67% |
| 6 | Banking | 58% |
| 7 | Commercial, Economics and Scheduling | 58% |
| 8 | QHSSE | 75% |
| 9 | Strategy and Oil & Gas | 58% |
| 10 | Supply / Marketing / Sales | 50% |
| 11 | Contracting and Procurement | 75% |
| 12 | Project Management / Engineering | 78% |
| 13 | Human Resource & Development | 50% |
| 14 | Information Technology | 33% |

As at 31 December 2021, the Company's Management team consists of the following:

| | Race / Ethnicity | | | | Nationality | |
|---|---|---|---|---|---|---|
| Number of Management members | Malay | Chinese | Indian | Others | Malaysian | Foreigner |
| | 3 | 3 | - | 3 | 6 | 3 |

| | Age Group | | | Gender | |
|---|---|---|---|---|---|
| Number of Management members | 30-39 | 40-49 | 50-59 | Male | Female |
| | 3 | 4 | 2 | 8 | 1 |

The Board comprised of two (2) women directors out of a total of seven (7) directors, representing 29 per cent of Board members, from 1 January 2021 until the resignation of Loy See Im on 27 November 2021. As at 31 December 2021, the Company has one (1) woman director, making up 17 per cent of the Board.

The Board Diversity Policy was approved by the Board on 26 March 2021 and sets out the Company's approach for the consideration of diversity in areas such as skills and expertise, background, age, and gender in its appointment of candidates to the Board. While the policy supports women's participation in decision making positions and the recommendations of the MCCG to have at least 30 per cent women directors on the Board, to ensure that the interests of the Company and its stakeholders are protected, the standard selection criteria for directors, which is set out above, remains a priority for the assessment of Board candidates. The gender diversity target will be considered collectively with all other factors.

The appointment of senior management members is guided by the Company's Equal Opportunity principle entrenched in the Code of Conduct, which prohibits discrimination on gender, amongst others, in making employment decisions.

The Board Diversity Policy and Code of Conduct are published on the Company's website at *www.hrc.com.my.*

### Board Nominating and Remuneration Committee

The BNRC is responsible for assisting the Board on nomination and remuneration functions with respect to Board members and selected senior management positions of the Company. The Committee recommends the nominations of candidates to the Board and Board Committees, and evaluates and recommends to the Board the employment, promotion, discipline, resignation and termination of the CEO, CFO or Financial Controller (in the absence of CFO) and Head of HR or HR Manager (in the absence of Head of HR). The Committee also ensures that a remuneration policy for expatriate employees of the Company is in place.

The Chair of the BNRC is Surinderdeep Singh Mohindar Singh, an Independent Non-Executive Director of the Company. The other members of the BNRC are Wang, YouDe, a Non-Independent Non-Executive Director, and Fauziah Hisham, an Independent Non-Executive Director.

### Nomination Activities of the BNRC

#### *Assessment of Board Composition*

Pursuant to its TOR, the BNRC evaluates, reviews and recommends to the Board the appropriate size and composition of the Board, required mix of skills, experience and other qualities, to be in line with the Company's requirements, on an annual basis.

In its meeting on 26 August 2021, the BNRC considered the composition of the Committee and resolved that it was important for Wang, YouDe, who is the Chairman of the Company and represents the major shareholder on the Board, 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 Committee also noted that the Chairman holds a non-executive position and that the BNRC comprised of two (2) other members who are Independent Non-Executive Directors, which would provide a check and balance to the objectivity of its decisions.

Based on the results of the BEA FY2021, the BNRC is happy with the current composition of the Board. A Board Committee composition review is scheduled in the second quarter of 2022 to ensure balanced and effective deployment of Board members.

#### *Appointments to the Board*

In carrying out its nomination functions, the TOR of the BNRC provides that the Committee may solicit and consider the views of existing Board members, management, major shareholders, independent search firms and a variety of other independent sources. The appropriate disclosures will be made in the Company's annual report if independent sources were not used for the selection.

In FY2021, no new directors were appointed to the Board.

#### *Re-election of Directors*

The BNRC ensures that every director is subject to retirement at least once every three (3) years in accordance with Paragraph 7.26 of the MMLR and the Company's Constitution. The Committee also recommends to the Board the directors to be re-elected by shareholders at the Company's AGM.

The BNRC reviewed the Directors' Rotation checklist, considered the tenure of directors Wang, YouDe and Alan Hamzah Sendut, who are seeking re-election at the Company's 63rd AGM scheduled to be held on 25 May 2022, and resolved on 28 March 2022 to recommend their reappointments to the Board based on the following reasons:

- Based on the results of the BEA FY2021, Wang, YouDe has the relevant mix of experience, skills, knowledge, expertise and core competency that is beneficial to the Company, including industry specific knowledge in oil and gas. He shares personal knowledge and insights and provides useful recommendations to assist the Board in making decisions, probes the Management to ensure that varying opportunities and risks are considered, and the quality of information and assumptions are tested. Wang, YouDe also devotes adequate time and attention to the discharge of duties and responsibilities as a director, participates actively in board activities and works constructively with his peers.
- Based on the results of the BEA FY2021, Alan Hamzah Sendut has the relevant mix of experience, skills, knowledge, expertise and core competency that is beneficial to the Company, including accounting and finance, internal controls, and audit. He has good understanding of the roles, duties and obligations of a director, adds value to board meetings and takes initiative to request for more information. He also provides logical, honest opinions on issues presented and is pro-active in discussing any concerns and exhibits openness and transparency.

**Board Effectiveness Assessment**

The BNRC is responsible for assisting the Board in establishing procedures and processes towards an annual assessment of the effectiveness of the Board and each Board Committee, as well as the contribution of each individual director. For FY2021, the BNRC decided to conduct the BEA FY2021 internally via peer and self reviews, with an expansion of the existing questionnaire to cover review of sustainability performance, a holistic perspective and identify areas for improvement. As HRC is not a Large Company within the definition of the MCCG, the BNRC considers the internally facilitated assessment to be sufficient for the Company's needs.

The BEA FY2021 included assessment of the effectiveness of the Board and Board Committees in relation to:

i Composition and structure;

ii Operations and interactions (including meetings, papers and communication between members); and

iii Roles and responsibilities (including sustainability performance for the Board, strategy planning, human capital management and the Board's and Board Committee's relationship with the Management).

The key strengths identified by directors in the BEA FY2021 are: Board members have diversity in knowledge and skills, which facilitates fruitful discussions towards decision-making; Directors have adapted remarkably well to virtual and hybrid meetings, including the Company's 62nd AGM on 25 May 2021 which was held entirely through online live streaming; and directors constantly challenges the Management and are not afraid to voice out disagreements on key matters.

In addition to the BEA FY2021 findings that have been highlighted earlier in this statement, the directors also noted that the Board had not achieved the 30 per cent woman directors' target prescribed by the MCCG, and felt that more time should be provided to strategy planning with respect to the Company's future beyond refined fuel, long-term sustainability plan and transition to a low carbon economy. This has since been discussed and will continue to be explored at Board meetings.

The Board Committees had carried out a self-evaluation via the BEA FY2021 and directors have indicated that they are satisfied with the overall effectiveness of the respective Board Committees.

The directors completed a self and peer assessment in the categories of: Contribution to interaction, quality of input, understanding of role, skill set, character, experience, integrity, competence and time commitment.

The Independent Non-Executve Directors also declared their independency in compliance with the definition of "independent director" in the MMLR.

## III. REMUNERATION

The Company's Directors' Remuneration Policy ensures that the compensation packages to the directors are reflective of the 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 BNRC is guided by the following principles in its endorsement and recommendation of the remuneration to be paid to the individual directors, which is subject to approval by the Board:

i. The demand, complexities and performance of the Company as a whole;

ii. The level of responsibilities, skills, expertise and experience required;

iii. That the remuneration is set at a competitive level for similar roles and responsibilities within current market practices by comparable companies; and

iv. That any such remuneration incentives do not conflict with the directors' obligations to bring objectivity and independent judgment to the Company.

The remuneration structure for positions of CEO, CFO or Financial Controller (in the absence of CFO) and Head of HR or HR Manager (in the absence of Head of HR) is overseen by the BNRC in accordance with its Terms of Reference.

The Directors' Remuneration Policy and the Terms of Reference of the BNRC are available on the Company's website at *www.hrc.com.my*.

For FY2021, details of the remuneration breakdown of individual directors, including fees, salary, bonus, benefits-in-kind and other emoluments (received or to be received from the Company) are as follows:

**CORPORATE GOVERNANCE DISCLOSURE**

| (In RM'000) | Salaries, bonus and salaries related benefits | Directors' fees | Attendance and other remuneration | Total |
|---|---|---|---|---|
| Wang, YouDe | - | 738 | 4 | 742 |
| Wang, ZongQuan | - | 228 | 4 | 232 |
| Alan Hamzah Sendut | - | 264 | 6 | 270 |
| Fauziah Hisham | - | 186 | 4 | 190 |
| Liang Kok Siang | - | 234 | 4 | 238 |
| Surinderdeep Singh Mohindar Singh | - | 240 | 4 | 244 |
| Loy Swee Im | - | 154 | 3 | 157 |
| **Total** | | **2,044** | **29** | **2,073** |

* *Loy Swee Im resigned from the Board on 27 November 2021. Her remuneration was paid to Hengyuan International Sdn Bhd.*

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 RM65,000.00.

## PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

### I. BOARD AUDIT COMMITTEE

The Chairman of the BAC is Alan Hamzah Sendut, an Independent Non-Executive Director who is not the Chairman of the Board. The Committee comprises solely of four (4) Independent Non-Executive Directors with a diverse mix of skills, knowledge, experience and perspectives in the areas of accounting, corporate finance, banking, the oil and gas industry, strategy, corporate governance and regulatory compliance, which enables the BAC to discharge its duties.

The BAC members continuously update themselves of the latest developments in accounting and auditing standards, practices and rules. The list of training courses attended by the members of the Board, including members of the BAC, can be found on page 149 of this Annual Report.

The BAC assists and supports the Board's responsibility of overseeing the suitability, objectivity and independence of the Company's external auditor and internal audit function by ensuring that proper internal controls are implemented to enhance the independence of these functions and by providing direction and oversight on behalf of the Board.

In line with Practice 9.2 of the MCCG, the Terms of Reference of the BAC were updated on 27 August 2021 to provide that a former key audit partner of the external auditor shall be subject to a minimum of three (3) years cooling-off period before being appointed as a member of the BAC. At present, none of the Board members are or have been a key audit partner of the Company's external auditor.

The BAC is responsible for recommending to the Board the appointment or re-appointment of the external auditor and the audit fee after reviewing their suitability, resources, competency and independence, and any resignation or dismissal of the external auditor and the reasons therefor.

The external auditor is evaluated on an annual basis in accordance with the Company's External Auditor Assessment Policy, which considers the external auditor's competence, audit quality, independence and information contained in the external auditor's annual transparency report.

The BAC also obtains written assurances from the external auditor that they have complied with the relevant ethical requirements regarding professional independence.

The Board approved the Non-Audit Services Policy on 26 November 2021, which sets out the non-audit services that can be rendered by the external auditor and its affiliates, and the limitation of fees for such non-audit services, which have been endorsed by the BAC.

The results of BEA FY2021 indicate that Board members are satisfied with the effectiveness of the BAC, the Committee has the right composition, and all directors are financially literate and able to understand matters under the purview of the BAC, including the financial reporting process.

The BAC's report is available on page 73 of this Annual Report.

### II. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The Board strives to maintain a sound internal control and risk management system to ensure smooth running of the business. It is the Company's aim to manage its risks and 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.

The BRMC provides oversight and direction on risk management matters to ensure prudent risk management over the Company businesses and operations. The Committee's functions include ensuring that the Company's internal control and risk management framework are periodically evaluated for quality, integrity and effectiveness, a systematic and comprehensive evaluation of the key risk areas are conducted and that controls are in place to mitigate and manage those risks. The implementation of risk controls is monitored and the results are presented to the BRMC during its meetings.

The Company'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 the Company. The lines of defence are strengthened by the roles of the Risk & Integrity Executive and the Chief Internal Auditor. The Risk and Integrity Executive's primary functions are to ensure an adequate risk and control framework is in place, address all business integrity matters and promote an ethical culture within the Company.

Further details of the risk management and internal control framework are provided in the Company's Statement on Risk Management and Internal Control which is available on page 67 of this Annual Report.

### Internal Audit Function

The Company's internal audit function comprises the following:

(i) An independent internal audit department (IAD), which acts as an independent evaluating body to assist and provide assurance to the Board, the BAC and the Management. The IAD is headed by the Chief Internal Auditor (CIA) who reports functionally to the Chair of the BAC and administratively to the CEO; and

(ii) The Company's site internal assurance team (SIA), which comprises of 31 trained and / or ISO certified site internal auditors from various departments in the Company. The SIA reviews the site internal assurance and process effectiveness of the Company and reports to the QHSSE Manager.

The CIA reviews and assesses the performance of the internal audit function of the Company on an annual basis. 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 BAC and the Board annually.

Further details of the IAD can be found in the Company's Corporate Governance Report 2021, which is published at *www.hrc.com.my*.

## PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

### I. Communication with Stakeholders

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.

The Company has a Corporate Affairs Department to ensure effective, transparent and regular communication between the Company and its stakeholders via channels including:

i. town hall meetings, which were held virtually in 2021 due to the movement control orders, social distancing standard operating procedures (SOPs) and guidelines imposed by the authorities as a result of the COVID-19 pandemic;

ii. employee information circulars, which were sent by electronic mail;

iii. one-to-one engagements, regular visits and meetings especially to the neighbouring communities near the Company's refinery. In FY2021, physical engagements were only conducted where necessary and with proper adherence to COVID-19 social distancing SOPs. The Company utilised mobile messaging platforms to communicate with the community and provide advance notification of any planned operational activities that may affect them;

iv. engagements with local, state and federal government authorities to ensure compliance to laws and regulations applicable to the Company especially on financial, tax, governance, environment, health & safety, licensing and permits;

v. transparent and up-to-date announcements through Bursa Malaysia, including the Company's financial reports, annual report, sustainability report and circular to shareholders. The announcements were also uploaded to the Company's website at *www.hrc.com.my* immediately after its release by Bursa Malaysia;

vi. updates to the Company's website, which contains useful information regarding the Company's background, vision, mission, values and purpose, Board of Directors, the management team, investor relations, corporate governance policies and documents, sustainability efforts, announcements, minutes of general meeting and contact details, amongst others; and

vii. e-mails and telephone enquiries to the Corporate Affairs Department, whose contact details are published clearly on the Company's website.

Stakeholders who wish to report improper conduct are able to do so via e-mail or in writing to the Whistleblowing Committee in any language, in accordance with the Whistleblowing Policy published on HRC's website.

To reduce paper wastage and to leverage on the efficacy of electronic communication methods, the Company e-mailed a notification card to shareholders containing a link and QR code to download its 62$^{nd}$ AGM notice, proxy form, FY2020 Annual Report and circular to shareholders, as allowed by its Constitution. Hard copies of the notification card were sent to shareholders who had invalid or rejected e-mail addresses. Hard copies of the FY2020 Annual Report and circular to shareholders were posted to shareholders who requested for them within four (4) market days.

Further details on stakeholder engagements and examples of the Company's corporate social responsibility initiatives are set out in the 2021 Sustainability Report, which is accessible on the Company's website at *www.hrc.com.my*.

## II. Conduct of General Meetings

The Company regards general meetings as important platforms for dialogue amongst directors, the Management and shareholders, and aims to encourage active participation by the shareholders during such meetings.

The Company's Board Charter and Constitution provides that the Board shall ensure that shareholders are given all necessary information and notice of the annual general meeting of the Company at least twenty-one (21) days before the meeting. In practice, the Company has been circulating its notice of AGM at least twenty-eight (28) days before the meeting. For the Company's 62nd AGM, the notice of meeting was circulated on 26 April 2021, which was twenty-eight (28) days before the meeting held on 25 May 2021.

Due to the ongoing COVID-19 pandemic and in consideration of the Guidance Note and FAQs on the Conduct of General Meetings for Listed Issuers issued by the Securities Commission Malaysia, the Company decided to hold its 62nd AGM virtually and did its best to provide meaningful and interactive engagement with shareholders via remote participation and voting facilities (RPV) provided by Tricor Investor & Issuing House Services Sdn Bhd's TIIH Online platform. The RPV facilities allowed shareholders to register, be authenticated for participation, attend, pose questions to the Board during the AGM and vote for the meeting agendas remotely. The platform also allowed shareholders to submit questions prior to the AGM.

To ensure a seamless virtual meeting experience for participants, the Company engaged a professional audio service provider to broadcast the 62nd AGM with high audio and visual quality from the broadcast venue. A full rehearsal was also held prior to the AGM to the test the equipment and flow of the meeting.

The Board Charter provides that all directors and the Chairs of the respective Board Committees must attend general meetings to allow shareholders to raise questions and receive meaningful response to questions raised by them.

As the Chairman of the Board, Wang, YouDe, could not be present at the broadcast venue of the Company's 62nd virtual AGM due to COVID-19 travel restrictions, Alan Hamzah Sendut, an Independent Non-Executive Director, was nominated by the Board to chair the AGM as the alternate AGM chairperson.

During the Company's 62nd AGM held on 25 May 2021, all directors and Chairs of the respective Board Committees, the company secretary, external auditor, as well as senior management members such as the CEO, CFO and Chief Commercial Officer, attended the virtual meeting. The CEO gave a presentation to shareholders which covered market challenges, FY2020 highlights and HRC's plans, moving forward. Questions received from the MSWG, and the Company's responses to them, were read out by the CFO.

The AGM Chairperson moderated the Q&A session and addressed questions received from shareholders, which were submitted through the TIIH Online platform prior to the AGM and the online query box during the AGM. The questions posed were projected to attendees of the AGM and read out by the AGM Chairperson, before being answered by the Chairman of the board, the Chairperson of the AGM, the CFO and the CEO. Questions that were not able to be addressed at the AGM due to time constraints were answered and e-mailed to shareholders within 14 days.

The 62nd AGM meeting minutes, including the key matters discussed, were uploaded to the Company's website on 6 July 2021. The meeting minutes are accessible at *www.hrc.com.my*.

The Company's Corporate Governance Report and Corporate Governance Overview Statement was approved by the Board on 1 April 2022.

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

**The Board of Directors (Board) of Hengyuan Refining Company Berhad (HRC or the Company) is committed to maintaining a sound internal control and risk management system to ensure the smooth running 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 outcomes in a disciplined way, to avoid or mitigate risks that can cause loss, reputational damage or business failure, and to enhance our resilience to external events.**

**The following statement outlines the nature and scope of HRC's internal control and risk management in FY2021.**

## BOARD'S RESPONSIBILITY

The Board affirms its overall responsibility for HRC's risk management and the internal control system, and for reviewing the system's adequacy and integrity. The Board recognises that this system is designed to manage, rather than eliminate, the risks of not achieving HRC's objectives and adhering to the policies. Due to the inherent limitations, the system can only provide reasonable and not absolute assurance against material misstatement, fraud or loss or the occurrence of unforeseeable circumstances.

The Board Audit Committee (BAC) assists and supports the Board's responsibility of overseeing the suitability, objectivity and independence of the Company's external auditor and internal audit function. The adequacy of the HRC Control Framework and effectiveness of the internal control system has been reviewed and endorsed by the BAC based on the assurance provided by management, the internal and external auditors. Audit issues and actions taken by Management to address the issues tabled by the auditors during the year were deliberated on during the BAC meetings.

The Board Risk Management Committee (BRMC) provides oversight and direction on risk management matters including bribery and corruption risk to ensure prudent risk management over HRC's business and operations. Management has conducted a systematic and comprehensive evaluation of the Key Risk Areas which were deliberated and presented to the BRMC. The implementation of risk controls is monitored, and the results are presented during the quarterly BRMC meetings.

Internal control and risk-related matters which warrant the attention of the Board are recommended by the BAC and BRMC to the Board for its deliberation and approval.

## MANAGEMENT'S ROLE

Whilst the Board assumes responsibility for HRC's internal controls and risk management, the Management holds the key role in the implementation of the internal controls and risk management system. Management is accountable for regularly assessing that the systems continue to operate efficiently and effectively.

## RISK MANAGEMENT

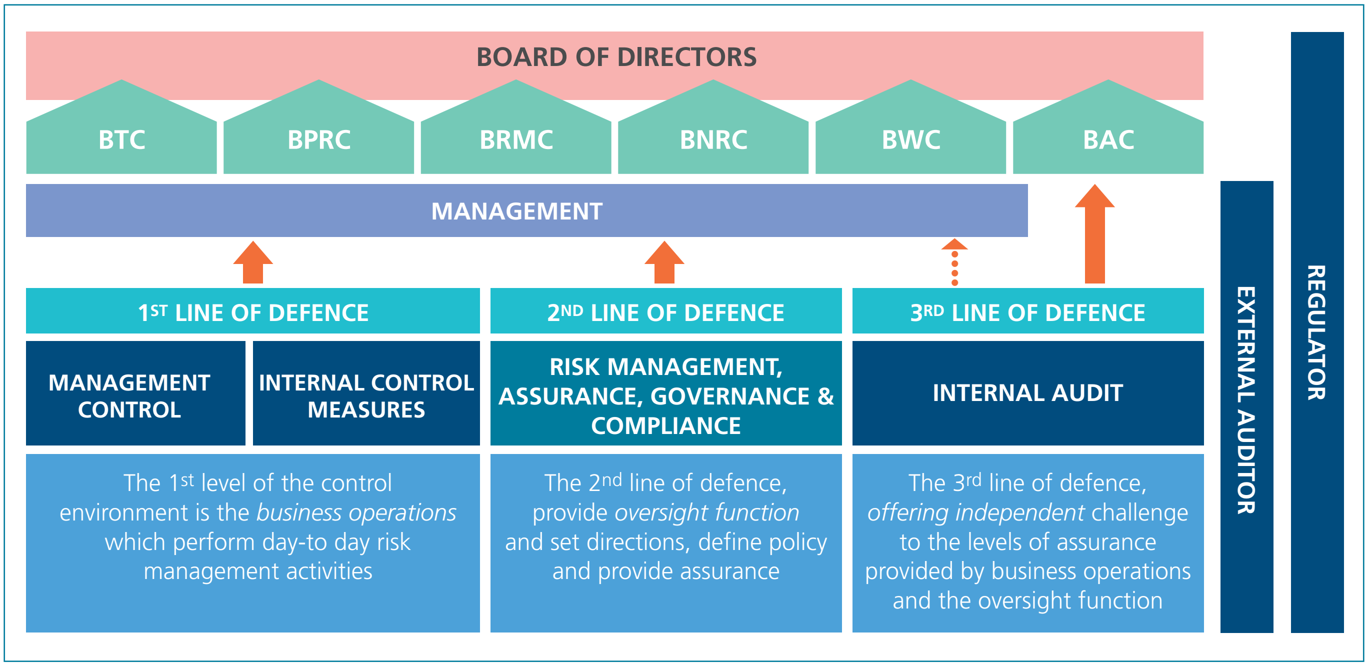
The Risk & Integrity (R&I) Department oversees the risk management function within HRC. The main objective of risk management is to promote advanced awareness and define boundaries for risk-taking, and to apply fit-for-purpose risk responses in order for HRC to provide a reasonably sufficient, but not an absolute assurance, against material misstatements, fraud or loss. In addition, it allows HRC to operate and achieve its objectives, within a managed and acceptable risk profile.

Fit-for-purpose risk responses are primarily intended to:

- Minimise the likelihood of a risk occurring by actively managing the sources of the risk and ensuring competent people are overseeing the risk on a regular basis; and
- Mitigate the impact of a risk should it arise, often through the application of some forms of alert that the risk has materialised, followed by the initiation of a contingency or recovery plan to reduce the potential consequences and also future occurrences.

HRC adopts the best practices from MS ISO 31000:2020 Risk Management to manage the risks of its business and operations. HRC has an established and structured process for the identification, assessment, treatment, communication, monitoring and continual review of risks and the effectiveness of risk mitigation strategies and controls.

## THREE LINES OF DEFENCE




Note: The director membership of each Board Committee is shown under the Board of Directors' profile on page 46 of this Annual Report.

The HRC risk register is segregated into four (4) major components, which are: Operational Risk, Financial & Commercial Risk, Strategic Risk and Legal & Regulatory Risk.

Top 20 corporate risks will be deliberated on a quarterly basis by the senior management before being brought to the BRMC for review and further deliberation.

## KEY INTERNAL CONTROLS

HRC's internal control system comprises the following key processes:

**1. AUTHORITY AND RESPONSIBILITY**

a. Certain responsibilities are delegated to the Board Committees through clearly defined Terms of Reference (TOR) which are reviewed annually.

b. The Manual of Authorities is reviewed periodically to reflect the authority and authorisation limits of Management in all aspects of HRC's major business operations and regulatory functions.

**2. ORGANISATION STRUCTURE AND MANAGEMENT COMMITTEE**

a. An organisational structure, which is aligned to the business and operational requirements, and with clearly defined lines of responsibility, accountability and levels of authority, is in place to assist in implementing HRC's strategies and day-to-day business activities.

b. The Management Team serves in an advisory capacity to the Chief Executive Officer (CEO) in accomplishing the vision, strategies and objectives set for HRC.

c. Various functional committees have also been established across the Company to ensure HRC's activities and operations are properly aligned towards achieving its organisational goals and objectives.

### 3. PLANNING, MONITORING AND REPORTING

a. An annual planning and budgetary exercise are undertaken by all departments to prepare business plans and budgets for the forthcoming year. These are deliberated on by the BAC to ensure alignment with the strategy as agreed at the latest strategy review. Thereafter, the BAC recommends the updated plans and budget to the Board for approval before its implementation.

b. HRC's financial performances are reviewed regularly by Management. The financial results and variances (if any) are presented to the Board on a quarterly basis.

c. The Chief Financial Officer (CFO) is required to provide assurance to the BAC that:

- appropriate accounting policies have been adopted and applied consistently, the going concern basis applied in the Annual Financial Statements is appropriate, and that prudent judgements and reasonable estimates have been made in accordance with the requirements set out in the Malaysian Financial Reporting Standards (MFRSs) and the International Financial Reporting Standards (IFRSs);
- adequate processes and controls are in place for effective and efficient financial reporting and disclosure under the requirements of MFRSs, IFRSs, the Companies Act 2016 and Bursa Malaysia Securities Berhad's Main Market Listing Requirements (MMLR); and
- the Annual Financial Statements and the quarterly Financial Statements give a true and fair view of the financial position and financial performance of the Company and do not contain any material misstatement.

d. There is a regular and comprehensive flow of information from Management to the Board on all aspects of HRC's operations to facilitate the monitoring of performance against HRC's corporate strategy, business plans and regulatory requirements.

e. The sustainability strategy is developed by management and reviewed by the Board to ensure its robustness in achieving HRC's objectives. The sustainability strategy was approved by the Board and is disclosed in the 2021 Sustainability Report.

### 4. POLICIES AND PROCEDURES

Clear, formalised and documented internal policies, standards and procedures are in place to ensure compliance with internal controls and relevant laws and regulations.

A list of identified laws and regulations applicable to HRC is documented and maintained to facilitate compliance. Regular reviews are performed to ensure that documentation remains current and relevant. Policies and procedures are available on HRC's intranet and are accessible to the employees.

### 5. BUSINESS INTEGRITY MANAGEMENT

With the enforcement of the Corporate Liability provision involving commercial organisations under Section 17A of the Malaysian Anti-Corruption Commission (MACC) Act 2009 since 1 June 2020, HRC continues to support the Government initiatives and strong determination to fight corruption.

HRC is certified under the Anti-Bribery Management Systems, ISO 37001:2016 and shall continue to adhere with the standard's requirements in its day-to-day operations.

The Risk and Integrity Department is tasked to advocate, implement, and ensure HRC business integrity management system works in accordance with its intended purposes.

BRMC provides oversight on the overall implementation of business integrity within HRC. A checklist detailing the Company's current capability against the MACC's Guideline on Adequate Procedures was presented to BRMC in May 2021.

HRC's business integrity management comprises the following key controls:

**a. ANTI-BRIBERY MANAGEMENT SYSTEMS MANUAL**

The HRC Anti-Bribery Management Systems Manual (ABMS Manual) outlines the procedure, integrity screening and ethical behaviours expected from the employees and business associates to avoid any instances of bribery, corruption or receipt of monies derived from money laundering activities.

The ABMS Manual was approved by the Board who is committed to ensuring that ethical business practices are being adhered to and that the Company has put in place adequate controls to mitigate the risk of bribery and corruption. Business integrity is also recognised as one of the main pillars of HRC's General Business Principles.

The ABMS Manual covers areas such as:

i. The contracting and procurement process

ii. Offering and receiving gifts and hospitality

iii. Conflicts of interest

iv. Facilitation payments

v. Funding social investment, donation and sponsorship

vi. Political payments and activities

vii. Recruitment

The ABMS Manual and its contents have been communicated to all employees via memorandum, HRC's intranet and in-house training. The same has also been communicated to all vendors, suppliers, contractors and any third parties that have business dealings with HRC.

Employees and parties having business dealings with HRC have also been requested to sign an integrity pledge to show their commitment towards ABMS Manual and to disclose any confirmed or potential conflict of interest via HRC's annual declaration process. Business associates and senior management are subject to integrity due diligence checks from time to time.

The ABMS Manual and HRC's General Business Principles are accessible to the public on HRC's corporate website.

**b. BUSINESS INTEGRITY ACTIVITIES**

In year 2021, various activities were organised online to strengthen the culture of business integrity within the Company.

During the second week of October 2021, the Risk & Integrity Department organised the annual Business Integrity Week in conjunction with World Ethics Day 2021, comprising of integrity e-learning, quiz, talk by MACC and information security management system awareness training.

## 6. COMPLIANCE MANAGEMENT

The Management team led by the CEO is responsible for ensuring day to day operational compliance within the Company.

HRC's compliance management includes compliance to all relevant laws, regulations, rules and guidelines. It also covers risk-based compliance to the Company's internal policies, procedures, and code of conduct.

In FY2021, no major non-compliance was encountered.

## 7. CODE OF CONDUCT

The Code of Conduct (Code) applies to every employee, officer, and director in HRC as well as contract employees working for HRC. Contractors and consultants who are agents of, or working on behalf of, or in the name of HRC (through outsourcing of services, processes or any business activity), are required to act consistently with the Code when acting on HRC's behalf. Contractors and consultants are also made aware of the Code as it applies to their dealings with HRC employees.

The Code outlines the following:

- Our responsibilities and a guide to ethical decision making.
- The standards of good behaviour that HRC expects from every employee, all contractors and all consultants as well as contract employees.
- That we have the right to expect the same standards of behaviour from our colleagues.
- The system for handling of sensitive information and HRC's Intellectual Property.
- Guidelines to help in keeping our business interactions legal, ethical and professional, ensuring that we protect ourselves from any suspicion of wrongdoing and to safeguard HRC's reputation.

**8. INFORMATION AND COMMUNICATIONS TECHNOLOGY**

Information and communications technology are extensively deployed in HRC to automate work processes where possible and to efficiently collect and report key business information.

HRC is certified under the Information Security Management System (ISMS), MS ISO / IEC 27001:2013 and shall continue to enhance its information and communication systems to ensure that it can act as an enabler to improve business processes, work productivity and decision making throughout the Company.

**9. EMPLOYEES PERFORMANCE MANAGEMENT**

HRC selects individuals for employment through a structured recruitment process. The professionalism and competency of employees is continuously enhanced through a structured training and development programme.

A performance management system is in place which measures employee's performance against agreed goals on an annual basis.

**10. WHISTLEBLOWING POLICY**

HRC has established a Whistleblowing Policy (Policy) which provides an avenue for employees and members of the public to disclose any improper conduct in accordance with the procedures under the Policy.

Under the Policy, a whistleblower will be accorded the protection of identity confidentiality, to the extent reasonably practicable. A whistleblower will also be protected against any adverse or detrimental actions for disclosing improper conduct that has been committed or is about to be committed within HRC, to the extent reasonably practicable, provided that the disclosure is made in good faith. Such protection is accorded even if investigations later reveal that the whistleblower is mistaken as to the facts, rules and procedures involved.

The Policy is available on HRC's corporate website.

**11. QUALITY, HEALTH, SECURITY, SAFETY, ENVIRONMENTAL (QHSSE), SUSTAINABILITY, SOCIAL AND GOVERNANCE**

HRC upholds its highest commitment to QHSSE, sustainability, social responsibilities and governance practices via the establishment of HRC's General Business Principles and various policies and procedures.

HRC periodically reviews the risks and procedures in place including scenario planning and holds mock exercises and incident simulations to test the readiness of the employees in responding to those incidents.

A comprehensive list of activities and initiatives performed by HRC is highlighted in the HRC Sustainability Report 2021.

## INTERNAL AUDIT

The Board recognises that the internal audit function is an integral component of the governance process. The Chief Internal Auditor reports directly to the BAC Chair. The Internal Audit Department supports the BAC by providing an independent and objective assurance designed to add value and improve HRC's operations.

In FY2021, the following reviews were performed and reported to the BAC:

a. Audit engagements were carried out based on the annual internal audit plan approved by the BAC. The auditors assessed the audit areas with regard to risk exposures, compliance with approved policies and procedures and relevant laws and regulations. For any significant gaps identified, the auditors provided recommendations to Management to improve the effectiveness of controls where applicable.

b. Certification / recertification audits were carried out by SIRIM Berhad for ISO 9001:2015 Quality Management System, ISO 14001:2015 Environmental Management Systems, and ISO 45001:2018 Occupational Health and Safety Management System.

   The reviews concluded that HRC conformed to the requirements of the management systems.

## REVIEW OF THIS STATEMENT

As required by Paragraph 15.23 of the MMLR, the External Auditors have reviewed this Statement on Risk Management and Internal Control. Their limited assurance review was performed in accordance with Audit and Assurance Practice Guide (AAPG) 3 issued by the Malaysian Institute of Accountants. AAPG 3 does not require the External Auditors to form an opinion on the adequacy and effectiveness of the risk management and internal control systems of the Company.

## CONCLUSION

The Board has received assurance from the CEO and CFO that HRC's financial records are properly maintained and that its risk management and internal control system is operating adequately and effectively in addressing the material risks within the Company in its current business environment.

The Board has reviewed the adequacy and effectiveness of the risk management and internal control system of the Company and is of the view that they are sound and provide a reasonable level of confidence, but not absolute assurance, that HRC is not affected by any event that cannot be reasonably foreseen.

In the year under review, the Board is not aware of any significant control failure or weakness that would have resulted in material losses, contingencies or uncertainties requiring separate disclosure in this Annual Report.

Following any economic effects of the COVID-19 pandemic, the Board will continue to review measures initiated by HRC to minimise the potential risk and impact arising from these situations.

This Statement on Risk Management and Internal Control is approved by the Board on 1 April 2022.

# AUDIT COMMITTEE REPORT

**The Board of Directors (Board) of Hengyuan Refining Company Berhad (HRC or the Company) presents the Audit Committee Report which provides insights into the manner in which the Board Audit Committee discharged its functions in FY2021.**

## COMPOSITION AND ATTENDANCE

HRC's Board Audit Committee (BAC) comprises four (4) members with a diverse mix of skills, knowledge, experience and perspectives in the areas of accounting, corporate finance, banking, oil and gas industry, risk management, strategy and corporate governance, which enables the BAC to discharge its duties.

The BAC consists solely of independent non-executive directors (NEDs). All of the independent NEDs satisfied the test of independence under Bursa Malaysia Securities Berhad's (Bursa Malaysia) Main Market Listing Requirements (MMLR). The BAC meets the requirements of paragraph 15.09(1)(a) and (b) of the MMLR and Practice 9.4 under Principle B of the Malaysian Code on Corporate Governance (MCCG). The BAC members' attendance records are outlined on page 146 of this Annual Report.

The BAC Chairman, Alan Hamzah Sendut, is a Chartered Accountant of the Institute of Chartered Accountants in England and Wales (1986) and Malaysian Institute of Accountants (1987). He is also a Chartered Audit Committee Director, Institute of Internal Auditors Malaysia (2018). Accordingly, HRC complies with paragraph 15.09(1)(c)(i) of MMLR.

The Board reviews the terms of office of the BAC members and assesses the performance of the BAC and its members through an annual Board Committee effectiveness evaluation. The Board indicated through the Board Effectiveness Assessment FY2021 that it was satisfied that the BAC and its members discharged their functions, duties and responsibilities in accordance with the BAC's Terms of Reference (TOR), which is accessible for reference on the Company's website at: *www.hrc.com.my*.

The TOR of the BAC was reviewed and amended on 23 August 2021 to be consistent with the best practices of the Malaysian Code on Corporate Governance issued by the Securities Commission Malaysia on 28 April 2021.

## MEETINGS

The BAC held five (5) meetings during the financial year ended 31 December 2021. The attendance of the BAC members in its meetings are set out on page 146 of this Annual Report.

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) were invited to all BAC meetings to facilitate direct communication as well as to provide clarification on audit issues and the Company's operations. The Chief Internal Auditor (CIA) attended all BAC meetings to table the respective Internal Audit (IA) reports. The relevant responsible Management members were invited to brief the BAC on specific issues arising from the audit reports or on any matters of interest.

As part of the BAC's efforts to ensure the reliability of HRC's quarterly financial statements and compliance with applicable Financial Reporting Standards, PricewaterhouseCoopers PLT (External Auditors or PwC) were engaged to conduct a limited review of selected HRC's quarterly financial statements before these were presented to the BAC for review and recommendation for the Board's approval for release to Bursa Malaysia.

PwC briefed the BAC on the outcome of the statutory audit for the financial year ended 31 December 2021, significant auditing and accounting matters, internal control recommendations and developments in relevant laws and regulations.

The BAC held its independent meetings with PwC on 8 March 2021 and 31 March 2022 without the presence of Management to discuss and provide feedback on the Company's audit for the financial years ended 31 December 2020 and 2021 respectively, the level of cooperation received from Management, any specific audit concerns and the quality of financial reporting.

Minutes of each BAC meeting was recorded and tabled for confirmation at the next following BAC meeting and subsequently presented to the Board for notation. In 2021, the BAC Chair presented to the Board the BAC's recommendations to approve the annual and quarterly financial statements.

The BAC Chair also conveyed to the Board, matters of significant concern as and when raised by the external auditors or internal auditors in the respective quarterly presentations.

## ACTIVITIES OF THE BAC

The BAC holds the overall responsibility for monitoring HRC's management of financial risk processes, accounting and financial reporting practices and ensuring the adequacy and effectiveness of internal controls.

The BAC's key activities for the financial year ended 31 December 2021 comprised the following:

**1. Financial Reporting**

In overseeing HRC's financial reporting, the BAC reviewed the quarterly financial statements for the fourth quarter of 2020 and the annual audited financial statements for 2020 at its meetings on 25 February 2021 and 26 March 2021 respectively.

The quarterly financial statements for the first, second and third quarters of 2021, which were prepared in compliance with the Malaysian Financial Reporting Standard (MFRS) 134 Interim Financial Reporting, International Accounting Standard (IAS) 34 Interim Financial Reporting and paragraph 9.22, including Appendix 9B of the MMLR, were reviewed at the BAC meetings on 27 May 2021, 23 August 2021 and 23 November 2021 respectively.

On 25 February 2022 and 31 March 2022, the BAC reviewed the quarterly financial statements for the fourth quarter of 2021 and the annual audited financial statements for 2021 respectively.

The BAC's recommendations were presented for approvals at the subsequent Board meetings.

**2. External Audit**

The BAC reviewed PwC's audit plan and scope for the financial year ended 2021 and the payment of auditors' statutory and non-audit fees.

Results of PwC's annual audit and audit findings together with recommendations and Management's response were reviewed by the BAC. Matters included in the Management representation letter were also reviewed by the BAC.

In addition to the review of the annual audit of HRC's financial statements, the External Auditors were engaged to conduct reviews of selected quarterly financial results during 2021 in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" which were reported and reviewed by the BAC.

On 31 March 2022, the CIA reported that non-audit fees incurred in FY2021 amounted to RM186,475, constituting approximately 30 per cent of the total remuneration of RM628,475 to the External Auditors for 2021.

The BAC had assessed and was satisfied with the competency, audit quality and independence of PwC, whose appointment was approved by shareholders of the Company at HRC's 62nd Annual General Meeting. The assessment was conducted based on the criteria stipulated in HRC's External Auditor Assessment Policy, which was reviewed and amended on 23 August 2021 to include the Annual Transparency Report as part of the criteria, to be consistent with the MCCG.

**3. Internal Audit**

The IA team conducted the audit work as per the 2021 Annual Audit Plan approved by the BAC on 25 November 2020.

In year 2021, the internal audit function of HRC is monitored by the BAC and consists of two segments:

(1) An Internal Audit Department (IAD), which acts as an independent evaluating body to assist and provide assurance to the Board, the BAC and Management of HRC. The IAD is headed by the CIA who reports functionally to the Chair of the BAC and administratively to the CEO. There is one (1) Internal Auditor who reports to the CIA. The internal auditors have sufficient mix of knowledge, skills and competencies to execute the audit plan; and

(2) HRC's Site Internal Assurance (SIA), which comprises 31 trained and / or ISO certified site internal auditors from various departments of HRC. The SIA carries out the site internal audits and process effectiveness of HRC and reports to the Quality & Health, Security, Safety and Environment Manager. All SIA internal audit reports are reviewed by the CIA before finalisation.

IAD activities are reported to the BAC on a quarterly basis, while SIA overall activities are presented to BAC annually, at the end of each financial year.

Urgent issues arising from the internal audit processes are highlighted to the Management promptly.

The total costs incurred by the internal audit function of the Company for the financial year 2021 was RM604,886.

4. **HRC Assurance Plan 2021**

The BAC oversaw HRC's approved internal audit and assurance plan for the year 2021 which consisted of seven (7) regulatory and statutory audits and twelve (12) internal audits to ensure business processes and regulatory compliance. These are:

| Name of Audit / Review |
|---|
| **Regulatory / Statutory Audits** |
| Financial Audit and Interim Financial Reviews by External Auditor |
| ISO 9001 Recertification Audit |
| ISO 14001 Recertification Audit |
| ISO 45001 Recertification Audit |
| ISO 17025 Surveillance Audit |
| ISO 27001 Surveillance Audit |
| ISO 37001 Surveillance Audit |
| **Internal Audits** |
| Tendering Management |
| Credit Management |
| Security Management |
| Manpower Planning and Management |
| Related Party Transaction Process |
| HRC Regulatory Compliance Management |
| ISO 9001 |
| ISO 14001 |
| ISO 45001 |
| ISO 17025 |
| ISO 27001 |
| ISO 37001 |

The progress of the Internal Audit and Assurance Plan 2021 and its audits were reported to the Board on a quarterly basis.

During the course of the year, the BAC also approved five (5) special reviews on significant business processes.

Where appropriate, the BAC directed Management to rectify and improve internal control processes based on the auditors' recommendations and suggestions for improvement based on severity of findings and ratings of audits.

5. **Related Party Transactions**

In the year 2021, the BAC reviewed the Company's Circular to Shareholders in relation to the proposed renewal of shareholders' mandate for recurrent related party transactions (RRPT) for the period from 25 May 2021 to the 63rd Annual General Meeting of the Company.

In addition, the BAC oversaw the Company's compliance with MMLR in respect of related party transactions and RRPT and ensured that the necessary announcements were made to Bursa Malaysia Securities Berhad.

6. **Others**

Other matters discussed by the BAC during its meetings include:

(a) The review of annual impairment assumptions and tests;

(b) The review of reports on annual margin and FX hedging activities and outcome;

(c) The review of the BAC Report and the Statement on Risk Management and Internal Control for the respective financial year for the purpose of inclusion in the Company's Annual Report;

(d) The review of 2022 HRC Business Plan, i.e. Purpose, Vision, Mission, Values, Business Strategy and Financial and Headcount;

(e) The Company's cash forecast, financing planning and liquidity position;

(f) The solvency outlook of the Company in the next 12 months, loan position of the Company and dividend proposal;

(g) The review of proposed loan refinancing structure and appointment of the Principal Advisor and Lead Arrangers as well as subsequent updates on status of the refinancing plan;

(h) The review of the "Statement of Compliance" to be issued to the lenders;

(i) The review of Non-Audit Services Policy and External Auditor Assessment Policy;

(j) The review of Dormant Stock Write-off proposal;

(k) Quarterly updates on the recurrent related party transactions (RRPTs) received from the Management. The BAC also ensured that all RRPTs were within the thresholds of the shareholders' mandate approved at the AGMs in 2020 and 2021; and

(l) The review of the proposal for a Dividend Reinvestment Plan.

Future Focus

# ADVANCING WITH PRAGMATIC **FUTURE FOCUS**

**2021 Strategic Direction**

- Steadfast progress on key investment projects
- Enhance plant safety and reliability through successful implementation of Major Turnaround 2023 (MTA 2023)
- Further our Digitalisation journey to improve business scalability and agility

05

# DIRECTORS' REPORT

The Directors hereby submit their report to the members together with the audited financial statements of the Company for the financial year ended 31 December 2021.

## PRINCIPAL ACTIVITIES

The principal activities of the Company consist of refining and manufacturing of petroleum products. There has been no significant change in these activities during the financial year.

## FINANCIAL RESULTS

The results of the operations of the Company for the financial year were as follows:

| | **RM'000** |
|---|---|
| Profit for the financial year | 82,672 |

## DIVIDENDS

The amount of dividends paid by the Company since the end of the previous financial year were as follows:

| | **RM'000** |
|---|---|
| In respect of financial year ended 31 December 2020: | |
| Single-tier interim dividend of RM0.04 per share on 300,000,000 ordinary share, paid on 15 April 2021 | 12,000 |

The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2021.

## RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are shown in the financial statements.

## DIRECTORS

The Directors in office during the financial year and during the period from the end of the financial year to the date of this report are:

Wang, YouDe

Wang, ZongQuan

Alan Hamzah Sendut

Fauziah binti Hisham

Liang Kok Siang

Surinderdeep Singh Mohindar Singh

Loy Swee Im (resigned on 27 November 2021)

## DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than benefits disclosed as Directors' remuneration in Note 12 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS IN SHARES AND DEBENTURE

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, none of the Directors who held office at the end of the financial year held any shares or debentures in the Company or its holding company during the financial year.

## DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in Note 12 to the financial statements.

## INDEMNITY AND INSURANCE COSTS

Indemnity insurance for Directors and Officers of the Company during the financial year amounted to RM65,000.

## STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the financial statements were prepared, the Directors took reasonable steps:

(a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts; and

(b) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Company had been written down to an amount which the current assets might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

(a) which would render the amount written off for bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; or

(b) which would render the values attributed to current assets in the financial statements of the Company misleading; or

(c) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations when they fall due.

At the date of this report, there does not exist:

(a) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liability of any other person except as disclosed in Note 13, 15, 16, 17 and 26 to the financial statements; and

(b) any contingent liability which has arisen since the end of the financial year.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company, which would render any amount stated in the financial statements misleading.

In the opinion of the Directors:

(a) the results of the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature except as disclosed in Note 3 to the financial statements; and

(b) except as disclosed in Note 36, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

# DIRECTORS' REPORT

## IMMEDIATE AND ULTIMATE HOLDING COMPANIES

The Directors regard Malaysia Hengyuan International Limited ("MHIL"), a company incorporated in Labuan, Malaysia and Shandong Linyi County Petrochemical Factory, a company incorporated in China, as the Company's immediate and ultimate holding companies respectively.

## AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 9 to the financial statements.

## AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors.

This report was approved by the Board of Directors on 1 April 2022. Signed on behalf of the Board of Directors:

**WANG, YOUDE**
DIRECTOR

**ALAN HAMZAH SENDUT**
DIRECTOR

# STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, Wang, YouDe and Alan Hamzah Sendut, two of the Directors of Hengyuan Refining Company Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 88 to 139 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2021 and financial performance of the Company for the financial year ended 31 December 2021 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 1 April 2022.

**WANG, YOUDE**
DIRECTOR

**ALAN HAMZAH SENDUT**
DIRECTOR

# STATUTORY DECLARATION

PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT 2016

I, Tan Chun Siang, the officer primarily responsible for the financial management of Hengyuan Refining Company Berhad, do solemnly and sincerely declare that the financial statements set out on pages 88 to 139 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

**TAN CHUN SIANG**
CHIEF FINANCIAL OFFICER

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur, Malaysia, on 1 April 2022.

Before me:

COMMISSIONER FOR OATHS

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HENGYUAN REFINING COMPANY BERHAD
(INCORPORATED IN MALAYSIA) REGISTRATION NO. 196001000259 (3926-U)

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Our opinion

In our opinion, the financial statements of Hengyuan Refining Company Berhad ("the Company") give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

### What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 88 to 139.

### Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence and other ethical responsibilities*

We are independent of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

### Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements of the Company. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Company for the current financial year. These matters were addressed in the context of our audit of the financial statements of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| **Recoverability of the carrying amount of refinery assets and deferred tax asset**<br><br>*Refer to Note 2 Significant accounting policies: Note 2.3 – Property, plant and equipment, Note 2.5 – Intangible assets, Note 2.6 – Impairment of non-financial assets, Note 2.19 – Leases, Note 2.21 – Current and deferred income tax, Note 3 Critical accounting estimates and judgements: (a) Recoverability of the carrying amount of refinery assets, (b) Deferred tax assets, Note 13 – Property, plant and equipment, Note 14 – Intangible assets, Note 15 – Leases, Note 27 – Deferred taxation.*<br><br>As at 31 December 2021, the carrying amount of the Company's property, plant and equipment, intangible assets and right-of-use assets (collectively cash-generating-units "CGU" or refinery assets) is RM2,035.0 million, net of accumulated impairment losses of RM220.6 million and the deferred tax liability is RM100.8 million.<br><br>We focused on these areas considering the material amount involved and the significant judgements and estimates made by the Directors in determining the fair value less costs to sell ("FVLCTS") of the refinery assets for its impairment assessment and the projections of taxable profits to assess the extent of utilisation of unutilised tax losses.<br><br>The key assumptions included in the FVLCTS calculation has considered the possible impacts of COVID-19 and climate-related risks as set out below:<br><br>• the projected refining margins which fluctuate based on the oil price, Malaysian and global economic outlook;<br>• the production volume based on existing production capacity and forecast demand; and<br>• the discount rate based on the Company's weighted average cost of capital. | We performed the following audit procedures on the FVLCTS calculation which was approved by the Board of Directors:<br><br>• Discussed with the Board Audit Committee members and the senior management on the FVLCTS calculation to understand the key assumptions which formed the basis of the recoverable amount;<br>• Evaluated management's cash flow projections and the process by which they were developed to ensure key inputs are in line with financial budgets approved by the Board of Directors;<br>• Corroborated supporting evidence underlying the projected refining margins provided by management to market data taking into consideration the possible impact of COVID-19 on global oil prices and through inquiry of management on the basis used;<br>• Corroborated projected production volume to the historical results achieved by the Company, taking into consideration the possible impact of COVID-19 and climate-related risks;<br>• Agreed the capital expenditure for key projects in the projections to the Board of Directors final investment decision approval, amount incurred to date and costs to complete based on project plans and enquired with relevant management on the supporting and basis of deriving the cost estimates;<br>• Checked the reasonableness of the discount rate used with the assistance of our valuation experts; and<br>• Checked sensitivity analysis prepared by management on these key assumptions used in the impairment model. |

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HENGYUAN REFINING COMPANY BERHAD
(INCORPORATED IN MALAYSIA) REGISTRATION NO. 196001000259 (3926-U)

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

### Key audit matters (continued)

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| **Recoverability of the carrying amount of refinery assets and deferred tax asset (continued)**<br><br>Based on the FVLCTS computed, the Directors have concluded that there is no further impairment in the carrying amount of refinery assets and recognition of deferred tax assets on the remaining unutilised tax losses. | We performed the following audit procedures on the projections of taxable profits:<br><br>• Checked that the projections of taxable profits are determined based on the same assumptions used in the FVLCTS calculation; and<br><br>• Checked the amount of tax losses estimated to be utilised in YA2022 to YA2028 are included in the computation of deferred tax asset recognised as at 31 December 2021.<br><br>We did not find any material exceptions in the procedures performed. |
| **Net realisable value ("NRV") of the hydrocarbon inventories**<br><br>*Refer to Note 2 Significant accounting policies: Note 2.11 – Inventories, Note 3 Critical accounting estimates and judgements: (c) Net realisable value of the hydrocarbon inventories, Note 16 – Inventories*<br><br>As at 31 December 2021, the Company's hydrocarbon inventories amounted to RM1,539.1 million. Management has performed an assessment to determine the NRV of the hydrocarbon inventories. The NRV was determined based on selling prices less costs to sell after the financial year end.<br><br>We focused on this area given the significance of the hydrocarbon inventory balances and the volatility of the crude and product prices which may result in costs being higher than selling prices less costs to sell.<br><br>Based on the assessment performed, the Directors have provided RM41.9 million for inventories write down. | We performed the following audit procedures:<br><br>• Agreed the quantity of both the crude and product inventories to supporting documents;<br><br>• Observed the tank dipping process during the annual physical inventory observation and performed roll-forward testing on a sampling basis to reconcile the tank dipping results to the inventory system;<br><br>• Corroborated the selling prices of the hydrocarbon inventories to the supporting documents after the financial year end;<br><br>• Checked selling costs to the supporting documents;<br><br>• Computed the differences between inventory costs and the NRV to ascertain the inventories write down adjustments as at 31 December 2021.<br><br>We did not find any material exceptions in the procedures performed. |

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

### Information other than the financial statements and auditors' report thereon

The Directors of the Company are responsible for the other information. The other information comprises the Directors' Report and Statement on Risk Management and Internal Control, which we obtained prior to the date of this auditors' report, and other sections in the 2021 Annual Report, which is expected to be made available to us after that date. Other information does not include the financial statements of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of the financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HENGYUAN REFINING COMPANY BERHAD
(INCORPORATED IN MALAYSIA) REGISTRATION NO. 196001000259 (3926-U)

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

**Auditors' responsibilities for the audit of the financial statements (continued)**

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also: (continued)

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Company for the current financial year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**PRICEWATERHOUSECOOPERS PLT**
LLP0014401-LCA & AF 1146
Chartered Accountants

**PAULINE HO**
02684/11/2023 J
Chartered Accountant

Kuala Lumpur
1 April 2022

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

| | Note | 2021 RM'000 | 2020 RM'000 |
|---|---|---|---|
| Revenue | 6 | **12,006,040** | 7,176,147 |
| Purchases | | **(10,961,386)** | (6,796,240) |
| | | **1,044,654** | 379,907 |
| Other income | 7 | **35,238** | 16,404 |
| Manufacturing expenses | | **(215,464)** | (229,751) |
| Administrative expenses | | **(54,906)** | (51,350) |
| Depreciation and amortisation | | **(115,647)** | (119,340) |
| Other operating (losses)/gains | | **(551,965)** | 308,121 |
| Finance cost | 8 | **(13,890)** | (22,117) |
| Impairment of receivables | | **(318)** | (26,190) |
| Profit before taxation | 9 | **127,702** | 255,684 |
| Taxation | 10 | **(45,030)** | (4,701) |
| Profit for the financial year | | **82,672** | 250,983 |
| Other comprehensive expenses: | | | |
| *Items that will be reclassified to profit or loss:* | | | |
| Cash flow hedge reserve - net fair value loss on derivatives (net of tax) | | **(126,615)** | (125,794) |
| Cost of hedging reserve (net of tax) | | **(60,468)** | 31,849 |
| | | **(187,083)** | (93,945) |
| Total comprehensive (expenses)/income for the financial year | | **(104,411)** | 157,038 |
| Earnings per share (sen) - basic/diluted | 11 | **28** | 84 |

The accompanying notes to the financial statements form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

| | Note | 2021 RM'000 | 2020 RM'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | **2,008,877** | 1,994,188 |
| Intangible assets | 14 | **9,802** | 12,444 |
| Right-of-use assets | 15 | **16,340** | 23,444 |
| Derivative financial assets | 19 | **19** | - |
| | | **2,035,038** | 2,030,076 |
| **CURRENT ASSETS** | | | |
| Inventories | 16 | **1,572,571** | 1,051,689 |
| Trade receivables | 17 | **1,027,713** | 513,451 |
| Other receivables and prepayments | 18 | **133,518** | 28,311 |
| Tax recoverable | | **3,051** | 2,994 |
| Derivative financial assets | 19 | **21,235** | 135,180 |
| Bank balances | 20 | **690,005** | 737,198 |
| | | **3,448,093** | 2,468,823 |
| **TOTAL ASSETS** | | **5,483,131** | 4,498,899 |
| **CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | | |
| Share capital | 21 | **300,000** | 300,000 |
| Retained earnings | 22 | **2,020,599** | 1,949,927 |
| Cash flow hedge reserve | 23 | **(77,063)** | 49,552 |
| Cost of hedging reserve | 23 | **(62,678)** | (2,210) |
| Exchange translation reserve | 23 | **(128,888)** | (128,888) |
| | | **2,051,970** | 2,168,381 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 24 | **2,272,212** | 1,308,516 |
| Amounts due to immediate holding company and related company | 25 | **11,687** | 14,317 |
| Lease liabilities | 15 | **7,996** | 7,722 |
| Contract liabilities | 28 | **4,628** | - |
| Derivative financial liabilities | 19 | **131,183** | 53,638 |
| Borrowings | 26 | **478,057** | 250,689 |
| | | **2,905,763** | 1,634,882 |
| **NON-CURRENT LIABILITIES** | | | |
| Derivative financial liabilities | 19 | **96,264** | 15,886 |
| Lease liabilities | 15 | **8,105** | 15,796 |
| Borrowings | 26 | **320,240** | 549,118 |
| Deferred tax liabilities | 27 | **100,789** | 114,836 |
| | | **525,398** | 695,636 |
| **TOTAL EQUITY AND LIABILITIES** | | **5,483,131** | 4,498,899 |

The accompanying notes to the financial statements form an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

| | Note | Issued and fully paid ordinary shares | | | Non-distributable | | Distributable | |
|---|---|---|---|---|---|---|---|---|
| | | Number of shares '000 | Nominal value RM'000 | Cash flow hedge reserve RM'000 | Cost of hedging reserve RM'000 | Exchange translation reserve RM'000 | Retained earnings RM'000 | Total equity RM'000 |
| **At 1 January 2021** | | **300,000** | **300,000** | **49,552** | **(2,210)** | **(128,888)** | **1,949,927** | **2,168,381** |
| Net profit for the financial year | | **-** | **-** | **-** | **-** | **-** | **82,672** | **82,672** |
| Other comprehensive expenses for the financial year | | **-** | **-** | **(126,615)** | **(60,468)** | **-** | **-** | **(187,083)** |
| Total comprehensive (expenses)/income for the financial year | | **-** | **-** | **(126,615)** | **(60,468)** | **-** | **82,672** | **(104,411)** |
| Transaction with owners: | | | | | | | | |
| Dividends paid | 35 | **-** | **-** | **-** | **-** | **-** | **(12,000)** | **(12,000)** |
| Total transaction with owners | | **-** | **-** | **-** | **-** | **-** | **(12,000)** | **(12,000)** |
| **At 31 December 2021** | | **300,000** | **300,000** | **(77,063)** | **(62,678)** | **(128,888)** | **2,020,599** | **2,051,970** |
| **At 1 January 2020** | | 300,000 | 300,000 | 175,346 | (34,059) | (128,888) | 1,698,944 | 2,011,343 |
| Net profit for the financial year | | - | - | - | - | - | 250,983 | 250,983 |
| Other comprehensive (expenses)/income for the financial year | | - | - | (125,794) | 31,849 | - | - | (93,945) |
| Total comprehensive (expenses)/income for the financial year | | - | - | (125,794) | 31,849 | - | 250,983 | 157,038 |
| **At 31 December 2020** | | 300,000 | 300,000 | 49,552 | (2,210) | (128,888) | 1,949,927 | 2,168,381 |

The accompanying notes to the financial statements form an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

| | Note | 2021 RM'000 | 2020 RM'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before taxation | | **127,702** | 255,684 |
| Adjustments for: | | | |
| Interest expense | | **13,713** | 21,940 |
| Interest income | | **(4,972)** | (6,217) |
| Depreciation of property, plant and equipment | | **105,510** | 109,128 |
| Depreciation of right-of-use assets | | **7,453** | 7,518 |
| Amortisation of intangible assets | | **2,684** | 2,694 |
| Write off of property, plant and equipment | | **-** | 80 |
| Provision for obsolete inventories | | **2,126** | - |
| Inventories written down | | **13,825** | 28,110 |
| Impairment of receivables | | **318** | 26,190 |
| Amortisation of term loan commitment fees | | **177** | 177 |
| Gain on modification of lease contract | | **(163)** | - |
| Net fair value losses/(gains) on derivative financial instruments - unrealised | | **25,950** | (22,453) |
| Net foreign exchange losses - unrealised | | **37,522** | 2,230 |
| Operating profit before changes in working capital | | **331,845** | 425,081 |
| Changes in working capital: | | | |
| Inventories | | **(536,833)** | 411,288 |
| Trade and other receivables | | **(620,040)** | 159,285 |
| Trade, other payables, contract liabilities and amounts due to immediate holding company and related company | | **1,044,064** | (566,945) |
| Cash generated from operations | | **219,036** | 428,709 |
| Interest received | | **4,972** | 6,217 |
| Tax paid | | **(57)** | (161) |
| Net cash flows generated from operating activities | | **223,951** | 434,765 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions of property, plant and equipment | | **(183,065)** | (208,739) |
| Acquisitions of intangible assets | | **(42)** | (1,068) |
| Net cash flows used in investing activities | | **(183,107)** | (209,807) |

# STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

| | Note | 2021<br>RM'000 | 2020<br>RM'000 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayment of borrowings | | **(1,692,035)** | (1,555,292) |
| Proceeds from borrowings | | **1,654,606** | 980,606 |
| Interest paid | | **(32,981)** | (44,493) |
| Repayment of principal portion of lease liabilities | | **(7,603)** | (8,376) |
| Restricted cash for term loan facilities | | **(52,114)** | 45,223 |
| Dividends paid | | **(12,000)** | - |
| Net cash flows used in financing activities | | **(142,127)** | (582,332) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(101,283)** | (357,374) |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR** | | **683,843** | 1,036,788 |
| **EFFECTS OF EXCHANGE RATE CHANGES** | | **1,976** | 4,429 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR** | **20** | **584,536** | 683,843 |

During the financial year ended 31 December 2021, the Company acquired property, plant and equipment with an aggregate cost of RM120,199,000 (2020: RM183,408,000). Cash payments of RM100,976,000 (2020: RM164,029,000) were made for acquisitions of property, plant and equipment. The balance unpaid at the financial year end of RM30,803,000 (2020: RM112,892,000) is included within accruals for capital expenditure as disclosed in Note 24.

The accompanying notes to the financial statements form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

## 1 GENERAL INFORMATION

The principal activities of the Company consist of refining and manufacturing of petroleum products. There has been no significant change in these activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of the Bursa Malaysia Securities Berhad ("Bursa Malaysia").

The Company regards Malaysia Hengyuan International Limited ("MHIL"), a company incorporated in Labuan, Malaysia and Shandong Linyi County Petrochemical Factory, a company incorporated in China, as its immediate and ultimate holding companies respectively.

The address of the registered office of the Company is:

Unit 30-01, Level 30
Tower A, Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

The address of the principal place of business of the Company is:

Batu 1, Jalan Pantai
71000 Port Dickson
Negeri Sembilan

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The financial statements of the Company have been prepared under the historical cost convention, unless otherwise indicated in the summary of significant accounting policies.

All values are rounded to the nearest thousand ("RM'000") except when otherwise indicated.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Company's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ. As at 31 December 2021, the areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.1 BASIS OF PREPARATION (continued)

**(a) Standards, amendments to published standards and interpretations to existing standards that are effective to the Company**

The Company has applied the following amendments to published standards for the first time for the financial year beginning on 1 January 2021:

- Amendments to MFRS 9, 139 & 7 – Interest Rate Benchmark Reform – Phase 2

The adoption of the above amendments to published standards did not have any material impact on the financial performance or position of the Company as disclosed below.

Effects of interest rate benchmark ("IBOR") reform

The Company's existing borrowings will mature prior to transitioning to an alternative benchmark rate. As such, there is no impact to the financial performance or position of the Company.

The Company will closely monitor the regulator's announcement on the alternative benchmark rate or the discontinuation of publication of the existing benchmark rate and engage the counterparties to discuss necessary changes to the related contracts.

Any new borrowings will be adopting the new alternative benchmark rates, where available.

**(b) Amendments to published standards that are applicable to the Company but not yet effective**

The Company will apply the new amendments to published standards in the financial year beginning on 1 January 2022:

- Amendments to MFRS 116 – Proceeds before Intended Use
- Amendments to MFRS 137 – Onerous Contracts: Cost of Fulfilling a Contract
- Annual improvements to MFRS 9 – Fees in the 10% test for Derecognition of Financial Liabilities

The financial impact that may arise from the adoption of the above amendments to published standards is being assessed by the Company.

The Company will apply the new amendments to published standards and interpretations to existing standards in the financial year beginning on 1 January 2023:

- Amendments to MFRS 101 – Classification of Liabilities as Current or Non-current
- Amendments to MFRS 101 – Disclosure of Accounting Policies
- Amendments to MFRS Practice Statement 2 "Making Material Judgements" – Disclosure of Accounting Policies
- Amendments to MFRS 108 – Definition of Accounting Estimates
- Amendments to MFRS 112 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The financial impact that may arise from the adoption of the above amendments to published standards is being assessed by the Company.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 FOREIGN CURRENCIES

The basis of accounting for foreign currency transactions is as follows:

**(a) Functional and presentation currency**

A company's functional currency should reflect the underlying transactions, events and conditions that are relevant to it which includes the currency of the primary economic environment in which a company generates and expends cash, the currency in which funds from financing activities are generated and the currency in which receipts from operating activities are usually retained.

The financial statements are presented in Ringgit Malaysia.

**(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

### 2.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost or valuation deemed as cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The cost of an item of property, plant and equipment initially recognised includes its purchase price, import duties, non-refundable purchase taxes and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the intended manner. Cost also includes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (refer to accounting policy Note 2.15 on borrowing costs).

Subsequent to initial recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognises such parts as individual assets with specific useful lives. The carrying amount of any component accounted for as a separate asset is derecognised when replaced.

Freehold land is not depreciated as it has an infinite life.

All property, plant and equipment are depreciated on a straight-line basis to allocate the cost, or the revalued amounts deemed as cost, to their residual values, over their estimated useful lives at the following annual rates:

| | |
|---|---|
| Land improvements and buildings | 2.5% - 10.0% |
| Plant, machinery and equipment | 2.5% - 33.3% |
| Motor vehicles | 20% |

Depreciation on work-in-progress commences when the assets are ready for their intended use.

Plant, machinery and equipment comprise components of the refinery which are subject to different refurbishment cycles. Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

At the end of each reporting period, the Company assesses whether there is any indication of impairment. If such indicators exist, the carrying amount of the asset is assessed and written down immediately to its recoverable amount. Refer to accounting policy Note 2.6 on impairment of non-financial assets. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on derecognition of the asset are included in the profit or loss in the financial year the asset is derecognised.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 MAINTENANCE COSTS

Asset replacement costs incurred by the Company for major scheduled maintenance of the refinery are capitalised as part of the refinery assets and depreciated on a straight-line basis over the period until the next major scheduled maintenance. All other repairs and maintenance are charged to profit or loss in the financial period they are incurred.

### 2.5 INTANGIBLE ASSETS

Intangible assets comprise software costs that are acquired by the Company, which have finite useful lives, and are measured at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets are amortised from the date that they are available for use and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets.

The estimated useful lives of intangible assets are between 3 and 10 years. Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

### 2.6 IMPAIRMENT OF NON-FINANCIAL ASSETS

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell ("FVLCTS") and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating-units ("CGU")).

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses are recognised in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

### 2.7 FINANCIAL ASSETS

Financial assets are recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the financial instrument.

#### (a) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. The Company reclassifies its debt instruments when and only when its business model for managing those assets changes.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 FINANCIAL ASSETS (continued)

#### (b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (''FVTPL''), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest (''SPPI'').

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company reclassifies debt instruments when and only when its business model for managing those assets changes.

There are three measurement categories into which the Company classifies its debt instruments.

**(i) Amortised cost**

Assets that are held for collection of contractual cash flows where those cash flows represent SPPI are measured at amortised cost and subject to impairment. Interest income from these financial assets is included in other income using the effective interest rate method. Gains and losses are recognised in profit or loss within administrative expenses when the asset is derecognised, modified or impaired.

**(ii) Fair value through other comprehensive income (''FVOCI'')**

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent SPPI, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in other income using the effective interest rate method.

**(iii) Fair value through profit or loss (''FVTPL'')**

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. The Company may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. Fair value changes are recognised in profit or loss within other operating gains/losses.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 FINANCIAL ASSETS (continued)

#### (c) Subsequent measurement – impairment

Impairment for debt instruments

The Company assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Company's financial instruments that are subject to ECL model are trade receivables and other receivables. While cash and cash equivalents are also subject to impairment requirements of MFRS 9, the identified impairment loss was immaterial.

ECL represent a probability-weighted estimate of the difference between present value of cash flows according to contract and present value of cash flows the Company expects to receive, over the remaining life of the financial instrument.

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For trade receivables, the Company applies the simplified approach permitted by MFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

For other receivables, the Company measures ECL through loss allowance at an amount equal to 12-month ECL if credit risk on a financial instrument or a group of financial instruments has not increased significantly since initial recognition. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining useful life of the exposure, irrespective of the timing of default (a lifetime ECL).

Significant increase in credit risk

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportable forward-looking information.

The following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor; or
- significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtor in the Company and changes in the operating results of the debtor.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 FINANCIAL ASSETS (continued)

#### (c) Subsequent measurement – impairment (continued)

Definition of default and credit-impaired financial assets

The Company defines a financial instrument as default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria:

The Company defines a financial instrument as default, when the counterparty fails to make contractual payment within 90 days of when they fall due.

Qualitative criteria:

The debtor meets unlikeliness to pay criteria, which indicates the debtor is in significant financial liability. The Company considers the following instances:

- the debtor is in breach of financial covenants;
- concessions have been made by the lender relating to the debtor's financial difficulty;
- it is becoming probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the debtor is insolvent.

Write off

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line.

The Company writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on unavailability of debtor's sources of income or assets to generate sufficient future cash flows to repay the amount. The Company may write off financial assets that are still subject to enforcement activity. Subsequent recoveries of amounts previously written off will result in impairment gains.

#### (d) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 DERIVATIVES AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as hedging instrument, and if so, the nature of the item being hedged. The Company designates its derivatives as hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Company documents at the inception of the hedge relationship, the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of the hedged items. The Company documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 19. Movements in the hedging reserve in shareholders' equity are shown in Note 23. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

#### (a) Cash flow hedge reserve

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within "other operating gains/losses".

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, as follows:

- The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowing is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.
- The gain or loss relating to the effective portion of refining margin swaps hedging the volatility in refining margin is recognised in profit or loss within purchases in the same period as the forecast purchases of crudes and sale of petroleum products took place.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss and deferred cost of hedging in equity is reclassified to profit or loss in the same period that the hedged cash flows affect profit or loss. When hedged future cash flows or forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred cost of hedging that was reported in equity is immediately reclassified to profit or loss.

#### (b) Cost of hedging reserve

MFRS 9 introduces the concept of "cost of hedging" which is seen as cost of achieving the risk mitigation inherent in the hedge. When refining margin swap contracts are used to hedge forecast transactions, the Company generally designates only the change in fair value of the refining margin swap contracts related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the refining margin swap contracts are recognised in other comprehensive income and accumulated in cash flow hedge reserve within equity. The change in the swap basis spread of the contract that relates to the hedged item is recognised in other comprehensive income and accumulated in costs of hedging reserve within equity. The deferred cost of hedging will be recycled from equity and recognised in profit or loss in the same period that the hedged cash flows affect profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 DERIVATIVES AND HEDGING ACTIVITIES (continued)

#### (c) Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

For refining margin swap hedges, the Company enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Company therefore performs a qualitative assessment on the effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Company uses the hypothetical derivative method to assess effectiveness.

In refining margin swap hedges, ineffectiveness may arise if there is a change in delivery date of crude oil, change in volume of hedged items or if there is a change in credit risk of the Company or the derivative counterparty. As all critical terms matched in the current and previous financial year, the economic relationship was 100% effective. There was no ineffectiveness during the financial year in relation to refining margin swap hedges.

The Company enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Company does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched in the current and previous financial year, the economic relationship was 100% effective.

Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for refining margin swap hedges. It may occur due to change in credit risk of the Company or the derivative counterparty, timing of interest rate swaps interest payment or reduction in the notional amount of the interest rate swaps. There was no ineffectiveness during the financial year in relation to interest rate swaps.

#### (d) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. These derivatives are classified as held for trading and accounted for at fair value through profit or loss in "other operating gains/losses".

#### (e) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value.

Crude purchases resulting in variability in the payable associated with the commodity price gives rise to an embedded derivative which is not closely related to the host financial instrument. The Company has an accounting policy choice for subsequent changes in the fair value of the embedded derivative. Cost of inventory could be adjusted to reflect subsequent changes in the fair value of the embedded derivative on the basis that such changes are part of the purchase and other costs incurred in bringing the inventory to its present location and condition. Alternatively, these changes could be charged to profit or loss in accordance on the basis that the cost of inventory is determined at the time of delivery and the bifurcated embedded derivative should be accounted for separately as if it was a freestanding instrument.

The Company opted to reflect subsequent changes in the fair value of the embedded derivative as part of the cost of inventory. The chosen policy will be consistently applied.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.9 TRADE AND OTHER RECEIVABLES

Trade receivables are amounts due from customers for oil products sold in the ordinary course of business. Other receivables generally arise from transactions outside the usual operating activities of the Company. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, where they are recognised at fair value plus transaction costs. Other receivables are recognised initially at fair value plus transaction costs. Transaction costs include transfer taxes and duties.

The Company holds trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest rate method, less allowance for impairment. Details about the Company's impairment policies and the calculation of ECL are provided in the accounting policy 2.7.

### 2.10 CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise cash, bank balances, deposits with licensed banks and other short-term and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts which are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents in the statement of cash flows. In the statement of financial position, banks overdrafts are shown within borrowings in current liabilities.

### 2.11 INVENTORIES

Inventories are stated at the lower of cost and net realisable value.

Cost comprises direct purchase costs (including transportation, insurance and premium) and is determined using the first in, first out method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity and gains/losses on qualifying cash flow hedges for purchase of raw materials. It excludes borrowing costs. The cost of finished products includes the cost of crude oil, direct materials, labour and an appropriate proportion of fixed and variable manufacturing overheads.

Net realisable value is the estimate of selling price in the ordinary course of business, less any cost of completion and selling expenses.

### 2.12 FINANCIAL LIABILITIES

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

#### (a) Classification

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

##### (i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities held for trading include derivatives entered into by the Company that do not meet the hedge accounting criteria. Liabilities in this category are classified within current liabilities if they are either held for trading or are expected to be settled within 12 months after the reporting date. Otherwise, they are classified as non-current.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.12 FINANCIAL LIABILITIES (continued)

#### (a) Classification (continued)

##### (ii) Other financial liabilities

The Company's other financial liabilities include trade payables, other payables, intercompany payables, lease liabilities and borrowings. Lease liabilities and loans and borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

#### (b) Recognition and initial measurement

Derivative liabilities are initially measured at fair value. Trade and other payables are recognised initially at fair value plus directly attributable transaction costs. Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Lease liabilities are recognised initially at the present value of the lease payments not paid at that date.

#### (c) Subsequent measurement – gains and losses

Derivative liabilities are subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences. Trade and other payables and loans and borrowings are subsequently measured at amortised cost using the effective interest method. Lease liabilities are subsequently measured by increasing the carrying amount to reflect interest, and to reduce the carrying amount to reflect the lease payments made. For other financial liabilities, gains and losses are recognised in the profit or loss when the financial liabilities are derecognised, and through amortisation process.

#### (d) Derecognition

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### 2.13 TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year after the reporting period (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value net of transaction costs incurred, which include transfer taxes and duties and subsequently measured at amortised cost using the effective interest method. See accounting policy 2.12 on financial liabilities.

### 2.14 PROVISIONS

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.15 BORROWINGS AND BORROWING COSTS

#### (a) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the fair value (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method, except for borrowing costs incurred for the construction of any qualifying asset.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

#### (b) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### 2.16 OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

### 2.17 REVENUE

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

Revenue from contracts with customers

#### (a) Sale of oil products, partially refined oil products and feedstocks

The Company refines and sells refined and partially refined oil products as well as feedstocks to customers. Additionally, the Company also sells crude oil to its customers. Sales are recognised upon transfer of control of the goods to the customer. This is when products are delivered to the customer, the customer has full discretion over the channel and price to sell the products and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risk of loss has been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract or the Company has objective evidence that all criteria for acceptance have been satisfied.

No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with market practice.

A receivable is recognised when the products are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.17 REVENUE (continued)

Revenue from contracts with customers (continued)

**(b) Procurement of oil products**

The Company has contracts with its related companies to acquire, on their behalf, oil products produced by customers. The Company is acting as an agent in these arrangements.

When another party is involved in providing goods or services to its related companies, the Company determines whether it is a principal or an agent in these transactions by evaluating the nature of its promise to related companies. The Company is a principal and records revenue on a gross basis if it controls the promised goods before transferring them to related companies. However, if the Company's role is only to arrange for another entity to provide the goods, then the Company is an agent and will need to record revenue at the net amount that it retains for its agency services.

Revenue from other sources – interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

### 2.18 PURCHASES

Purchases reflect all costs related to acquisition of inventories and supplies used for conversion into finished products, including the effects of the changes therein (cost of inventories), foreign exchange gains and losses.

### 2.19 LEASES

**Company as lessee**

Leases are recognised as right-of-use ("ROU") asset and a corresponding liability at the date on which the leased asset is available for use by the Company (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease term

In determining lease term, the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably to be extended (or not to be terminated).

The Company reassess the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Company and affects whether the Company is reasonably certain to exercise an option not previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities. See accounting policy on reassessment of lease liabilities.

Right-of-use ("ROU") assets

**(a) Initial measurement of ROU assets**

ROU assets are initially measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before commencement date less any lease incentive received;
- Any initial direct costs; and
- Decommissioning or restoration costs.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19 LEASES (continued)

**Company as lessee (continued)**

Right-of-use ("ROU") assets (continued)

**(b) Subsequent measurement of ROU assets**

ROU assets that are not investment properties are subsequently measured at cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life. In addition, the ROU assets are adjusted for certain remeasurements of the lease liabilities. ROU assets are presented as a separate line in the statement of financial position.

Lease liabilities

**(a) Initial measurement of lease liabilities**

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing is used. This is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU assets in a similar economic environment with similar terms, security and conditions.

The lease payments include the following:

- Fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Company under residual value guarantees;
- The exercise price of a purchase and extension options if the Company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments are allocated between principal and finance costs. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Company presents the lease liabilities as a separate line item in the statement of financial position. Interest expense on the lease liability is presented within the finance cost in profit or loss in the statement of comprehensive income.

**(b) Subsequent measurement of lease liabilities**

After the commencement date, a lessee shall measure the lease liability by:

i) increase the carrying amount to reflect interest on the lease liability;

ii) reduce the carrying amount to reflect the lease payments made; and

iii) remeasure the carrying amount to reflect any reassessment or lease modifications specified or to reflect in-substance fixed lease payments.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19 LEASES (continued)

**Company as lessee (continued)**

Lease liabilities (continued)

**(c) Reassessment of lease liabilities**

After the commencement date, a lessee shall remeasure the lease liability to reflect changes to the lease payments by using a revised discount rate if either:

i) a change in lease term due to the lessee exercises an option (purchase/termination/extension) in a different way than the Company has previously determined was reasonably certain; or

ii) a change in lease term due to an event occurs that contractually obliged/prohibits the lessee from exercising the option.

In contrast, a lessee shall use an unchanged discount rate to remeasure lease liability to reflect changes to lease payments if either:

i) a change in the amounts expected to be payable under a residual value guarantee; or

ii) a change in future lease payments resulting from a change in an index or rate used to determine those payments.

A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the ROU asset. However, if the carrying amount of the ROU asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

Short term leases and leases of low value assets

Short term leases are leases with a lease term of 12 months or less. Low value assets comprise of small items such as IT equipment. Payments associated with short term leases and leases of low value assets are recognised on a straight-line basis as an expense in profit or loss.

### 2.20 EMPLOYEE BENEFITS

**(a) Short-term employee benefits**

The Company recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Wages, salaries, paid annual leave, sick leave, bonuses, social security contributions and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Company. Short term accumulating compensated absences such as paid annual leave is recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

**(b) Post-employment benefits**

The Company's post-employment benefit scheme comprises only of the defined contribution plan.

Contributions to the Employees' Provident Fund, which is a defined contribution plan, are charged to the profit or loss when incurred. Once the contributions have been paid, the Company has no further payment obligations.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.20 EMPLOYEE BENEFITS (continued)

#### (c) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to the employees. The estimated liability for leave is recognised for services rendered by employees up to the reporting date.

#### (d) Long-term employee benefits

The Company provides death in service and long-term disability benefits to its employees. The benefit is on a lump sum basis based on a multiplier of the last drawn average annual salary of the employee and is not dependent on the employee's length of service. Accordingly, it is charged to profit or loss when incurred.

### 2.21 CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the best estimate of the most likely outcome.

Deferred tax assets and liabilities are recognised on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets including tax benefits from reinvestment allowance are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on the taxable entity.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.22 SHARE CAPITAL

#### (a) Classification

An equity instrument is any contract that evidence a residual interest in the assets of the Company, after deducting all of its liabilities. Ordinary shares are classified as equity. Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs.

#### (b) Dividend distribution

Dividend distribution to owners of the Company is debited directly to equity. The corresponding liability is recognised in the period in which the dividends are approved.

### 2.23 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing:

– the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; and
– by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in the ordinary shares issued during the financial year and excluding treasury shares.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### 2.24 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company does not recognise contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past event whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

### 2.25 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

No segmental information is considered necessary for analysis by business or by geographical segments. This is because the Company is principally engaged in the business of refining and manufacturing of petroleum products in Malaysia, which is a single business segment. Also, the Company's primary segment operations are also concentrated within Malaysia, hence operating within a single geographical segment.

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated by the Directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amount of assets within the next financial year is:

### (a) Recoverability of the carrying amount of refinery assets

The Company reviews the carrying amount of its property, plant and equipment, intangible assets and ROU assets (collectively the refinery assets cash-generating-units ("CGU")) in accordance with its accounting policy stated in Note 2.6. The Company's results from operations in any given period are principally driven by the demand for and price of petroleum products relative to the supply and cost of crude oil.

Assumptions considered in the FVLCTS calculations include projected refining margins adjusted for planned turnaround activities, margin uplift initiatives from crude optimisation and estimated production volume based on existing production capacity and forecast demand. The FVLCTS calculations also took into account the planned capital expenditure and incremental operating costs anticipated to ensure compliance with product specification regulations. The assessment was based on management's assessment adjusted for market conditions to reflect market participants' perspective (level three (3) in fair value hierarchy) and extrapolating the cash flows over a 20-year period, which reflects the remaining useful life of the refinery assets.

The following key assumptions were made in determination of the recoverable amount:

(i) Refining margins per barrel: Between USD3.34 to USD5.14 (2020: USD3.30 to USD6.17)

(ii) Post-tax discount rate: 10.0% (2020: 10.5%)

(iii) Production volume: Based on existing production capacity and forecast demand, considering the impact from climate-related risk

Sensitivity analysis:

The key estimation uncertainty over the assumptions used by management in the FVLCTS is the refining margins and discount rate. The sensitivity of these assumptions to the recoverable amount and impairment loss is as follows:

- 5.52% decrease over the 20-year period in refinery margin will result in the recoverable amount being equal to the carrying amount of the refinery assets.
- 2.32% increase over the 20-year period in the discount rate will result in the recoverable amount being equal to the carrying amount of the refinery assets.
- 4.31% decrease over the 20-year period in the production volume will result in the recoverable amount being equal to the carrying amount of the refinery assets.

The cash flow forecast is dependent on the achievability of the refinery margins, production volume and assumptions and the corresponding sensitivities as indicated above.

Refinery margins are subject to cyclical fluctuations resulting from an over-supply and supply tightness in various global and regional markets. Fluctuations in the short term may result in significant changes in profit or loss.

Despite the delay in the progress of the Euro 4 Mogas ("E4M") project, the Company is capable of producing E4M specification products to meet all its contractual obligations. Should there be additional demand, the Company may either increase its production or import the E4M specification products, whichever is more commercially attractive. Therefore, the Directors do not expect the consequential margin impact from the project delay on the recoverable amount of the refinery assets to be material. In addition, the Directors have considered the impact of climate-related risks in the assumptions, especially on the production volume used to determine the FVLCTS and do not expect the impact to the recoverable amount of the refinery assets to be material at this juncture.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### (b) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits.

Assumptions about generation of future taxable profits depends on management's estimates of future production and sales volume, operating costs and capital expenditure. Judgement is also required about application of income tax legislation. These judgements and assumptions are subject to risks and uncertainty hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised in the statement of financial position and the amount of unrecognised tax losses and unrecognised temporary differences.

Pursuant to the Malaysia Finance Act 2021 gazetted on 31 December 2021, the time limit to carry forward unused tax losses has been extended to ten consecutive years of assessment from seven years of assessment ("YA"). The change in the tax treatment is effective from YA2019 and therefore all the brought forward unused tax losses will be disregarded from YA2028.

In the current financial year, the Company has recognised deferred tax assets of RM6,674,000 arising from unused tax losses as it is probable that future taxable profits will be available to offset against the unused tax losses.

### (c) Net realisable value of the hydrocarbon inventories

The COVID-19 pandemic and an over-supply and supply tightness in various global and regional markets may affect the estimated net realisable value of hydrocarbon inventories. The estimated selling prices may fluctuate due to changes in the customers' demand for petroleum as a result of restricted travel imposed in Malaysia as well as globally. The Company needs to estimate the net realisable value based on the most reliable evidence at the time the estimate is made. The Company also considers the effect of events occurring after the end of the financial year in determining the net realisable value of the hydrocarbon inventories. These estimates require judgements given the uncertainties in the future selling prices and selling costs of the inventories.

Based on the assessment performed, the Company has provided RM41,935,000 for inventories write down.

## 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks; market risk (including foreign currency exchange risk, interest rate risk, commodity price risk and refining margin risk), credit risk, liquidity and cash flow risk and capital risk. The Company's overall financial risk management objective is to ensure the Company creates value for its shareholders. The Company focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. Financial risk management is carried out through risk reviews, assurance plans, internal control systems, insurance programmes and adherence to the Company's Treasury Policy and Procedures.

The Company may enter into foreign exchange forward contracts to manage its exposure to foreign currency risks in receivables and payables. Straightforward derivative financial instruments are utilised by the Company to manage the exposure to foreign currency exchange risk, commodity price risk, refining margin risk and interest rate risks. The Company does not enter into derivative financial instruments that are speculative in nature.

Where all relevant criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. This will effectively result in recognising interest expense at a fixed interest rate for the hedged floating rate loans and locking the refining margin for the hedged forecast purchases and sales.

The Company's accounting policy on its cash flow hedges is set out on Note 2.8(a).

For information about the methods and assumptions used in determining the fair value of derivatives refer to Note 5.

## 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (a) Market risk

Market risk refers to the risk that changes in market prices, such as foreign exchange rates, interest rates and prices will affect the Company's financial position and cash flows.

#### (i) Foreign currency exchange risk

Foreign currency exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The objective of the Company's currency risk management policies is to allow the Company to effectively manage exposures that may arise from operating and financing activities.

The Company may enter into foreign currency swaps and forward contracts to limit its exposure on foreign currency receivables and payables and on cash flows generated from anticipated transactions denominated in foreign currencies. These foreign currency receivables and payables do not qualify as "highly probable" forecast transactions and hence do not satisfy the requirements for hedge accounting (economic hedges). The foreign currency swaps and forward contracts are subject to the same risk management policies as all other derivative contracts. They are accounted for as "held for trading" with gains/(losses) recognised in profit or loss.

The following analysis illustrates the Company's sensitivity to changes in USD to RM exchange rate (2020: USD to RM exchange rate):

| | Increase/(decrease) in profit after tax | |
|---|---|---|
| | **2021** | **2020** |
| | **RM'000** | **RM'000** |
| USD strengthens by 10% | **(129,088)** | (63,824) |
| USD weakens by 10% | **129,088** | 63,824 |

The Company's exposure to other foreign exchange movements is not material.

#### (ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company finances its operations through a mixture of retained earnings and bank borrowings. The Company's interest rate risk arises from borrowings at variable rates and deposits with licensed banks and are managed in compliance with the treasury policy of the Company.

The Company has an approved policy to hedge interest rate risk as part of the Company's risk management policy.

Generally, the Company enters into long-term borrowings at floating rates and swaps them into fixed rates. The Company's borrowings at variable rate is denominated in USD.

Interest rate swaps currently in place cover approximately 53% (2020: 56%) of the variable loan principal outstanding. The fixed interest rates of the swaps range between 2.96% to 3.03% and the variable rates of the loans are between 0.12% to 0.22% (2020: 0.25% to 1.89%).

The interest rate swap contracts require settlement of net interest receivable or payable every 90 days. The settlement date coincides with the dates on which interest is payable on the underlying debt.

Surplus funds are placed with licensed financial institutions to earn interest income based on prevailing market rates. The Company manages its interest rate risks by placing such funds on short tenures of 12 months or less.

The interest rate profile of the Company's significant interest-bearing financial instrument has been presented in Note 26.

## 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (a) Market risk (continued)

#### (ii) Interest rate risk (continued)

Cash flow sensitivity analysis for variable rate instruments

The Company analyses its cash flow interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging.

Based on these scenarios, the Company calculates the impact on profit or loss of a defined interest rate shift, after the impact of hedge accounting. With all other variables held constant, the Company's profit after tax is affected as below:

| | Increase/(decrease) in profit after tax | |
|---|---|---|
| | **2021 RM'000** | **2020 RM'000** |
| 100 basis points increase in interest rate | **(3,776)** | (3,519) |
| 100 basis points decrease in interest rate | **3,776** | 3,519 |

#### (iii) Commodity price risk and refining margin risk

The Company is exposed to fluctuations in crude oil and petroleum product prices which may affect the value of the Company's assets, liabilities or expected future cash flows. The Company has an approved policy to hedge refining margin as part of the Company's risk management policy. Refining margins are hedged based on the Company's physical exposures to prices of crude oil and its 3 main products namely mogas, gasoil and jet fuel. Competitive quotes are obtained from counterparties and compared to published prices as a basis for entering into a hedge. The purpose of executing these hedges is to stabilise refining margins exposure towards achieving a sustainable profit over the short and medium term.

In addition to hedging its refining margins, the Company also uses commodity swaps and options to manage some of its transaction exposures. These commodity swaps and options are not designated as cash flow hedges and are subject to the same risk management policies as all other derivative contracts. They are accounted for as "held for trading" with gains/(losses) recognised in profit or loss.

The table shows the effect of market price changes on the fair value of the Company's commodity swaps and options:

| | Increase/(decrease) in profit after tax | |
|---|---|---|
| | **2021 RM'000** | **2020 RM'000** |
| 10% increase in commodity price | **(2,476)** | (2,003) |
| 10% decrease in commodity price | **2,476** | 2,003 |

The table shows the effect of price changes on the fair value of the Company's refining margin swaps:

| | Increase/(decrease) in equity | | Increase/(decrease) in profit after tax | |
|---|---|---|---|---|
| | **2021 RM'000** | **2020 RM'000** | **2021 RM'000** | **2020 RM'000** |
| 10% increase in refining margin | **(97,809)** | (8,018) | **5,724** | 4,948 |
| 10% decrease in refining margin | **97,809** | 8,018 | **(5,724)** | (4,948) |

## 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. At the reporting date, the Company's maximum exposure to credit risk is represented by the carrying amounts of each class of financial assets recognised in the statement of financial position.

#### (i) Receivables

Credit risk on customers arises when sales are made on credit terms. It seeks to control credit risk by setting counterparty limits and ensuring that sales of products are made only to approved customers with an appropriate credit history. It is the Company's policy to monitor the financial standing of the customers on an ongoing basis to ensure that the Company is exposed to a minimal credit risk. The maximum credit exposure associated with financial assets is equal to the carrying amount.

60% (2020: 55%) of the Company's total receivables at the reporting date are due from two (2020: two) major customers in the oil and gas industry in Malaysia. The Directors are of the view that such credit risk is minimal in view of the strength of the customers' financial position and no history of default from these major customers.

For some trade receivables, the Company may obtain security in the form of guarantees, deeds of underwriting of letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

An impairment analysis is performed at each reporting date to measure expected credit losses. The provision rates are based on days past due and coverage by letters of credit and historical credit losses of the customers. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events and current conditions. The Company has considered expected oil price and geographical area which the debtor operates in and concluded that the effect on expected changes in these factors do not significantly affect the historical credit loss rates. Generally, trade receivables are written off if past due for more than one year unless it is covered by letters of credits. These letters of credit are considered integral part of trade receivables and considered in the calculation of impairment.

Information about credit exposure on the Company's trade receivables is disclosed in Note 17.

#### (ii) Deposits with licensed banks, bank balances and favourable derivative financial instruments

The Company seeks to invest cash assets safely and profitably. Deposits, forward contracts and interest rate swaps entered into are placed only with financial institutions with strong long-term credit ratings based on independent rating agencies. The likelihood of non-performance by these financial institutions is remote based on their high credit ratings.

For other favourable derivative financial instruments such as refining margin swaps, commodity swaps, commodity options and forward priced commodity contracts, these are also entered into with counterparties with strong long-term credit ratings based on independent agencies. In addition, the Company may obtain security which can be called upon if the counterparty is in default under terms of agreement.

None of the financial assets have been renegotiated in the current financial year.

## 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (c) Liquidity and cash flow risks

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's exposure to liquidity risk arises principally from its payables and borrowings. The Company ensures that cash is available to meet working capital and other financing obligations, and that cash flows are managed efficiently. This is done through cash forecasts to achieve optimal cash management planning. The Company sets a minimum level of cash to be held on a daily basis in order to meet both firm commitments and forecast obligations. The Company has access to undrawn facilities from its revolving credits and account receivable factoring facility from bank. These facilities will be reviewed and renewed annually and may be terminated by the bank with written notice.

As at 31 December 2021, the Company had current borrowings, trade and other payables of RM2,750 million and non-current borrowings of RM320 million. The Company is undergoing refinancing of its term loans and revolving credits. The Board is confident that the refinancing program will be completed prior to the required repayment of the borrowings in January 2023. The proceeds from the refinancing will enable the Company to meet its working capital requirements in addition to repayment of the borrowings.

Accordingly, the Company has prepared cash flows forecast for the next twelve months from the reporting date incorporating the completion of the refinancing exercise and forecast of the future operating cashflows based on their past performance and estimated sales volume. Based on the cash flow forecasts, the Directors are of the view that the Company is able to generate sufficient cash flows for the next twelve months from the reporting date to meet their operation requirements and the scheduled term loan repayments.

As at 31 December 2021, there are outstanding borrowings amounting to RM798,297,000 (2020: RM799,807,000) as disclosed in Note 26.

All financial liabilities of the Company that will be due and payable within the next 12 months are classified within current liabilities. The contractual cash flows of derivative financial liabilities and non-derivative financial liabilities are presented below:

| At 31 December 2021 | Within 1 year RM'000 | Between 1 to 2 years RM'000 | Between 2 to 5 years RM'000 | Total contractual undiscounted cash flows RM'000 | Total carrying amount RM'000 |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables excluding statutory liabilities | 2,259,723 | - | - | 2,259,723 | 2,259,723 |
| Lease liabilities | 8,355 | 7,278 | 892 | 16,525 | 16,101 |
| Amounts due to immediate holding company and related company | 11,687 | - | - | 11,687 | 11,687 |
| Borrowings | 485,871 | 320,716 | - | 806,587 | 798,297 |
| | 2,765,636 | 327,994 | 892 | 3,094,522 | 3,085,808 |
| **Derivative financial liabilities** | | | | | |
| Refining margin swap contracts | 97,429 | 66,991 | 22,654 | 187,074 | 187,074 |
| Commodity options contracts | 5,245 | - | - | 5,245 | 5,245 |
| Forward priced commodity contracts | 28,136 | - | - | 28,136 | 28,136 |
| Forward foreign currency contracts | 373 | - | - | 373 | 373 |
| Interest rate swap contracts | - | 6,619 | - | 6,619 | 6,619 |
| | 131,183 | 73,610 | 22,654 | 227,447 | 227,447 |
| | 2,896,819 | 401,604 | 23,546 | 3,321,969 | 3,313,255 |

## 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### (c) Liquidity and cash flow risks (continued)

| At 31 December 2020 | Within 1 year RM'000 | Between 1 to 2 years RM'000 | Between 2 to 5 years RM'000 | Total contractual undiscounted cash flows RM'000 | Total carrying amount RM'000 |
|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables excluding statutory liabilities | 1,291,309 | - | - | 1,291,309 | 1,291,309 |
| Lease liabilities | 8,402 | 8,367 | 7,786 | 24,555 | 23,518 |
| Amounts due to immediate holding company and related company | 14,317 | - | - | 14,317 | 14,317 |
| Borrowings | 261,725 | 248,635 | 308,484 | 818,844 | 799,807 |
| | 1,575,753 | 257,002 | 316,270 | 2,149,025 | 2,128,951 |
| **Derivative financial liabilities** | | | | | |
| Refining margin swap contracts | 4,192 | - | - | 4,192 | 4,192 |
| Forward priced commodity contracts | 2,526 | - | - | 2,526 | 2,526 |
| Commodity swap contracts | 46,920 | - | - | 46,920 | 46,920 |
| Interest rate swap contracts | - | - | 15,886 | 15,886 | 15,886 |
| | 53,638 | - | 15,886 | 69,524 | 69,524 |
| | 1,629,391 | 257,002 | 332,156 | 2,218,549 | 2,198,475 |

### (d) Capital risk management

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern;
- to maximise returns for shareholders; and
- to maintain an optimal capital structure which minimises the cost of capital while maintaining sufficient liquidity.

The Company monitors capital on the basis of gearing ratio. This ratio is calculated as total borrowings divided by total capital. The capital structure of the Company consists of borrowings and total equity.

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Total borrowings | **798,297** | 799,807 |
| Total equity | **2,051,970** | 2,168,381 |
| Total borrowings | **798,297** | 799,807 |
| Total capital | **2,850,267** | 2,968,188 |
| Gearing ratio | **28%** | 27% |

The borrowings of the Company are subject to the banks' covenants, which include debt service cover ratio, liability to asset ratio, current ratio and net debt to earnings before interest, tax, depreciation, and amortisation (EBITDA) ratio, which the Company has complied with.

## 5 FAIR VALUE MEASUREMENTS

**Financial instruments carried at amortised cost**

The carrying amounts of financial assets and liabilities measured at amortised cost approximate their respective fair values.

**Financial instruments carried at fair value**

Refining margin swap contracts, forward foreign currency contracts, forward priced commodity contracts, commodity options, commodity swap contracts and interest rate swap contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing model, using present value calculations. The models incorporate various inputs including the credit quality of counterparties and foreign exchange spot and forward rates.

**Fair value hierarchy**

The Company measures fair value using the following fair value hierarchy that reflects the significance of the input used in making the measurements:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

Derivative financial instruments outstanding as at reporting date are detailed below:

| | As at 31 December 2021 | |
|---|---|---|
| **Derivatives** | **Notional Value USD'000** | **Fair Value RM'000** |
| Refining margin swap contracts, net | **280,487** | **(167,411)** |
| Forward foreign currency contracts, net | **76,000** | **(322)** |
| Commodity swap contracts | **731** | **447** |
| Commodity options contracts, net | **7,653** | **(4,152)** |
| Forward priced commodity contracts | **72,228** | **(28,136)** |
| Interest rate swap contracts | **71,875** | **(6,619)** |

| | As at 31 December 2020 | |
|---|---|---|
| **Derivatives** | **Notional Value USD'000** | **Fair Value RM'000** |
| Refining margin swap contracts, net | 59,436 | 74,746 |
| Forward foreign currency contracts | 18,000 | 57 |
| Commodity swap contracts, net | 96,496 | 9,265 |
| Forward priced commodity contracts | 47,414 | (2,526) |
| Interest rate swap contracts | 88,750 | (15,886) |

## 5 FAIR VALUE MEASUREMENTS (continued)

### Fair value hierarchy (continued)

The table below summarises all financial instruments carried at fair value as at reporting date, based on a hierarchy that reflects the significance of the inputs used in measuring its respective fair values.

| | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Financial assets/(liabilities)** | | | | |
| Derivative financial assets: | | | | |
| - Refining margin swap contracts | **-** | **19,663** | **-** | **19,663** |
| - Commodity swap contracts | **-** | **447** | **-** | **447** |
| - Commodity options contracts | **-** | **1,093** | **-** | **1,093** |
| - Forward foreign currency contracts | **-** | **51** | **-** | **51** |
| Derivative financial liabilities: | | | | |
| - Refining margin swap contracts | **-** | **(187,074)** | **-** | **(187,074)** |
| - Commodity options contracts | **-** | **(5,245)** | **-** | **(5,245)** |
| - Forward priced commodity contracts | **-** | **(28,136)** | **-** | **(28,136)** |
| - Forward foreign currency contracts | **-** | **(373)** | **-** | **(373)** |
| - Interest rate swap contracts | **-** | **(6,619)** | **-** | **(6,619)** |
| **At 31 December 2021** | **-** | **(206,193)** | **-** | **(206,193)** |
| **Financial assets/(liabilities)** | | | | |
| Derivative financial assets: | | | | |
| - Refining margin swap contracts | - | 78,938 | - | 78,938 |
| - Commodity swap contracts | - | 56,185 | - | 56,185 |
| - Forward foreign currency contracts | - | 57 | - | 57 |
| Derivative financial liabilities: | | | | |
| - Refining margin swap contracts | - | (4,192) | - | (4,192) |
| - Commodity swap contracts | - | (46,920) | - | (46,920) |
| - Forward priced commodity contracts | - | (2,526) | - | (2,526) |
| - Interest rate swap contracts | - | (15,886) | - | (15,886) |
| **At 31 December 2020** | - | 65,656 | - | 65,656 |

During the current and previous financial year, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurement. The fair values were obtained from the counterparties.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

## 6 REVENUE

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Sale of oil products: | | |
| - refined | **11,889,433** | 7,175,066 |
| - crude oil | **116,607** | 1,081 |
| | **12,006,040** | 7,176,147 |

The sale of oil products is recognised at point in time.

## 7 OTHER INCOME

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Interest income | **4,972** | 6,217 |
| Liquidated damages | **26,331** | 10,187 |
| Insurance claims | **3,772** | - |
| Gain on modification of lease contract | **163** | - |
| | **35,238** | 16,404 |

## 8 FINANCE COST

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Interest expense: | | |
| - borrowings | **11,412** | 12,075 |
| - amortisation of term loan commitment fees | **177** | 177 |
| - interest rate swaps | **471** | 8,426 |
| - lease liabilities | **680** | 1,018 |
| - factoring agreement | **1,150** | 351 |
| - interest charged by hedging counterparties on collateral held | **-** | 70 |
| | **13,890** | 22,117 |

## 9 PROFIT BEFORE TAXATION

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| The profit before taxation is arrived at after charging/(crediting): | | |
| Auditors' remuneration: | | |
| - statutory audit fees | **373** | 351 |
| - audit-related fees | **69** | 69 |
| - fees for non-audit services** | **186** | 155 |
| Cost of inventories | **10,795,604** | 7,448,100 |
| Staff cost: | | |
| - salaries, bonus and allowances | **76,906** | 92,681 |
| - defined contribution plan | **10,649** | 11,713 |
| - other employee benefits | **4,853** | 4,604 |
| Foreign exchange losses/(gains): | | |
| - realised | **23,896** | (9,970) |
| - unrealised | **37,522** | 2,230 |
| Net fair value losses/(gains) on derivative financial instruments: | | |
| - included in purchases (Note 23) | **45,445** | (823,935) |
| - included in other operating losses/(gains) | **490,546** | (300,381) |
| Depreciation of property, plant and equipment | **105,510** | 109,128 |
| Depreciation of right-of-use assets | **7,453** | 7,518 |
| Amortisation of intangible assets | **2,684** | 2,694 |
| Inventories written down (net) | **13,825** | 28,110 |
| Provision for obsolete inventories | **2,126** | - |
| Impairment of receivables | **318** | 26,190 |
| Write off of property, plant and equipment | **-** | 80 |

** Non-audit services comprising of tax related and other advisory services are provided by the member firms of the Company's auditors.

## 10 TAXATION

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Deferred taxation (Note 27) | | |
| - origination and reversal of temporary differences | **29,521** | 8,549 |
| - under/(over) accrual in prior year | **15,509** | (3,848) |
| Taxation recognised in profit or loss | **45,030** | 4,701 |
| Deferred taxation (Note 27) | | |
| - origination and reversal of temporary differences | **(59,077)** | (31,087) |
| Taxation recognised in other comprehensive income | **(59,077)** | (31,087) |

## 10 TAXATION (continued)

Income tax is calculated at the Malaysian statutory tax rate of 24% (2020: 24%) of the estimated assessable profit for the financial year. The numerical reconciliation between the effective tax rate and the applicable statutory tax rate is as follows:

| | 2021<br>% | 2020<br>% |
|---|---|---|
| Applicable statutory tax rate | **24** | 24 |
| Tax effects in respect of: | | |
| - expenses not deductible for tax purposes | **7** | 1 |
| - under/(over) accrual in prior year | **12** | (1) |
| - recognition of reinvestment allowance | **(8)** | - |
| - utilisation of reinvestment allowance previously not recognised | **-** | (4) |
| - recognition of previously unrecognised tax losses | **-** | (18) |
| Effective tax rate | **35** | 2 |

## 11 EARNINGS PER SHARE

Basic earnings per share of the Company is calculated by dividing the profit for the financial year by the weighted average number of ordinary shares in issue during the financial year.

There are no potentially diluted items identified in the current and previous financial year, hence diluted earnings per share equals to basic earnings per share.

| | 2021 | 2020 |
|---|---|---|
| Profit for the financial year (RM'000) | **82,672** | 250,983 |
| Weighted average number of ordinary shares in issue ('000) | **300,000** | 300,000 |
| Basic/Diluted earnings per share (sen) | **28** | 84 |

## 12 DIRECTORS' REMUNERATION

| | 2021<br>RM'000 | 2020<br>RM'000 |
|---|---|---|
| Fees | **2,044** | 1,983 |
| Allowances | **29** | 25 |
| | **2,073** | 2,008 |

Indemnity insurance for Directors and Officers of the Company during the financial year amounted to RM65,000 (2020: RM60,500).

## 13 PROPERTY, PLANT AND EQUIPMENT

| 2021 | Freehold land RM'000 | Land improvements RM'000 | Buildings RM'000 | Plant, machinery, equipment and motor vehicles RM'000 | Work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Cost or deemed cost** | | | | | | |
| At 1 January | 46,219 | 14,299 | 99,791 | 3,646,522 | 1,046,785 | 4,853,616 |
| Additions | - | - | - | - | 120,199 | 120,199 |
| Write off | - | - | - | (1,310) | - | (1,310) |
| Reclassification | - | - | - | 88,304 | (88,304) | - |
| At 31 December | 46,219 | 14,299 | 99,791 | 3,733,516 | 1,078,680 | 4,972,505 |
| **Accumulated depreciation** | | | | | | |
| At 1 January | - | 13,466 | 65,336 | 2,560,065 | - | 2,638,867 |
| Charge for the financial year | - | 98 | 2,083 | 103,329 | - | 105,510 |
| Write off | - | - | - | (1,310) | - | (1,310) |
| At 31 December | - | 13,564 | 67,419 | 2,662,084 | - | 2,743,067 |
| **Accumulated impairment losses** | | | | | | |
| At 1 January | - | - | - | 220,561 | - | 220,561 |
| At 31 December | - | - | - | 220,561 | - | 220,561 |
| **Carrying amount** | | | | | | |
| At 31 December | 46,219 | 735 | 32,372 | 850,871 | 1,078,680 | 2,008,877 |

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

## 13 PROPERTY, PLANT AND EQUIPMENT (continued)

| 2020 | Freehold land RM'000 | Land improvements RM'000 | Buildings RM'000 | Plant, machinery, equipment and motor vehicles RM'000 | Work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **Cost or deemed cost** | | | | | | |
| At 1 January | 46,219 | 14,299 | 99,791 | 3,623,465 | 886,554 | 4,670,328 |
| Additions | - | - | - | - | 183,408 | 183,408 |
| Disposal | - | - | - | (40) | - | (40) |
| Write off | - | - | - | - | (80) | (80) |
| Reclassification | - | - | - | 23,097 | (23,097) | - |
| At 31 December | 46,219 | 14,299 | 99,791 | 3,646,522 | 1,046,785 | 4,853,616 |
| **Accumulated depreciation** | | | | | | |
| At 1 January | - | 13,361 | 63,078 | 2,453,340 | - | 2,529,779 |
| Charge for the financial year | - | 105 | 2,258 | 106,765 | - | 109,128 |
| Disposal | - | - | - | (40) | - | (40) |
| At 31 December | - | 13,466 | 65,336 | 2,560,065 | - | 2,638,867 |
| **Accumulated impairment losses** | | | | | | |
| At 1 January | - | - | - | 220,561 | - | 220,561 |
| At 31 December | - | - | - | 220,561 | - | 220,561 |
| **Carrying amount** | | | | | | |
| At 31 December | 46,219 | 833 | 34,455 | 865,896 | 1,046,785 | 1,994,188 |

### Assets pledged as security

Property, plant and equipment as at reporting date are pledged as security for borrowings as disclosed in Note 26.

### Capitalised borrowing costs

The amount of borrowing costs capitalised during the financial year ended 31 December 2021 is RM19,223,000 (2020: RM19,379,000). The rate used to determine the amount of borrowing costs eligible for capitalisation is 2.29% (2020: 2.31%) which is the weighted average of the borrowing costs applicable to the borrowings of the Company.

## 14 INTANGIBLE ASSETS

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| **Cost** | | |
| At 1 January | **64,835** | 63,767 |
| Additions | **42** | 1,068 |
| At 31 December | **64,877** | 64,835 |
| **Accumulated amortisation** | | |
| At 1 January | **52,391** | 49,697 |
| Amortisation for the financial year | **2,684** | 2,694 |
| At 31 December | **55,075** | 52,391 |
| **Carrying amount** | | |
| At 31 December | **9,802** | 12,444 |

Intangible assets mainly relate to costs incurred by the Company in setting up its standalone IT systems.

The useful life of IT development and software is between 3 and 10 years (2020: 3 and 10 years).

The amortisation of IT development and software costs are included in the "depreciation and amortisation" line item in the profit or loss.

## 15 LEASES

### (i) The balance sheet shows the following amounts relating to leases:

**Right-of-use assets**

| 2021 | Land lease RM'000 | Equipment RM'000 | Tugboats RM'000 | Vehicles RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January | **1,626** | **500** | **34,746** | **1,880** | **38,752** |
| Additions | **-** | **524** | **-** | **-** | **524** |
| Lease modification | **-** | **-** | **-** | **(339)** | **(339)** |
| At 31 December | **1,626** | **1,024** | **34,746** | **1,541** | **38,937** |
| **Accumulated depreciation/amortisation** | | | | | |
| At 1 January | **35** | **249** | **14,142** | **882** | **15,308** |
| Charge for the financial year | **19** | **176** | **6,949** | **309** | **7,453** |
| Lease modification | **-** | **-** | **-** | **(164)** | **(164)** |
| At 31 December | **54** | **425** | **21,091** | **1,027** | **22,597** |
| **Carrying amount** | | | | | |
| At 31 December | **1,572** | **599** | **13,655** | **514** | **16,340** |

Land lease as at reporting date are pledged as security for borrowings as disclosed in Note 26.

The depreciation of right-of-use assets is included in the "depreciation and amortisation" line item in the profit or loss.

## 15 LEASES (continued)

### (i) The balance sheet shows the following amounts relating to leases: (continued)

**Right-of-use assets (continued)**

| 2020 | Land lease RM'000 | Equipment RM'000 | Tugboats RM'000 | Vehicles RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January | 1,626 | 500 | 34,746 | 1,761 | 38,633 |
| Additions | - | - | - | 119 | 119 |
| At 31 December | 1,626 | 500 | 34,746 | 1,880 | 38,752 |
| **Accumulated depreciation/amortisation** | | | | | |
| At 1 January | 16 | 82 | 7,192 | 500 | 7,790 |
| Charge for the financial year | 19 | 167 | 6,950 | 382 | 7,518 |
| At 31 December | 35 | 249 | 14,142 | 882 | 15,308 |
| **Carrying amount** | | | | | |
| At 31 December | 1,591 | 251 | 20,604 | 998 | 23,444 |

**Lease liabilities**

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Current | **7,996** | 7,722 |
| Non-current | **8,105** | 15,796 |
| At 31 December | **16,101** | 23,518 |

### (ii) Nature of the lessee's leasing activities and restrictions or covenants imposed by leases

The Company leases various equipment, vehicles and tugboats. Rental contracts are typically made for fixed periods of 3 to 5 years but may have extension options.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowings, except for land lease.

### (iii) Variable payments terms

The Company does not have any variable payment terms on its lease agreements.

## 15 LEASES (continued)

### (iv) Extension options and termination options

Extension and termination options are included in lease contracts across the Company. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Extension and termination options are included, when possible, to provide greater flexibility. The individual terms and conditions used vary across the lease contracts.

In cases in which the Company is not reasonably certain to exercise an optional extended lease term, payments associated with the optional period are not included within lease liabilities. In the current and previous financial year, the Company did not exercise any extension option, therefore no financial effect recognised in lease liabilities. However, the Company modified one of its lease contracts in the current financial year. Gain on modification of lease contract is included in "other income" line item in the profit or loss.

Some of the lease agreements contain termination options. These options are used to limit the period to which the Company is committed to individual lease contracts and to maximise operational flexibility. For these lease agreements, recognised lease liabilities do not include potential future rental payments after the exercise date of termination options because the Company is not reasonably certain to extend the lease beyond that date. This is the case for most leases for which a longer lease term can be enforced only by the Company and not by the lessor, and for which there is no penalty associated with the option.

### (v) Movement in lease payables and changes in lease liabilities arising from leasing activities is as below:

| | 2021<br>RM'000 | 2020<br>RM'000 |
|---|---|---|
| At 1 January | **23,518** | 30,757 |
| Repayment of lease liabilities | **(8,283)** | (8,376) |
| Non-cash changes: | | |
| - Additions | **524** | 119 |
| - Modification on lease contracts | **(338)** | - |
| - Interest expense (Note 8) | **680** | 1,018 |
| At 31 December | **16,101** | 23,518 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

## 16 INVENTORIES

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Crude oil | **977,149** | 624,327 |
| Petroleum products | **603,850** | 419,111 |
| Inventories written down | **(41,935)** | (28,110) |
| | **561,915** | 391,001 |
| Materials | **35,633** | 36,361 |
| Provision for obsolete inventories | **(2,126)** | - |
| | **33,507** | 36,361 |
| | **1,572,571** | 1,051,689 |

Included within crude oil and petroleum products is stock in transit as at 31 December 2021 of RM426,496,000 (2020: RM339,254,000).

Inventories as at reporting date are pledged in favour of a vendor to secure credit lines for crude oil and product purchases.

## 17 TRADE RECEIVABLES

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Trade receivables | **1,053,534** | 537,963 |
| Less: Impairment loss allowance | **(25,821)** | (24,512) |
| | **1,027,713** | 513,451 |

The credit terms range between 15 to 30 days (2020: 15 to 30 days).

### (i) Transferred receivables

The carrying amounts of the trade receivables include receivables which are subject to a factoring arrangement. Under this arrangement, the Company has the right to transfer the relevant receivables to the financial institutions in exchange for cash upon submission of Purchase Request to the financial institutions when there is a need. Trade receivables are derecognised when the trade receivables are transferred to the financial institution through the factoring arrangement. In the event of default by the trade receivables, the financial institution has no recourse to the Company. The Company considers that the held to collect business model remains appropriate for these receivables and hence continues to measure them at amortised cost.

## 17 TRADE RECEIVABLES (continued)

**(ii) The Company maintains an aging analysis for trade receivables. The following table provides information about the exposure to ECL on trade receivables as at reporting date.**

| 2021 | Gross RM'000 | Impairment RM'000 | Net RM'000 |
|---|---|---|---|
| Current | **1,012,356** | **-** | **1,012,356** |
| 1 to 30 days past due | **14,220** | **-** | **14,220** |
| 30 to 180 days past due | **-** | **-** | **-** |
| More than 180 days past due | **26,958** | **(25,821)** | **1,137** |
| | **1,053,534** | **(25,821)** | **1,027,713** |
| **2020** | | | |
| Current | 511,348 | - | 511,348 |
| 1 to 30 days past due | 689 | - | 689 |
| 30 to 180 days past due | 277 | - | 277 |
| More than 180 days past due | 25,649 | (24,512) | 1,137 |
| | 537,963 | (24,512) | 513,451 |

**(iii) Movement on the impairment loss allowance of trade receivables is as follows:**

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| At 1 January | **24,512** | 426 |
| Amount written off | **-** | (426) |
| Impairment loss recognised | **318** | 26,190 |
| Effect of exchange rate changes | **991** | (1,678) |
| At 31 December | **25,821** | 24,512 |

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. Receivables amounting to RM33,891,000 were secured by bank guarantees.

Up to USD50,000,000 or RM208,550,000 of trade receivables as at reporting date are pledged in favour of a vendor to secure credit lines for crude oil purchases.

## 18 OTHER RECEIVABLES AND PREPAYMENTS

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Other receivables and deposits | **129,025** | 19,593 |
| Prepayments | **4,493** | 7,885 |
| Sales tax receivables | **-** | 833 |
| | **133,518** | 28,311 |

The carrying amounts of financial assets (excluding prepayments and sales tax) at the end of reporting date approximated their fair values.

## 19 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

The Company has the following derivative financial instruments:

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| **Current assets** | | |
| Refining margin swap contracts – cash flow hedges | **7,169** | 75,504 |
| Refining margin swap contracts – held for trading | **12,475** | 3,434 |
| Commodity swap contracts – held for trading | **447** | 56,185 |
| Commodity options – held for trading | **1,093** | - |
| Forward foreign currency contracts – held for trading | **51** | 57 |
| | **21,235** | 135,180 |
| **Non-current assets** | | |
| Refining margin swap contracts – cash flow hedges | **19** | - |
| | **19** | - |
| **Current liabilities** | | |
| Refining margin swap contracts – cash flow hedges | **97,429** | 405 |
| Refining margin swap contracts – held for trading | **-** | 3,787 |
| Commodity swap contracts – held for trading | **-** | 46,920 |
| Commodity options – held for trading | **5,245** | - |
| Forward foreign currency contracts – held for trading | **373** | - |
| Forward priced commodity contracts – held for trading | **28,136** | 2,526 |
| | **131,183** | 53,638 |
| **Non-current liabilities** | | |
| Interest rate swap contracts – cash flow hedges | **6,619** | 15,886 |
| Refining margin swap contracts – cash flow hedges | **89,645** | - |
| | **96,264** | 15,886 |

## 19 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES) (continued)

**Derivatives designated as hedging instrument**

### (a) Refining margin swap contracts

The Company purchases crude on an ongoing basis as the Company requires continuous supply of crude to produce petroleum products. As a result of the volatility in crude price, the Company held refining margin swaps designated as hedge of highly probable forecast crude purchases or firm commitments and sales of petroleum products to reduce the volatility of cash flows.

The contracts are intended to hedge the volatility of the refining margin (differences between purchase price of crude oil and sales price of petroleum products) for a period between 1 to 33 months (2020: 1 to 12 months). There were no forecast transactions for which hedge accounting had previously been used, but is no longer expected to occur.

The cash flow hedges of the highly probable forecast crude purchases or firm purchase commitments and sales of petroleum products were assessed to be highly effective. The net unrealised loss of RM179,886,000 (2020: unrealised gain of RM75,099,000), with a related deferred tax asset of RM43,173,000 (2020: deferred tax liability of RM18,024,000) was included in other comprehensive income in respect of these contracts for the financial year. There is no ineffectiveness portion of hedge accounting during the current and previous financial year.

The effects of the refining margin swap contracts on the Company's financial position and performance are as follows:

| | **2021** | **2020** |
|---|---|---|
| Carrying amount (liability)/asset, net (RM'000) | **(179,886)** | 75,099 |
| Notional value (USD'000) | **265,421** | 43,844 |
| Maturity date | **January 2022 to September 2024** | January 2021 to December 2021 |
| Hedge ratio (%) | **100** | 100 |
| Change in fair value of designated hedging instruments (RM'000) | **(97,395)** | 78,334 |
| Change in value of hedged item used to determine hedge effectiveness (RM'000) | **97,395** | (78,334) |
| Gross margin per barrel (USD) | **8.00 to 12.30** | 2.05 to 23.05 |

### (b) Interest rate swap contracts

The Company enters into interest rate swap contracts to hedge cash flow interest rate risk arising from floating rate term loans (Note 26). This interest rate swap receives floating interest equal to LIBOR, pays a fixed rate of between 2.96% to 3.03% and has the same maturity terms as the term loans.

The management considers the interest rate swaps as an effective hedging instrument as the term loans and the swaps have identical critical terms. The net unrealised loss of RM6,619,000 (2020: RM15,886,000), with a related deferred tax asset of RM1,589,000 (2020: RM3,813,000) was included in other comprehensive income in respect of these contracts for the financial year. There was no ineffectiveness recognised in the current and previous financial year.

## 19 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES) (continued)

### Derivatives designated as hedging instrument (continued)

#### (b) Interest rate swap contracts (continued)

The effects of the interest rate swap contracts on the Company's financial position and performance are as follows:

| | 2021 | 2020 |
|---|---|---|
| Carrying amount liability (RM'000) | **(6,619)** | (15,886) |
| Notional amount (USD'000) | **71,875** | 88,750 |
| Maturity date | **February 2023** | February 2023 |
| Hedge ratio (%) | **100** | 100 |
| Change in fair value of outstanding hedging instruments (RM'000) | **(6,619)** | (15,955) |
| Change in value of hedged item used to determine hedge effectiveness (RM'000) | **6,619** | 15,955 |
| Weighted average hedged rate for the financial year (%) | **2.98** | 2.98 |

Refer to Note 23 for impact of hedging on cash flow hedge reserve and cost of hedging reserve.

### Derivatives not designated as hedging instrument

#### (a) Forward foreign exchange contracts

The Company enters into forward foreign currency contracts to protect the Company from movements in exchange rates by establishing the rate at which foreign currency asset or liability will be settled. Forward currency contracts are mainly used to hedge cash receipts and cash payments denominated in currency other than the functional currency of the Company.

#### (b) Forward priced commodity contracts

The Company entered into crude purchase contracts with variability in the payables. The delivery and control of the crude is transferred at delivery date. The Company recognised the purchase of the crude as inventory on delivery date based on the forward priced of the crude. The variability in the payable associated with the crude price gives rise to an embedded derivative which is not closely related to the purchase contract. The embedded derivative is separated from the payables relating to the purchase of inventory. The Company has elected to adjust and reflect subsequent changes in the fair value of the embedded derivative as part of the cost of inventory.

#### (c) Commodity options, commodity swap contracts and refining margin swap contracts

The Company also uses commodity options, commodity swap contracts and refining margin swap contracts to manage its commodity price risk and inventory holding cost. The Company does not designate these derivatives as hedging instrument.

## 20 CASH AND CASH EQUIVALENTS

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Bank balances | **690,005** | 737,198 |
| Less: Restricted cash | **(105,469)** | (53,355) |
| | **584,536** | 683,843 |

Restricted cash comprise of amounts held in a debt service accrual account associated with the term loan facilities. The Company's factoring bank account is charged in respect of the additional account receivable factoring facility obtained during the financial year.

## 21 SHARE CAPITAL

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| **Issued and fully paid 300,000,000 units of ordinary shares** | | |
| At 1 January/At 31 December | **300,000** | 300,000 |

## 22 RETAINED EARNINGS

The Company is able to distribute dividends out of its retained earnings under the single-tier system.

## 23 OTHER RESERVES

### (a) Cash flow hedge reserve and cost of hedging reserve

The cash flow hedge reserve is used to record gains and losses on derivatives that are designated and qualify as cash flow hedges and that are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

The cost of hedging is seen as cost of achieving the risk mitigation inherent in the hedge. It is incurred to protect the Company against unfavourable changes in price. The changes in the cost of hedging is initially recognised in other comprehensive income and removed from equity and recognised in profit or loss in the same period that the hedged cash flows affect profit or loss.

| | Cash flow hedge reserve RM'000 | Cost of hedging reserve RM'000 |
|---|---|---|
| **2021** | | |
| At 1 January | **49,552** | **(2,210)** |
| Interest rate swap contracts | **62** | - |
| Refining margin swap contracts | **(221,173)** | **(79,563)** |
| Recycled to profit or loss, included in finance cost | **9,069** | - |
| Recycled to profit or loss, included in purchases | **45,445** | **-** |
| Deferred tax | **39,982** | **19,095** |
| At 31 December | **(77,063)** | **(62,678)** |
| **2020** | | |
| At 1 January | 175,346 | (34,059) |
| Interest rate swap contracts | (11,042) | - |
| Refining margin swap contracts | 659,613 | 41,906 |
| Recycled to profit or loss, included in finance cost (Note 8) | 8,426 | - |
| Recycled to profit or loss, included in purchases | (823,935) | - |
| Deferred tax | 41,144 | (10,057) |
| At 31 December | 49,552 | (2,210) |

### (b) Exchange translation reserve

The exchange translation reserve represents the exchange differences arising from the translation of the financial statements of the Company whose functional currency is different from the presentation currency.

## 24 TRADE AND OTHER PAYABLES

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Trade payables | **1,208,249** | 796,748 |
| Accruals for crude oil and petroleum products | **969,060** | 348,284 |
| Sundry accruals | **53,420** | 47,105 |
| Accruals for consumables and services | **10,680** | 3,487 |
| Accruals for capital expenditure | **30,803** | 112,892 |
| | **2,272,212** | 1,308,516 |

The Company's trade payables and accruals for crude oil and petroleum products are non-interest bearing, unsecured, except for a balance amounting to RM1,183,642,000 (2020: RM880,565,000) which is secured by a charge against the Company's hydrocarbon inventories and receivables as mentioned in Notes 16 and 17. The credit terms for trade payables range from 30 to 60 days (2020: 30 to 60 days).

## 25 AMOUNTS DUE TO IMMEDIATE HOLDING COMPANY AND RELATED COMPANY

As at 31 December 2021, amounts due to immediate holding company and related company are unsecured. Amounts due to immediate holding company and related company have credit terms of 30 days.

## 26 BORROWINGS

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Term loans and revolving credits (secured) | **798,297** | 799,807 |
| Less: Amount repayable within 12 months | **(478,057)** | (250,689) |
| Amount repayable after 12 months | **320,240** | 549,118 |

The remaining maturities of the borrowings are as follows:

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Within 1 year | **478,057** | 250,689 |
| More than 1 year and less than 2 years | **320,240** | 242,026 |
| More than 2 years and less than 5 years | **-** | 307,092 |
| | **798,297** | 799,807 |

## 26 BORROWINGS (continued)

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Detailed below are changes in liabilities arising from financing activities: | | |
| At 1 January | **799,807** | 1,381,913 |
| Proceeds from borrowings | **1,654,606** | 980,606 |
| Repayment of borrowings (includes interest paid) | **(1,712,218)** | (1,588,009) |
| Non-cash changes: | | |
| - Interest accrued | **20,016** | 28,464 |
| - Amortisation of term loan commitment fees | **177** | 177 |
| - Effect of exchange rate changes | **35,909** | (3,344) |
| At 31 December | **798,297** | 799,807 |

As at 31 December 2021 and 31 December 2020, the Company does not have any unsecured borrowings.

Details of the facilities are set out below:

- The term loan principal is repayable every 6 to 12 months until final maturity date in January 2023.
- The revolving credits are short term and will mature within one year from the reporting date.
- Both the term loans and revolving credits are subject to interest at LIBOR + 1.60% per annum.
- The borrowings are secured:
  - by way of a first fixed charge, the refinery plant owned by the Company and the Company's interest in the refinery plant. The refinery plant means assets, fixtures and equipment described further in the valuation report issued by Appraisal & Valuation Consultants Ltd dated 16 May 2017 and excludes stock in trade, such as feedstock, intermediate and finished products, and land;
  - by way of a first floating charge, the Company's undertaking and all assets, both present and future in the refinery plant as stated above if and insofar as the charges therein contained shall for any reason be ineffective as fixed charges;
  - a charge over lands belonging to the Company; and
  - by way of a first fixed charge and assignment and agrees to assign absolutely to the Chargee, free from all liens, charges and other encumbrances, each designated bank account (including the debt service reserve account, disbursement account, income accounts and settlement accounts, which are further defined in the relevant security document), all the Company's present and future rights, title and interest in and to such designated accounts and all amounts (including interest) standing to the credit of the designated bank accounts.

The effective interest rates of the Company's borrowings at the end of the reporting period ranged between 1.70% to 1.79% (2020: 1.74% to 3.52%) per annum.

The fair value of borrowings outstanding as at 31 December 2021 and 31 December 2020 approximated its carrying amount.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

## 27 DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

The movements in deferred tax during the financial year are as follows:

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| At 1 January | **(114,836)** | (141,222) |
| Credited/(charged) to profit or loss (Note 10): | | |
| - property, plant and equipment | **(4,304)** | 1,039 |
| - derivative financial assets | **14,196** | 12,011 |
| - inventories | **11,181** | (694) |
| - receivables | **76** | 6,286 |
| - other payables and accruals | **(700)** | 1,497 |
| - derivative financial liabilities | **(12,773)** | (16,542) |
| - right-of-use assets | **1,700** | 1,771 |
| - lease liabilities | **(1,780)** | (1,737) |
| - unrealised foreign exchange | **3,032** | 954 |
| - unused tax losses | **(55,658)** | (9,286) |
| | **(45,030)** | (4,701) |
| Credited to other comprehensive income (Note 23) | | |
| - cash flow hedge reserve and cost of hedging reserve | **59,077** | 31,087 |
| At 31 December | **(100,789)** | (114,836) |
| Deferred tax liabilities (before offsetting): | | |
| - property, plant and equipment | **(173,668)** | (169,364) |
| - unrealised foreign exchange | **-** | (2,171) |
| - derivative financial assets | **(2,043)** | (32,317) |
| - right-of-use assets | **(3,545)** | (5,245) |
| - inventories | **-** | (606) |
| | **(179,256)** | (209,703) |
| Offsetting | **78,467** | 94,867 |
| At 31 December (after offsetting) | **(100,789)** | (114,836) |
| Deferred tax assets (before offsetting): | | |
| - unused tax losses | **6,674** | 62,332 |
| - unrealised foreign exchange | **861** | - |
| - receivables | **6,362** | 6,286 |
| - inventories | **10,575** | - |
| - other payables and accruals | **3,586** | 4,286 |
| - derivative financial liabilities | **46,545** | 16,319 |
| - lease liabilities | **3,864** | 5,644 |
| | **78,467** | 94,867 |
| Offsetting | **(78,467)** | (94,867) |
| At 31 December (after offsetting) | **-** | - |

## 27 DEFERRED TAXATION (continued)

The analysis of deferred tax assets and deferred tax liabilities is as follows:

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| **Deferred tax liabilities:** | | |
| - to be settled after more than 12 months | **(169,868)** | (163,646) |
| - to be settled within 12 months | **(9,388)** | (46,057) |
| | **(179,256)** | (209,703) |
| **Deferred tax assets:** | | |
| - to be recovered after more than 12 months | **38,143** | 76,221 |
| - to be recovered within 12 months | **40,324** | 18,646 |
| | **78,467** | 94,867 |
| Deferred tax liabilities, net | **(100,789)** | (114,836) |

The benefits of unused tax losses can be carried for ten consecutive years of assessment ("YA") i.e. YA2019 to YA2028 based on the Malaysia Finance Act 2021. The benefits will be obtained when the Company derives future assessable income of a nature and of an amount sufficient for these carried forward tax losses to be utilised.

## 28 CONTRACT LIABILITIES

Contract liabilities comprise of deposits made by customers for the purchases of refined oil product, which have yet to be delivered by the Company at the reporting date.

## 29 SIGNIFICANT RELATED PARTIES DISCLOSURES

For the purposes of these financial statements, parties are considered to be related to the Company if the party has the ability, directly or indirectly, to control the Company or exercise significant influence over the Company in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related parties of the Company comprise of Shandong Linyi County Petrochemical Factory and its related companies.

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions. The transactions described below were carried out on agreed terms.

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Transactions with immediate holding company:<br>Malaysia Hengyuan International Limited ("MHIL") | | |
| **Income** | | |
| (i) Sale of refined products | **-** | 274,791 |
| **Expenses** | | |
| (i) Purchase of refined products | **-** | (58,800) |
| (ii) Freight and freight brokerage services in relation to purchase of crude oil | **(4,965)** | - |
| (iii) Central management and administrative charges | **(38)** | (52) |

## 29 SIGNIFICANT RELATED PARTIES DISCLOSURES (continued)

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Transactions with a fellow subsidiary of the immediate holding company: | | |
| **Expenses** | | |
| (i) Purchase of refined products | **-** | (646) |
| (ii) Central management and administrative charges | **(9,676)** | (8,449) |
| (iii) Technical advisory charges | **(20,655)** | (24,020) |

## 30 KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. Key management personnel of the Company include the Board of Directors and senior management personnel of the Company.

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Compensation for key management personnel: | | |
| - salaries, bonus and allowances | **6,193** | 7,474 |
| - fees | **2,044** | 1,983 |
| - defined contribution plan | **212** | 207 |
| - benefits in kind | **-** | 2 |

## 31 COMMITMENTS TO OIL SPILL FUND

The Company is a member of the International Oil Pollution Compensation ("IOPC") 1992 Fund and Petroleum Industry of Malaysia Mutual Aid Group ("PIMMAG") (collectively as "Funds"). The purpose of the Funds is to help compensate parties that suffer financial loss as a result of oil spill from tankers. The Company makes contributions to the Funds depending on specific oil spill incidents, which give rise to payments of compensation by the Funds.

## 32 CAPITAL COMMITMENTS

Approved capital expenditure for property, plant and equipment not provided for in the financial statements are as follows:

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| Approved and contracted for | **117,670** | 185,135 |
| Approved but not contracted for | **93,588** | 97,076 |

## 33 SEGMENTAL INFORMATION

The Company is principally engaged in the business of refining and manufacturing of petroleum products in Malaysia, which is a single business segment. The Company's primary operations are also concentrated within Malaysia, hence operating within a single geographical segment. Accordingly, no segmental information is considered necessary for analysis by business or by geographical segments.

This is consistent with the internal management reports reviewed by the Board of Directors (chief operating decision maker of the Company) where performance of the Company is measured based on refining margins and profit before tax recognised as a single business and geographical segment.

In 2021, one customer on an individual basis, contributed revenue exceeding 60% (2020: 59%) of total revenue for the financial year, amounting to RM7,173,783,000 (2020: RM4,216,479,000).

## 34 FINANCIAL INSTRUMENTS BY CATEGORY

| | 2021 RM'000 | 2020 RM'000 |
|---|---|---|
| **Financial assets** | | |
| **Financial assets designated as hedging instrument** | | |
| - Derivative financial assets | **7,188** | 75,504 |
| **Financial assets measured at fair value through profit or loss** | | |
| - Derivative financial assets | **14,066** | 59,676 |
| **Financial assets at amortised cost** | | |
| - Trade receivables | **1,027,713** | 513,451 |
| - Other receivables excluding prepayment and statutory assets | **129,025** | 19,593 |
| - Bank balances | **690,005** | 737,198 |
| | **1,846,743** | 1,270,242 |
| **Total** | **1,867,997** | 1,405,422 |
| **Financial liabilities** | | |
| **Financial liabilities designated as hedging instrument** | | |
| - Derivative financial liabilities | **193,693** | 16,291 |
| **Financial liabilities measured at fair value through profit or loss** | | |
| - Derivative financial liabilities | **33,754** | 53,233 |
| **Other financial liabilities at amortised cost** | | |
| - Trade and other payables excluding statutory liabilities | **2,259,723** | 1,291,309 |
| - Amounts due to immediate holding company and related company | **11,687** | 14,317 |
| - Borrowings | **798,297** | 799,807 |
| - Lease liabilities | **16,101** | 23,518 |
| | **3,085,808** | 2,128,951 |
| **Total** | **3,313,255** | 2,198,475 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

## 35 DIVIDENDS

On 26 February 2021, the Directors declared a single-tier interim dividend of RM0.04 per share, amounting to RM12,000,000 in respect of the financial year ended 31 December 2020. The dividend was paid on 15 April 2021 to shareholders registered on the Record of Depositors at the close of business on 23 March 2021. The dividend was accounted for in the financial year ended 31 December 2021.

The Company did not declare any dividend for the financial year ended 31 December 2021.

## 36 SUBSEQUENT EVENT

The current geopolitical instability arising from the ongoing warfare has caused uncertainties over the global oil prices due to the oil sanctions imposed by some countries. This has resulted in shortages on crude oil supply affecting the market sentiment, which in turn may affect the Company's performance in the near term.

The Company will continue to closely monitor the situation and will take appropriate and timely actions to mitigate the impact to ensure the sustainability of the business.

## 37 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 1 April 2022.

# COMPANY PROPERTIES

AS AT 31 DECEMBER 2021

| No | Tenure | Address | Land area (square feet) | Description | Age of properties/ buildings | Date of last Valuation | Land NBV RM'000 | Land Improvement NBV RM'000 | Building NBV RM'000 | Net book value RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Freehold | 1236 - 1238 GRN 62766 - 62768 87 Jln Resthouse Port Dickson | 76,973 | A club house and training centre | 57 years | 01.01.1991 | 984 | - | 1,080 | 2,064 |
| 2 | Freehold | Lot 3 HS(D) 1310 Jln Pantai Port Dickson | 6,284,186 | Refinery | 58 years | 01.01.1991 | 20,091 | 735 | 30,626 | 51,452 |
| 3 | Freehold | Lot 138 GRN 51925 Port Dickson | 39,115 | Oil Spill Response Centre | 57 years | 01.01.1991 | 239 | - | 218 | 457 |
| 4 | Freehold | Lot 798 GM 3203 Kg Arab Port Dickson | 49,955 | Tank Farm | 33 years | 01.01.1991 | 128 | - | - | 128 |
| 5 | Freehold | Lot 196 GM 3208 Kg Gelam Port Dickson | 242,845 | Reserved Land | 34 years | 01.01.1991 | 628 | - | - | 628 |
| 6 | Freehold | Lot 195 GM 3207 Kg Gelam Port Dickson | 249,389 | Reserved Land | 34 years | 01.01.1991 | 634 | - | - | 634 |
| 7 | Freehold | PT 1369 HSD 35655 Port Dickson | 1,725,885 | Reserved Land, Tank Farm | 35 years | 01.01.1991 | 5,212 | - | - | 5,212 |
| 8 | Freehold | PT 1370 HSD 35656 Port Dickson | 378,384 | Reserved Land, TA Office | 35 years | 01.01.1991 | 1,107 | - | 209 | 1,316 |
| 9 | Freehold | PT 1371 HSD 35657 Port Dickson | 132,030 | Reserved Land | 35 years | 01.01.1991 | 386 | - | - | 386 |
| 10 | Freehold | PT 10747 HSD 35658 Port Dickson | 205,558 | Reserved Land | 35 years | 03.09.1991 | 543 | - | - | 543 |
| 11 | Freehold | Lot 12284 & 12290 GM 1961, GM 3201 Port Dickson | 112,052 | Reserved Land, MPP Facilities | 26 years | 31.08.2000 | 438 | - | - | 438 |
| 12 | Freehold | Lot 596 GRN 244911 Port Dickson | 100,826 | Tank Farm | 26 years | 31.08.2000 | 541 | - | - | 541 |
| 13 | Freehold | Lot 5471 - 5494 GM 994 - 1017 Lot 5496 - 5540 GM 1019 - 1063 Port Dickson | 188,799 | Tank Farm | 24 years | 31.08.2000 | 1,150 | - | - | 1,150 |
| 14 | Freehold | Lot 950 GM 2721 Port Dickson | 104,819 | Reserved Land | 25 years | 31.08.2000 | 664 | - | - | 664 |

# COMPANY PROPERTIES
AS AT 31 DECEMBER 2021

| No | Tenure | Address | Land area (square feet) | Description | Age of properties/ buildings | Date of last Valuation | Land NBV RM'000 | Land Improvement NBV RM'000 | Building NBV RM'000 | Net book value RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| 15 | Freehold | Lot 12425 - 12456<br>GRN 146936 -146967<br>Lot 5441 HSD 4418<br>Lot 12458 - 12486<br>GRN 146968 - 146996<br>Port Dickson | 212,544 | Tank Farm | 25 years | 31.08.2000 | 1,111 | - | - | 1,111 |
| 16 | Freehold | Lot 834 GRN 70791<br>Port Dickson | 353,110 | Reserved Land | 26 years | 31.08.2000 | 1,558 | - | - | 1,558 |
| 17 | Freehold | Lot 6674 GM 2774<br>Port Dickson | 97,726 | For Pipeline to Jetty | 32 years | 01.01.1991 | 534 | - | - | 534 |
| 18 | Freehold | Lot 1323 GM 3199<br>Port Dickson | 178,595 | For Pipeline to Jetty | 32 years | 01.01.1991 | 828 | - | - | 828 |
| 19 | Freehold | Lot 6671 GM 2771<br>Port Dickson | 84,249 | For Pipeline to Jetty | 32 years | 01.01.1991 | 425 | - | - | 425 |
| 20 | Freehold | Lot 6672 GM 3195<br>Kg Gelam<br>Port Dickson | 59,395 | For Pipeline to Jetty | 32 years | 01.01.1991 | 328 | - | - | 328 |
| 21 | Freehold | Lot 192 GM 3206<br>Kg Gelam<br>Port Dickson | 148,101 | For Pipeline to Jetty | 33 years | 01.01.1991 | 405 | - | - | 405 |
| 22 | Freehold | Lot 247 GM 3202<br>Port Dickson | 120,330 | For Pipeline to Jetty | 33 years | 01.01.1991 | 303 | - | - | 303 |
| 23 | Freehold | Lot 191 GM 3205<br>Kg Gelam<br>Port Dickson | 134,495 | For Pipeline to Jetty | 34 years | 01.01.1991 | 566 | - | - | 566 |
| 24 | Freehold | Lot 190 GM 3204<br>Kg Gelam<br>Port Dickson | 131,770 | For Pipeline to Jetty | 34 years | 01.01.1991 | 527 | - | - | 527 |
| 25 | Freehold | Lot 909 GRN 69309<br>Port Dickson | 86,768 | For Pipeline to Jetty | 30 years | 01.01.1991 | 394 | - | - | 394 |
| 26 | Freehold | Lots 178 - 180<br>GM 3196 - 3198<br>Port Dickson | 448,673 | For Pipeline to Jetty | 30 years | 01.01.1991 | 1,984 | - | - | 1,984 |
| 27 | Freehold | Lot 1300 GM 3194<br>Kg Gelam<br>Port Dickson | 58,200 | For Pipeline to Jetty | 31 years | 01.01.1991 | 368 | - | - | 368 |
| 28 | Freehold | Lot 3948 - 3951<br>GM 2619 - 2622<br>Port Dickson | 5,042 | Refinery Buffer Zone | 25 years | 30.04.2001 | 315 | - | - | 315 |

# COMPANY PROPERTIES

AS AT 31 DECEMBER 2021

| No | Tenure | Address | Land area (square feet) | Description | Age of properties/ buildings | Date of last Valuation | Land NBV RM'000 | Land Improvement NBV RM'000 | Building NBV RM'000 | Net book value RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| 29 | Freehold | Lot 3974 - 3977<br>GM 2632 - 2635<br>Port Dickson | 5,042 | Refinery<br>Buffer Zone | 25 years | 30.04.2001 | 315 | - | - | 315 |
| 30 | Freehold | Lot 4961- 4968<br>GM 475 - 482<br>Port Dickson | 34,789 | Refinery<br>Buffer Zone | 25 years | 30.04.2001 | 1,158 | - | - | 1,158 |
| 31 | Freehold | Lot 5402 - 5407<br>GM 345 - 350<br>Port Dickson | 21,883 | Refinery<br>Buffer Zone | 25 years | 30.04.2001 | 821 | - | - | 821 |
| 32 | Freehold | Lot 10533 GM 1653<br>Kg Gelam<br>Port Dickson | 2,002 | Refinery<br>Buffer Zone | 28 years | 31.08.2000 | 18 | - | - | 18 |
| 33 | Freehold | Lot 9196 - 9214<br>GM 1770 - 1788 &<br>Lot 12105 GM 2959<br>Kg Gelam<br>Port Dickson | 40,322 | Refinery<br>Buffer Zone | 28 years | 31.08.2000 | 363 | - | - | 363 |
| 34 | Freehold | Lot 12104 GM 2859<br>Kg Gelam<br>Port Dickson | 570 | Refinery<br>Buffer Zone | 28 years | 31.08.2000 | 56 | - | - | 56 |
| 35 | Freehold | Lot 1312 - 1314<br>GM 1600 - 1602<br>Lot 1317 - 1318<br>GM 1605 - 1606<br>Port Dickson | 49,729 | Reserved Land | 57 years | 01.01.1991 | 307 | - | - | 307 |
| 36 | Freehold | Lot 764 GRN 65945<br>Port Dickson | 9,009 | Reserved Land | 58 years | 01.01.1991 | 56 | - | - | 56 |
| 37 | Freehold | Lot 12086 GM 3200<br>Port Dickson | 62,614 | Reserved Land | 14 years | 28.03.2008 | 548 | - | - | 548 |
| 38 | Freehold | Lot 9060 GM 2720<br>Port Dickson | 9,149 | Reserved Land | 58 years | 01.01.1991 | 183 | - | - | 183 |
| 39 | Leasehold | PT 9451 HSD 29075<br>Mukim Port Dickson | 2,822,620 | Jetty Land | 29 years | 10.04.2004 | 1,570 | - | 239 | 1,809 |
| | | | **15,067,542** | | | | **47,790** | **735** | **32,372** | **80,897** |

Note:
The above values reflect the original transacted amount of each property denominated in RM. These amounts have been revised to account for the change to USD functional currency effective 1 January 2017

# ANALYSIS OF HOLDINGS

AS AT 31 MARCH 2022

**Issued and Paid-up Capital : RM300,000,000 comprising 300,000,000 ordinary shares**

**Class of Shares : Ordinary shares**

**Voting Rights : One vote per ordinary share held**

| Size of Holdings | No of Holders | % | No of Shares | % |
|---|---|---|---|---|
| 1 – 99 | 999 | 5.742 | 6,073 | 0.002 |
| 100 – 1,000 | 6,082 | 34.960 | 4,454,111 | 1.484 |
| 1,001 – 10,000 | 8,625 | 49.577 | 34,002,413 | 11.334 |
| 10,001 – 100,000 | 1,565 | 8.995 | 41,000,001 | 13.666 |
| 100,001 – 14,999,999 (*) | 124 | 0.712 | 67,468,400 | 22.489 |
| 15,000,000 and above (**) | 2 | 0.011 | 153,069,002 | 51.023 |
| **Total** | **17,397** | **100.000** | **300,000,000** | **100.000** |

*Remark: * Less Than 5% of Issued Shares*
*** 5% and Above of Issued Shares*

## LIST OF TOP 30 SHAREHOLDERS

| No | Name | Shareholdings | % |
|---|---|---|---|
| 1 | RHB Nominees (Tempatan) Sdn Bhd<br>Malaysia Hengyuan International Limited | 113,701,002 | 37.900 |
| 2 | AMSEC Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account - Ambank (M) Berhad for Malaysia Hengyuan International Limited | 39,368,000 | 13.122 |
| 3 | AMANAHRAYA Trustees Berhad<br>Amanah Saham Bumiputera | 10,629,100 | 3.543 |
| 4 | Foo Khen Ling | 8,000,000 | 2.666 |
| 5 | Citigroup Nominees (Tempatan) Sdn Bhd<br>Employees Provident Fund Board | 7,590,647 | 2.530 |
| 6 | Kam Loong Mining Sdn Bhd | 6,380,000 | 2.126 |
| 7 | Kenanga Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Goh Ching Mun | 2,731,900 | 0.910 |
| 8 | Tan Kah Hock | 2,000,000 | 0.666 |
| 9 | Cartaban Nominees (Tempatan) Sdn Bhd<br>PAMB for Prulink Equity Fund | 1,207,200 | 0.402 |
| 10 | Wong Siew Fah | 910,000 | 0.303 |

## LIST OF TOP 30 SHAREHOLDERS (continued)

| No | Name | Shareholdings | % |
|---|---|---|---|
| 11 | Tan Ah Heng | 895,000 | 0.298 |
| 12 | UOB Kay Hian Nominees (Asing) Sdn Bhd<br>Exempt an for UOB Kay Hian Pte Ltd (A/C Clients) | 865,350 | 0.288 |
| 13 | Eletechnics Sdn Bhd | 800,000 | 0.266 |
| 14 | Malaysia Nominees (Tempatan) Sendirian Berhad<br>Lee Foundation, States of Malaya (00-00197-000) | 790,000 | 0.263 |
| 15 | Kenanga Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Ye Yu @ Ye Kim Onn | 717,900 | 0.239 |
| 16 | Tan Ewe Seong | 703,000 | 0.234 |
| 17 | Gan Yen Cheng | 700,000 | 0.233 |
| 18 | Reuben Tan Cherh Chung | 700,000 | 0.233 |
| 19 | CGS-CIMB Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Deva Dassan Solomon | 677,500 | 0.225 |
| 20 | CIMSEC Nominees (Tempatan) Sdn Bhd<br>CIMB for Lim Ka Kian (PB) | 582,300 | 0.194 |
| 21 | Citigroup Nominees (Asing) Sdn Bhd<br>CBNY for Dimensional Emerging Markets Value Fund | 575,089 | 0.191 |
| 22 | Khoo Hup | 501,000 | 0.167 |
| 23 | Yong Koy | 487,000 | 0.162 |
| 24 | CGS-CIMB Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Bong Lee Min (MK0082) | 485,000 | 0.161 |
| 25 | Public Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for How Bee Hua (E-SJA/BSY) | 477,400 | 0.159 |
| 26 | Yap Chuan Thai | 440,000 | 0.146 |
| 27 | Lim Ah Cheng @ Lim Koh Den | 410,000 | 0.136 |
| 28 | Citigroup Nominees (Asing) Sdn Bhd<br>Exempt an for OCBC Securities Private Limited (Client A/C-NR) | 408,118 | 0.136 |
| 29 | Citigroup Nominees (Tempatan) Sdn Bhd<br>Exempt an for Bank of Singapore Limited (Local) | 400,000 | 0.133 |
| 30 | HSBC Nominees (Asing) Sdn Bhd<br>Exempt an for Bank Julius Baer & Co Ltd<br>(Singapore BCH) | 382,400 | 0.127 |
| | **Total** | **204,514,906** | **68.171** |

# ANALYSIS OF HOLDINGS

AS AT 31 MARCH 2022

## Information on Substantial Holders' Holdings

| No | Name | Investor ID | Shareholdings | % |
|---|---|---|---|---|
| 1 | RHB Nominees (Tempatan) Sdn Bhd<br>Malaysia Hengyuan International Limited | 259064V | 113,701,002 | 37.900 |
| 2 | AMSEC Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account - Ambank (M) Berhad for<br>Malaysia Hengyuan International Limited | 102918T | 39,368,000 | 13.122 |
| | **Total** | | **153,069,002** | **51.023** |

## Information on Directors' and Chief Executive's Holdings

| No | Name | Total Shareholdings | Percentage (%) |
|---|---|---|---|
| 1 | Wang, YouDe | 0 | 0.00 |
| 2 | Wang, ZongQuan | 0 | 0.00 |
| 3 | Alan Hamzah Sendut | 0 | 0.00 |
| 4 | Fauziah Hisham | 0 | 0.00 |
| 5 | Liang Kok Siang | 0 | 0.00 |
| 6 | Surinderdeep Singh Mohindar Singh | 0 | 0.00 |
| 7 | Gao Jin Liang | 0 | 0.00 |
| | **Total** | **0** | **0.00** |

# ADDITIONAL CORPORATE GOVERNANCE DISCLOSURES

## Directors' Meeting Attendance for the Financial Year Ended 2021

The following information sets out the attendance of each Director at general meetings, board meetings and board committee meetings of the Company held in the year 2021.

### BOARD AND GENERAL MEETINGS

| Name of Members | Board Meeting Attendance during the Director's term in office | | General Meeting Attendance during the Director's term in office | |
|---|---|---|---|---|
| Wang, YouDe | 5/5 | 100% | 1/1 | 100% |
| Wang, ZongQuan | 5/5 | 100% | 1/1 | 100% |
| Alan Hamzah Sendut | 5/5 | 100% | 1/1 | 100% |
| Fauziah Hisham | 5/5 | 100% | 1/1 | 100% |
| Liang Kok Siang | 5/5 | 100% | 1/1 | 100% |
| Surinderdeep Singh Mohindar Singh | 5/5 | 100% | 1/1 | 100% |
| Loy Swee Im [a] | 5/5 | 100% | 1/1 | 100% |

Note:
Total number of Board meetings in 2021: 5

Total number of General Meeting: 1

(a) Loy Swee Im resigned from the Board of Directors with effect from 27 November 2021

### BOARD AUDIT COMMITTEE MEETING

| Name of Members | Attendance during the Director's term in office | |
|---|---|---|
| Alan Hamzah Sendut (Chair) | 5/5 | 100% |
| Fauziah Hisham | 5/5 | 100% |
| Liang Kok Siang | 5/5 | 100% |
| Surinderdeep Singh Mohindar Singh | 5/5 | 100% |

Note:
Total number of Board Audit Committee meetings in 2021: 5

# ADDITIONAL CORPORATE GOVERNANCE DISCLOSURES

## BOARD NOMINATING AND REMUNERATION COMMITTEE MEETING

| Name of Members | Attendance during the Director's term in office | |
|---|---|---|
| Surinderdeep Singh Mohindar Singh (Chair) | 4/4 | 100% |
| Wang, YouDe | 4/4 | 100% |
| Fauziah Hisham | 4/4 | 100% |

Note:
Total number of Board Nominating and Remuneration Committee meetings in 2021: 4

## BOARD RISK MANAGEMENT COMMITTEE MEETING

| Name of Members | Attendance during the Director's term in office | |
|---|---|---|
| Loy Swee Im (Chair) [(a)] | 4/4 | 100% |
| Wang, ZongQuan [(b)] | 3/3 | 100% |
| Alan Hamzah Sendut | 4/4 | 100% |
| Liang Kok Siang [(c)] | 1/1 | 100% |

Note:
Total number of Board Risk Management Committee meetings in 2021: 4

(a) Loy Swee Im resigned as Chair of the Board Risk Management Committee with effect from 27 November 2021

(b) Wang, Zong Quan was appointed as member of the Board Risk Management Committee with effect from 25 May 2021

(c) Liang Kok Siang resigned as member of the Board Risk Management Committee with effect from 25 May 2021

## BOARD PROJECTS REVIEW COMMITTEE MEETING

| Name of Members | Attendance during the Director's term in office | |
|---|---|---|
| Wang, YouDe (Chair) | 5/5 | 100% |
| Wang, ZongQuan | 4/5 | 80% |
| Surinderdeep Singh Mohindar Singh | 5/5 | 100% |

Note:

Total number of Board Projects Review Committee meetings in 2021: 5

## BOARD TENDER COMMITTEE MEETING

| Name of Members | Attendance during the Director's term in office | |
|---|---|---|
| Wang, YouDe (Chair) | 1/1 | 100% |
| Wang, ZongQuan | 1/1 | 100% |
| Alan Hamzah Sendut | 1/1 | 100% |
| Liang Kok Siang | 1/1 | 100% |

Note:
Total number of Board Tender Committee meetings in 2021: 1

## BOARD WHISTLEBLOWING COMMITTEE MEETING

| Name of Members | Attendance during the Director's term in office | |
|---|---|---|
| Liang Kok Siang (Chair) | 3/3 | 100% |
| Wang, YouDe | 3/3 | 100% |
| Alan Hamzah Sendut | 3/3 | 100% |

Note:
Total number of Board Whistleblowing Committee meetings in 2021: 3

# ADDITIONAL CORPORATE GOVERNANCE DISCLOSURES

## DIRECTORS' TRAINING

A summary of the in-house continuing education programmes and external trainings attended by the Directors of HRC for the financial year ended 2021 are set out below:

| | |
|---|---|
| **1 January 2021 to 31 March 2021** | • How to be an Effective NED in a Disruptive World, organised by Institute of Corporate Directors Malaysia (ICDM)<br>• Webinar Series on Climate Governance Malaysia - Life on Land: Conservation Efforts in Malaysia, organised by ICDM<br>• Complying with The Guideline for The Reporting Framework for Beneficial Ownership of Legal Person, organised by The Malaysian Institute of Chartered Secretaries and Administrators (MAICSA)<br>• APAC Blockchain Summit - Blockchain for Trust, Transparency and Efficiency, organised by Ernst & Young Global Limited (EY)<br>• Webinar Series on Climate Governance Malaysia - Progressing from Sustainability to Climate Action in the Palm Oil Sector, organised by ICDM<br>• 1st Distinguished Board Leadership Webinar: Rethinking Our Approach to Cyber Defence in FIs, organised by Financial Institutions Director's Education Programme (FIDE) Forum / Ciaran Martin (Founding CEO of National Cyber Security Centre, UK & Professor, University of Oxford)<br>• Webinar Series on Climate Governance Malaysia - Life below Water: Conservation Efforts in Malaysia, organised by ICDM |
| **1 April 2021 to 30 June 2021** | • Maybank Group Board Strategy Offsite (Banking Strategy, FinTech, Sustainability), organised by Gabriele Vigo (Senior Partner, Kinsey Malaysia) / Lee Li Meng (CEO, RazerFinTech) / Roger Charles (Executive Director – Environmental & Social)<br>• PowerTalk Webinar 2021 - Post Pandemic Economic Landscape: Building Resilient Industries, organised by World Islamic Economic Forum Foundation / Securities Industry Development Corporation (SIDC)<br>• Maybank Diversity Day: The Group's Diversity, Equity & Inclusion Agenda, organised by Group Human Capital, Maybank<br>• Implementing Amendments in The Malaysian Code on Corporate Governance, organised by International Centre for Leadership in Finance (ICLIF) / Dr Elsa Satkunasingam<br>• BNM-FIDE FORUM Dialogue: The Role of Independent Directors in Embracing Present and Future Challenges, organised by Bank Negara Malaysia (BNM) / FIDE FORUM Jessica Chew, Deputy Governor, BNM<br>• MIA International Conference 2021, organised by Malaysian Institute of Accountants (MIA)<br>• FIDE Elective Program: Risk Management in Technology (RMiT) & Digital Transformation: What they mean for Governance and Strategy of Bank and Insurance Boards, organised by ICLIF<br>• Understanding Board Decision-Making Process - organised by Asia School of Business<br>• In-house training - The Revised Malaysian Code on Corporate Governance and Its Impact on PLCs - organised by Tricor Hive Sdn Bhd<br>• Annual Board Risk Workshop<br>Risk Session - Building Sustainability in a Digital World<br>Compliance Session - Managing Financial Crime in Emerging Markets, organised by Group Risk, Maybank / Group Compliance, Maybank |

| | |
|---|---|
| **1 July 2021 to 30 September 2021** | • FIDE Elective: Risk Management Committee - Banking Sector, organised by ICLIF<br>• Nominating and Remuneration Committees - Beyond Box-Ticking & Enhancing Effectiveness, organised by ICLIF<br>• How to Achieve a Successful Special Purpose Acquisition Company Listing, organised by EY<br>• The Net Zero Journey: What Board Members Need to Know - Part 1, organised by Climate Governance Malaysia<br>• Building a More Inclusive Economy, organised by JPMorgan Chase<br>• PNB Knowledge Forum 2021, organised by PNB Research Institute<br>• Invest ASEAN 2021 #7 - ASEAN New Finance: Crypto Opportunities & Hurdles, organised by Maybank Investment Bank Berhad / Maybank Kim Eng<br>• Invest ASEAN 2021 #8 - Decarbonising ASEAN, organised by Maybank Investment Bank Berhad / Maybank Kim Eng<br>• Directors' Duties and Climate Change, organised by Climate Governance Malaysia<br>• Leaders Teaching Leaders Series: A Sharing Session by Group Sustainability (Leading Sustainable Corporations, Sustainable Finance), organised by Group Human Capital, Maybank / Chief Sustainability Officer, Maybank / Director, Strategy & Stakeholder Management, Maybank<br>• Nominating and Remuneration Committees - Beyond Box-Ticking & Enhancing Effectiveness, organised by Asia School of Business<br>• Invest ASEAN 2021 #10 - ASEAN Macro Outlook & ASEAN Strategy, organised by Maybank Investment Bank Berhad / Maybank Kim Eng<br>• Briefing on "Rise of Fintech and Future of Banking", organised by Citigroup Inc<br>• In-House Directors' Training: Corporate Liability Provision on Corruption under the MACC Act 2009, organised by Hong Leong Islamic Bank<br>• In-House Directors' Training: Reengineering Islamic Social Finance (ISF): An Option or a Must, organised by Hong Leong Bank and Hong Leong Islamic Bank<br>• Climate Change: Impact on Banks & Role of the Boards, organised by ICLIF Executive Education Center<br>• BNM-FIDE FORUM Dialogue with Senior Leaders: "Risk-Based Capital Framework for Insurers and Takaful Operators, organised by FIDE Forum / BNM<br>• Qualified Risk Directors' Program: 'Series 18 - Directors' Guide to RMiT', organised by Institute of Enterprise Risk Practitioners<br>• Securities Commission Guidelines on the Conduct of Directors of Listed Corporations and their Subsidiaries, organised by Malaysian Institute of Corporate Governance (MICG) |

# ADDITIONAL CORPORATE GOVERNANCE DISCLOSURES

| | |
|---|---|
| **1 October 2021 to 31 December 2021** | • Khazanah Megatrends Forum 2021 - The Invention of Tomorrow: Crafting Our New Collective Narrative, organised by Khazanah Nasional Berhad<br>• Governance in Groups, organised by ICLIF<br>• Invest Malaysia 2021 Series 1 - "Economic Reform, organised by Bursa Malaysia / Maybank Kim Eng<br>• Demo Session on One stop Center for Governance Info, organised by ICDM<br>• Etiqa's Directors Training Programme - Module 1 - Series #3 (Discovering the basic of Takaful, Updates on Anti Money Laundering / Counter Financing of Terrorism), organised by Etiqa<br>• ESG - Just Transition, organised by Group Human Capital, Maybank / Professor Karl Schmedders, IMD Switzerland<br>• Etiqa's Directors Training Programme - Module 1 - Series #1 (Corporate Overview of Etiqa; its Dynamic Organisation, People, Process and Product, Industry updates / market landscape, Brief overview of Key Pillars), organised by Etiqa<br>• Dialogue: The 2050 Net Zero Carbon Emissions Target: Finance's Role, organised by FIDE Forum<br>• Artificial Intelligence (AI) for Company Directors and Executives, organised by MICG<br>• LESA 2021 - Leadership for Enterprise Sustainability Asia, organised by ICLIF<br>• Cyber Threat Landscape: Awareness, organised by Group Technology, Maybank / Nicholas Palmer, Group IB<br>• Fraud Risk Management Workshop 2021, organised by Bursa Malaysia / PwC Malaysia |

## MATERIAL CONTRACTS

There were no material contracts entered into by HRC involving the interests of Directors, the Chief Executive Officer or major shareholders either still subsisting at the end of the financial year ended 31 December 2021 or entered into since the end of the previous financial year.

# DISCLOSURE OF RECURRENT RELATED PARTY TRANSACTIONS

In compliance with paragraph 10.09(2)(b) of the Listing Requirements, the Company had obtained a mandate from its shareholders to enter into recurrent related party transactions of a revenue or trading nature with its related parties at the Annual General Meetings held on 23 June 2020 and 25 May 2021 (RRPT Mandate).

Details of the recurrent related party transactions entered into pursuant to the RRPT Mandate in the financial year ended 31 December 2021 are set out below.

| Related Party | Type of Transaction | Value from 1 January 2021 to 25 May 2021 (RM) | Value from 26 May 2021 to 31 December 2021 (RM) | Total of actual transactions for Financial Year Ended 2021 (RM) |
|---|---|---|---|---|
| Shandong Hengyuan Petrochemical Company Limited and its subsidiaries including:<br>(i) Heng Yuan Holdings Limited;<br>(ii) Malaysia Hengyuan International Limited; and<br>(iii) Hengyuan International Sdn Bhd | Sale of petroleum products and crude oil by HRC | - | - | - |
| | Purchase of petroleum products and crude oil by HRC | - | - | - |
| | Provision of central management, business support, administrative services and oil and oil products risk management services to HRC | 2,692,054 | 7,022,213 | 9,714,267 |
| | Provision of technical advisory and consultancy services and research and development advisory services to HRC | 7,046,704 | 13,608,335 | 20,655,039 |
| | Sale of materials, equipment, goods and products related to the operation of the refinery, excluding petroleum products and crude oil, by HRC | - | - | - |
| | Purchase of materials, equipment, goods and products related to the operation of the refinery, excluding petroleum products and crude oil, by HRC | - | - | - |
| | Rental of premises for the accommodation of expatriate employees | - | - | - |
| | **Total** | **9,738,758** | **20,630,548** | **30,369,306** |

# ACRONYMS & ABBREVIATION

| | |
|---|---|
| **AAPG** | Audit and Assurance Practice Guide |
| **ABC** | Anti-Bribery and Corruption |
| **AGM** | Annual General Meeting |
| **AML** | Anti-Money Laundering |
| **AMP** | Asset Rejuvenation Master Plan |
| **BAC** | Board Audit Committee |
| **BCP** | Business Continuity Plan |
| **bbl** | Barrel |
| **BEA** | Board Effectiveness Assessment |
| **BIP** | Business Improvement Plan |
| **BNRC** | Board Nomination and Remuneration Committee |
| **BPM** | Business Performance Management |
| **BPRC** | Board Projects Review Committee |
| **BRMC** | Board Risk Management Committee |
| **BTC** | Board Tender Committee |
| **BWC** | Board Whistleblowing Committee |
| **CCG** | Catalytic Cracked Gasoline |
| **CCO** | Combined Cycle Oil |
| **CCS** | Current Cost of Stock |
| **CEO** | Chief Executive Officer |
| **CFO** | Chief Financial Officer |
| **CGMA** | Chartered Global Management Accountant |
| **CIA** | Chief Internal Auditor |
| **Code** | Code of Conduct |
| **CSR** | Corporate Social Responsibility |
| **CMRP** | Certified Maintenance and Reliability Practitioner |
| **DOE** | Department of Environment |
| **DOSH** | Department of Occupational Health and Safety |
| **EIA** | Energy Information Administration |
| **EII** | Energy Intensity Index |
| **EMBA** | Executive Master of Business Administration |
| **ERCMC** | Environmental Regulatory Compliance Management Committee |
| **ETP** | Effluent Treatment Plant |
| **EVP** | Employee Value Propositions |
| **FAC** | First Aid Case |
| **Forex** | Foreign Exchange |
| **FY** | Financial Year |
| **GDP** | Gross Domestic Development |
| **H2GEN** | Hydrogen Generation |
| **HRC** | Hengyuan Refining Company Berhad |
| **IAD** | Internal Audit Department |
| **IAS** | International Accounting Standard |
| **ICS** | Incident Command System |
| **IFRSs** | International Financial Reporting Standards |
| **IMS** | Integrated Management System |
| **ISMS** | Information Security Management System |
| **KPIs** | Key Performance Indicators |
| **LDP** | Leadership Development Programme |
| **LFI** | Learnings From Incident |
| **LPG** | Liquefied Petroleum Gas |
| **LRCCU** | Long Residue Catalytic Cracker Unit |
| **LT** | Leadership Team |
| **LTI** | Lost-Time Injury |
| **MACC** | Malaysian Anti-Corruption Commission |
| **MCCG** | Malaysia Code of Corporate Governance |
| **MCO** | Movement Control Order |
| **MFRSs** | Malaysian Financial Reporting Standards |
| **MMLR** | Main Market Listing Requirements |
| **MSWG** | Minority Shareholders Watch Group |
| **NMPI** | Near Miss Potential Incidents |
| **OA** | Office Automation |
| **OPEC** | Organisation of the Petroleum Exporting Countries |
| **PIKAS** | Public-Private Partnership Immunisation Programme |
| **PPM** | Parts per million |
| **PSE** | Process Safety Event |
| **PSM** | Process Safety Management |
| **PwC** | PricewaterhouseCoopers |
| **QHSSE** | Quality, Health, Safety, Security and Environment |
| **RAM** | Risk Assessment Matrix |
| **RCM** | Reliability Centred Maintenance |
| **RM** | Ringgit Malaysia |
| **RPV** | Remote Participation and Voting |
| **RRPT** | Recurrent Related Party Transaction |
| **RST** | Reliability Steering Committee |
| **SCONE** | Site Committed as One |
| **SHPC** | Shandong Hengyuan Petrochemical Company Limited |
| **SIA** | Site Internal Assurance |
| **SOP** | standard operating procedures |
| **SP** | Social Performance |
| **TOR** | Terms of Reference |
| **UPDT** | Unplanned Downtime |
| **USD** | United States Dollar |

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# PROXY FORM

**Hengyuan Refining Company Berhad**
Registration No. 196001000259 (3926-U)

| CDS Account No of authorised nominee | No of shares held |
|---|---|
| | |

I / We ____________________________________________
*(Full name in block letters)*

NRIC / Passport No ____________________________________________

of ____________________________________________
*(Address in full)*

being a member of Hengyuan Refining Company Berhad, do hereby appoint ______________________
*(Full name in block letters)*

______________________ NRIC / Passport No ______________________

of ____________________________________________
*(Address in full)*

and ____________________________________________
*(Full name in block letters)*

NRIC / Passport No ______________________ of ______________________
*(Address in full)*

____________________________________________

or failing him / her, the Chairman of the Meeting as my / our proxy to vote for me / us on my / our behalf at the Sixty-Third Annual General Meeting (63rd AGM) of Hengyuan Refining Company Berhad (the Company) to be held entirely through live streaming from the broadcast venue at **Spectrum Room, Level 3A, Connexion Conference & Event Centre (CCEC), Nexus Bangsar South City, No 7, Jalan Kerinchi 59200 Kuala Lumpur, Malaysia (Broadcast Venue) on Wednesday, 25 May 2022 at 10.00 a.m.** and at any adjournment thereof.

| Resolutions | Descriptions | For | Against |
|---|---|---|---|
| Ordinary Resolution 1 | To re-elect Mr Wang, YouDe as Director of the Company. | | |
| Ordinary Resolution 2 | To re-elect Mr Alan Hamzah Sendut as Director of the Company. | | |
| Ordinary Resolution 3 | To re-appoint Messrs PricewaterhouseCoopers PLT as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration. | | |
| Ordinary Resolution 4 | To approve payment of Non-Executive Directors' fees and benefits of up to RM2,300,000.00 for the period from 1 June 2022 until 31 May 2023. | | |
| Ordinary Resolution 5 | Proposed Renewal of Authority to allot and issue shares pursuant to Sections 75 and 76 of the Companies Act 2016. | | |
| Ordinary Resolution 6 | Proposed Renewal of Authority for Share Buy-Back. | | |
| Ordinary Resolution 7 | Proposed Renewal of Existing Shareholders' Mandate and Proposed New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature. | | |

*Please indicate with an "x" in the spaces provided how you wish your vote to be cast. If no instruction as to voting is given, the Proxy will vote as he or she thinks fit or abstain from voting at his or her discretion.*

Dated this ______________ day of ______________ 2022.

For appointment of two proxies, percentage of shareholdings to be represented by the proxies:

| | No of Shares | Percentage |
|---|---|---|
| Proxy 1 | | % |
| Proxy 2 | | % |
| **Total** | | **100%** |

______________________________
Signature / Common Seal of Shareholder(s)

Contact No______________________________

**NOTES:**

1. In view of the COVID-19 outbreak and as part of the safety measures, the 63rd Annual General Meeting (AGM) will be conducted on a fully virtual basis through live streaming and online remote voting via Remote Participation and Voting ("RPV") facilities which are available on Tricor Investor & Issuing House Services Sdn Bhd's (Tricor's) TIIH Online website at *https://tiih.online*.

2. The Broadcast Venue of the AGM is strictly for the purpose of complying with Section 327(2) of the Companies Act 2016 which requires the Chairperson of the meeting to be present at the main venue of the meeting. ***NO SHAREHOLDERS / PROXY(IES) WILL BE ALLOWED TO BE PHYSICALLY PRESENT AT THE BROADCAST VENUE.***

3. Shareholders may exercise their right to attend, speak (including posing questions to the Board via real time submission of typed texts) and vote (collectively, participate) remotely at the 63rd AGM via the Remote Participation and Voting facilities (RPV) provided by Tricor via its **TIIH Online website at *https://tiih.online***.

   **Please refer to the "Procedures for RPV" in the Administrative Guide for the Company's 63rd AGM and take note of Notes (4) to (16) below in order to register, participate and vote remotely via the RPV facilities.** The Company may be required to change the arrangements of the AGM at short notice due to constant evolving COVID-19 situation in Malaysia. Kindly check Bursa Malaysia Securities Berhad's website and the Company's website at *www.hrc.com.my* for the latest updates on the status of the AGM.

4. For the purpose of determining a member who shall be entitled to attend, vote and speak at the AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to the Company a **Record of Depositors as at 18 May 2022** and only a depositor whose name appears on the Record of Depositors shall be entitled to attend, vote and speak at the Meeting or appoint proxy(ies) to attend, vote and speak in his stead.

5. A member who is entitled to participate in this AGM via RPV is entitled to appoint a proxy or attorney or in the case of a corporation, to appoint a duly authorised representative to participate in his / her place. A proxy may but need not be a member of the Company.

6. A member of the Company who is entitled to attend and vote at a general meeting of the Company may appoint not more than two (2) proxies to participate instead of the member at the AGM via RPV. A member may appoint more than one proxy in relation to a meeting, provided that the member specifies the proportion of the member's shareholdings to be represented by each proxy.

7. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (Omnibus Account), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds.

8. Where an exempt authorised nominee appoints two (2) or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.

9. A proxy need not be a member of the Company. There shall be no restriction as to the qualification of the proxy..

10. The instrument appointing a proxy shall be in writing and signed by the appointor or by his attorney who is authorised in writing. In the case of a corporation, the instrument appointing a proxy or proxies must be made under seal or signed by an officer or an attorney duly authorised.

11. The signature to the instrument appointing a proxy or proxies executed outside Malaysia must be attested by a solicitor, notary public, consul or magistrate.

12. A member who wishes to participate and vote at this AGM via RPV or a member who has appointed a proxy or attorney or authorised representative to participate and vote at this AGM via RPV **must sign up or request that his / her proxy sign up as a RPV user at the TIIH Online website at *https://tiih.online***.

    Members or proxies who have registered as a RPV user **must register to attend and participate at the AGM via RPV (AGM Registration). AGM Registration is open from Tuesday, 26 April 2022 up to Wednesday, 25 May 2022**. Please follow the steps contained in the "Procedures for RPV" section of the Administrative Guide for the Company's 63rd AGM.

13. The appointment of a proxy may be made in a hard copy form or by electronic means in the following manner and must be received by the Company not less than forty-eight (48) hours before the time set for holding the AGM at which the person named in the appointment proposes to vote:

    (i) In Hard Copy Form
    The proxy form must be deposited by post or by hand at the office of the share registrar of the Company, Tricor Investor & Issuing House Services Sdn Bhd at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia or at its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia.

    (ii) By Electronic Form
    The proxy form can be electronically lodged via Tricor's TIIH Online website at *https://tiih.online*. Kindly refer to the Administrative Guide on the procedure for electronic lodgement of proxy form via TIIH Online.

    The last date and time for lodging the proxy form is **Monday, 23 May 2022 at 10.00 a.m**. We recommend that the appointment of proxy be done as early as possible so that the appointed proxy has sufficient time to complete the AGM Registration.

14. Original copies of the appointments of corporate representative or power of attorney can be submitted either by hard copy or electronically in accordance with the instructions for lodgment in Note 13 above.

15. A copy of the power of attorney may be accepted provided that it is certified notarially and / or in accordance with the applicable legal requirements in the relevant jurisdiction in which it is executed.

16. The certificate of appointment should be executed in the following manner:

    a. If the corporate member has a common seal, the certificate of appointment should be executed under seal in accordance with the constitution of the corporate member.

    b. If the corporate member does not have a common seal, the certificate of appointment should be affixed with the rubber stamp of the corporate member (if any) and executed by:

       (a) at least two (2) authorised officers, of whom one shall be a director; or

       (b) any director and / or authorised officers in accordance with the laws of the country under which the corporate member is incorporated.

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